DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

FOR THE FIRST QUARTER OF 2011

ended on 31 March 2011

BOGDANKA, MAY 2011

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1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure of the Lubelski Węgiel BOGDANKA Group

As at 31 March 2011, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the Parent Undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. as the subsidiary undertaking.

The associated undertaking is EKSPERT Sp. z o.o. held in 50% by Łęczyńska Energetyka Sp. z o.o.

As at the date of submitting this Report (12 May 2011), LW BOGDANKA S.A. also held 24.41% of the shares of the bankrupt company Kolejowe Zakłady Maszyn KOLZAM S.A., with a total par value of PLN 168,050.00. The ownership title to the shares was transferred to LW BOGDANKA S.A. as security for settlements for performing transportation services. That company has not been included in the consolidation.

1.2 Information on the undertakings of the Lubelski Węgiel BOGDANKA Group subject to consolidation

The subsidiary ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. was included in the abridged consolidated quarterly financial statements of the LW BOGDANKA Group for the first quarter of 2011 (the "consolidated quarterly financial statements") by the full consolidation method.

The associated company – EKSPERT Sp. z o.o. was included in the quarterly consolidated financial statements of the LW BOGDANKA Group by the equity method.

1.2.1 Information on the Parent Undertaking of the Lubelski Węgiel BOGDANKA Group

Lubelski Węgiel BOGDANKA Spółka Akcyjna (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Węgiel BOGDANKA S.A.", "LW BOGDANKA" or "the Parent Undertaking").

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	(81) 462 51 00, (81) 462 51 01
Fax:	(81) 462 51 91
Website:	www.lw.com.pl
e-mail:	bogdanka@lw.com.pl
Industry Id. No. (REGON):	430309210
Tax Reg. No. (NIP):	713-000-57-84

Business activities:

The scope of the Company's main business activity includes mining activities related to economic mining of hard coal and enriching excavated raw coal, sale of coal to consumers, and the protection and reclamation of mining areas.

According to the Company's Articles of Association, the business activities of Lubelski Węgiel BOGDANKA S.A. are:

a) agriculture, forestry, hunting and fishery (Section A),
b) mining and production (Section B),

c) industrial processing (Section C),
d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D),
e) water supply; liquid and solid waste management; activities related to reclamation (Section E),
f) construction (Section F),
g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G),
h) transport and warehouse management (Section H),
i) activities related to lodging and catering (Section I),
j) information and communications (Section J),
k) finance and insurance (Section K),
l) real estate activities (Section L),
m) professional, scientific and technical activities (Section M),
n) administration and support activities (Section N),
education (Section P).

The Company's supplementary activities

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EkoKLINKIER Construction Ceramics Plant.

1.2.2 Information on the subsidiary and associated companies

Direct subsidiary undertaking:

ŁĘCZYŃSKA ENERGETYKA sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	(81) 443 11 02, (81) 462 55 53
Fax:	(81) 443 11 01
Website:	www.lebog.com.pl
e-mail:	biuro@lebog.com.pl
Industry Id. No. (REGON):	004164490
Tax Reg. No. (NIP):	713-020-71-92

Share capital (as at 31 March 2011): PLN 82,677,000.00, divided into 82,677 shares of PLN 1,000.

Shareholding structure:

- 88.697% LW BOGDANKA S.A.
- 11.297% Łęczna Municipality
- 0.006% Puchaczów Municipality.

The business activities of Łęczyńska Energetyka Sp. z o.o. are: producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations.

Łęczyńska Energetyka Sp. z o.o. provides services to LW BOGDANKA S.A. involving supplying heat energy and conducts water/wastewater management.

Associated undertaking:

EKSPERT Sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.: (81) 462 20 62
Fax: (81) 462 20 62
Website: -
e-mail: wkekspert@wp.pl
Industry Id. No. (REGON): 432693862
Tax Reg. No. (NIP): 505-000-15-99

Share capital (as at 31 March 2011): PLN 50,000.00, divided into 100 shares of PLN 500.

The share of Łęczyńska Energetyka Sp. z o.o. in the share capital and votes at the Shareholders Meeting is 50.00%.

EKSPERT Sp. z o.o.'s business activities involve manufacturing metal constructions and activities involving preparing technical and structural/technological documentation.

1.3 Changes in the structure of the Lubelski Węgiel BOGDANKA Group and in organisational and capital associations of the Parent Undertaking with other entities, and the effects of changes in the structure of LW BOGDANKA S.A., including as a result of merging business units, the take over or sale of units of the LW BOGDANKA Group, long-term investments, and the division, restructuring and discontinuation of activities

In the first quarter of 2011 there were no changes in the structure of LW BOGDANKA Group or in the Group's organisational and capital associations with other entities. In that period there were also no changes in the structure of the LW BOGDANKA Group due to the merger of business units, the take over or sale of units of the Group, long-term investments or the division, restructuring or discontinuation of activities.

As at the date of submitting this Report, no changes have occurred in the LW BOGDANKA Group.

2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN Q1 2011

2.1 Shareholders holding at least 5% of the total number of votes at the General Shareholders Meeting (the "GSM"), either directly or indirectly, as at the date of submitting the quarterly report, and changes in the ownership structure of substantial shareholdings in the period from the publication of the previous quarterly report

Table 1 The shareholding structure of LW BOGDANKA S.A. as at 8 November 2011 and 12 May 2011

Shareholder	**8 November 2011**		**12 May 2011**	
	Number of shares/ Number of votes at the GSM	**The share in the share capital and the share in the total number of votes at the GSM. (%)**	**Number of shares/ Number of votes at the GSM**	**The share in the share capital and the share in the total number of votes at the GSM. (%)**
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,014,644	14.74	5,014,644	14.74
Otwarty Fundusz Emerytalny PZU „Złota Jesień" **	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny***	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10
Others	20,668,422	60.77	20,668,422	60.77
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

* According to the notification received on 25 March 2010, described in Current Report No. 11/2010.
** According to the notification received on 18 March 2010, described in Current Report No. 10/2010.
*** According to the notification received on 11 August 2010, described in Current Report No. 35/2010.
*** According to the notification received on 12 May 2010, described in Current Report No. 17/2010.

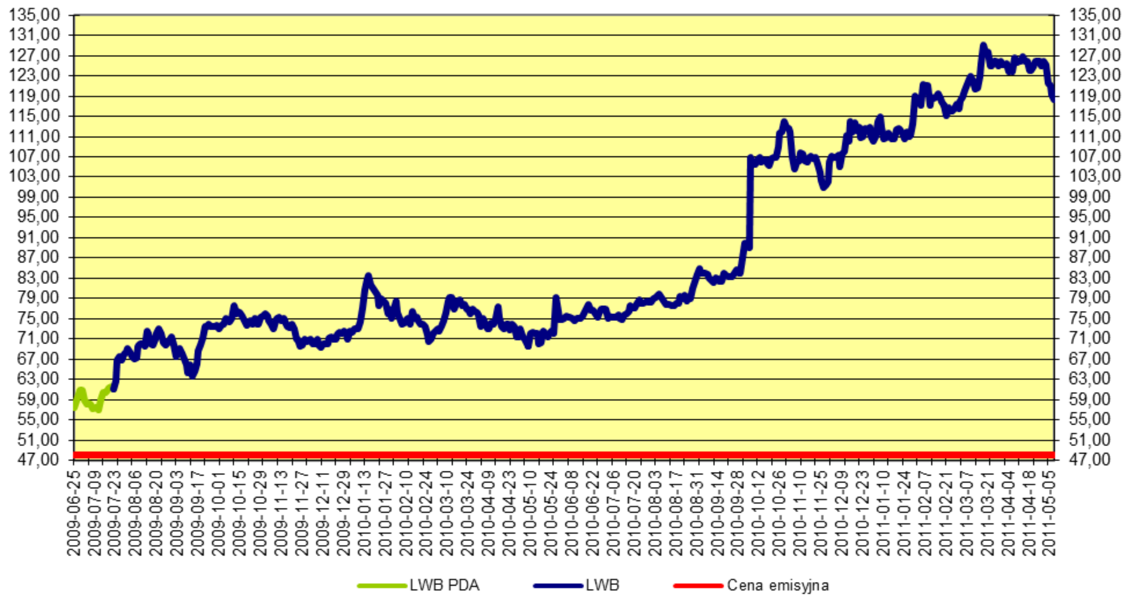
2.2 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them (options) by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the quarterly report, and changes in shareholdings in the period from submitting the previous quarterly report, separately for each person

Table 2 Table of holdings of shares of LW BOGDANKA S.A.

	Number of shares as at the date of submitting the report for Q3 2010 (8 November 2010)	**Number of shares as at the date of submitting the report for Q1 2011 (12 May 2011)**
Management Board		
Mirosław Taras	2,737	2,737
Krystyna Borkowska	1,299	1,299
Zbigniew Stopa	3,834	3,834
Waldemar Bernaciak	2,162	2,162
Lech Tor	-	1,124
Supervisory Board		
Eryk Karski	0	0
Andrzej Lulek	0	0
Ewa Pawluczuk	0	0
Stefan Kawalec	0	0
Jadwiga Kalinowska	1,024	1,024
Adam Partyka	1,024	1,024
Total	**12,080**	**13,204**

2.3 Price of Rights to Shares/ Shares of the Company since its debut on the Warsaw Stock Exchange.

Chart - **Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 9 May 2011**



3. PRINCIPLES OF DRAWING UP THE GROUP'S ABRIDGED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

The Abridged quarterly consolidated financial statements of the LW BOGDANKA Group for the first quarter 2011 were prepared in compliance with the International Accounting Standards and International Financial Reporting Standards as well as the Regulation of the Minister of Finance on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State of 19 February 2009 (Dz.U. of 2009 No. 33, item 259).

Data for the consolidated quarterly financial statements and the quarterly abridged financial statements of Lubelski Węgiel Bogdanka S.A. has been prepared in compliance with the same accounting principles and calculation methods as in the previous annual financial statements.

4. ANALYSIS OF AND INFORMATION ON THE BASIC ECONOMIC AND FINANCIAL VALUES DISCLOSED IN THE CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST QUARTER OF 2011, I.E. FROM 1 JANUARY 2011 TO 31 MARCH 2011

This section presents selected ratios characterising the Group's financial position for the period from 1 January 2011 to 31 March 2011, calculated on the basis of the financial data included in the Group's financial statements, prepared in compliance with the International Financial Reporting Standards approved by the European Union.

4.1 Selected financial information

Table 3 Selected financial information of the Group (in PLN '000)

Item	I quarter of 2011	I quarter of 2010	Change [%] 2011/2010
Revenue on sales	309,961	294,096	5.39
Gross profit	72,818	95,672	-23.89
EBITDA	77,906	95,261	-18.22
EBIT (Operating profit)	43,698	62,164	-29.71
Profit before taxation	44,835	65,798	-31.86
Net profit	35,958	52,770	-31.86
Operating cash flow	77,562	203,816	-61.95
Investing cash flow	-189,062	-241,872	-21.83
Financing cash flow	-3,000	-	-

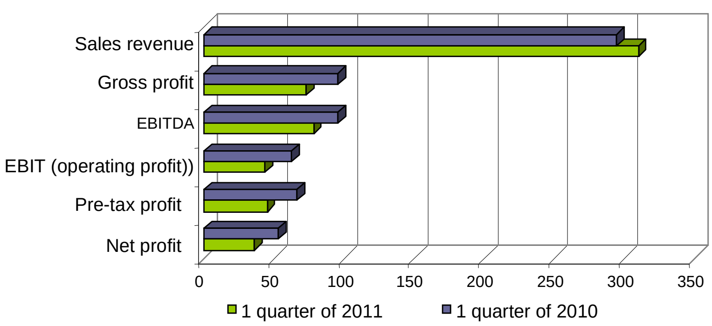
Table 3 Selected financial information of the Group – continued (in PLN '000)

Item	31.03.2011	31.12.2010	Change [%] 2011/2010
Total assets	2,861,509	2,828,045	1.18
Fixed assets	2,289,501	2,163,972	5.80
Current assets	572,008	664,073	-13.86
Shareholders' equity	2,004,977	1,969,019	1.83
Provisions and liabilities	856,532	859,026	-0.29

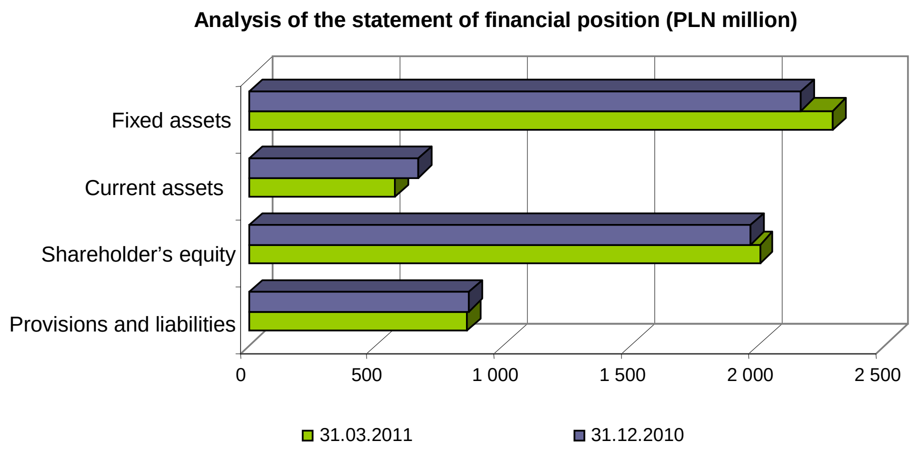
The financial statements prepared for the period from 1 January 2011 to 31 March 2011 show that the Lubelski Węgiel BOGDANKA S.A. Group's revenue on sales was PLN 309,961,000, which is an increase of 5.39%, or by PLN 15,865,000, compared to the same period of the previous year.

In the first quarter of 2011 the Group's operating profit decreased from PLN 62,164,000 to PLN 43,698,000 (-29.71% on a year-to-year basis). EBITDA (operating profit increased by depreciation/amortisation) was PLN 77,906,000 for the period from 1 January 2011 to 31 March 2011 and PLN 95,261,000 for the same period of 2010. A decrease in operating profit is a consequence of the larger extent of preparatory works performed (in the period from 1 January to 31 March 2011, 20% more galleries were built than in the analogous period of the previous year, which resulted in increased operating costs).

Analysis of the consolidated statement of comprehensive income (PLN million)



The Group's net profit for the first three months of 2011 was PLN 35,958,000, compared to PLN 52,770,000 for the same period of 2010, which means a decrease by 31.86%, or by PLN 16,812,000. The decrease in the financial results in the first quarter 2011, as compared to the same period in 2010, recorded by the Parent Undertaking, complies with the internal operating plans of the Company.



The consolidated statement of financial position prepared as of 31 March 2011 shows an increase in the balance sheet total up to PLN 2,861,509,000, or by PLN 33,464,000, compared to the value of assets and liabilities as of 31 December 2010. The value of fixed assets increased from PLN 2,163,972,000 (31 December 2010) to PLN 2,289,501,000 (31 March 2011) – such an increase (+5.80%) results primarily from the investment programme of development of the Stefanów Field implemented by the Parent Undertaking. The value of the Group's current assets fell from PLN 664,073,000 to PLN 572,008,000 (PLN -92,065,000 or -13.86%), which is mostly a consequence of a decrease in cash held by the Group (resulting from expenditure on the Group's investment programme).

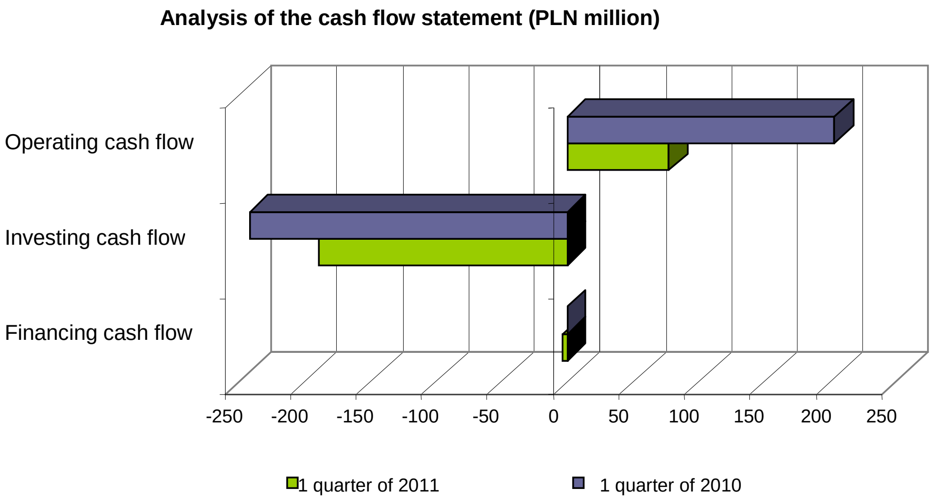
On the equity and liabilities side, shareholders' equity increased to PLN 2,004,977,000 (i.e. by 1.83%), which is a result of recalculating of the result for Q1 2011 under retained profit. The Group's total provisions and liabilities fell by PLN 2,494,000, as a result of:

- an increase in long-term liabilities by PLN 675,000 (to PLN 456,562,000),
- a decrease in short-term liabilities by PLN 3,169,000 (to PLN 399,970,000).

Within the group of short-term liabilities, the value of loans and borrowings decreased by PLN 3,000,000 – 31 March 2011 was the maturity date for repayment of the first instalment of the working capital loan (with the total value of PLN 250,000,000). According to the schedule attached as appendix to the loan agreement, by 31 December 2011, a total of PLN 50,000,000 is planned to be repaid.

Equity accounted for 69.62% and 70.07%. of the Company's liabilities and equity as of 31 March 2011 and 31 December 2010, respectively.

In the first quarter of 2011, the Group financed its activities with operating cash flow and cash accumulated in the previous years. As at 31 March 2011, the value of cash at hand and in banks amounted to PLN 357,601,000 and was lower by PLN 114,500,000 with respect to the analogous data of the previous year.



Investing cash flow in the first quarter 2011 amounted to PLN -189,062,000 and was higher by PLN 52,810,000 as compared to the analogous period in 2010 – an increase was caused by different scope of works executed within the framework of the investment process in individual quarters under analysis.

In the period from January to March 2011 the Group generated net financing cash flow in the amount of PLN -3,000,000 (repayment of the first instalment of the working capital loan), whilst in the previous year the Group did not show changes in financing cash flow.

4.2 Information on the current financial position of the Group

4.2.1 Coal production and sales

In the first quarter of 2011 (as in the previous periods), the revenue on sales generated by the LW BOGDANKA Group was primarily determined by the Parent Undertaking's production (extraction) capacity, as presented in the table below.

Table 5 Production capacity of LW BOGDANKA for Q1 2011 and Q1 2010 ('000 tonnes)

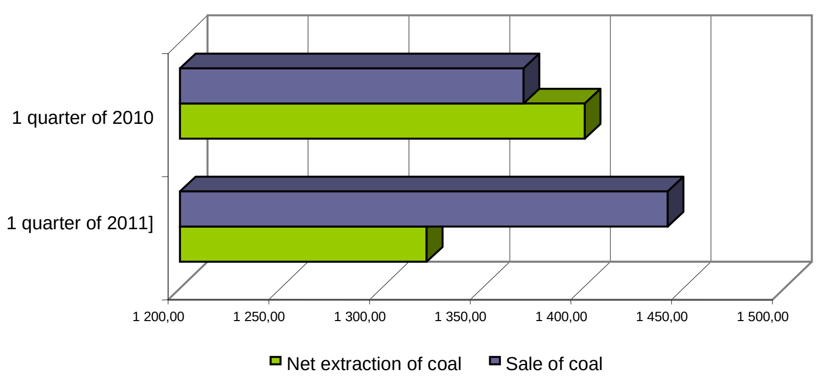
1 quarter 2011	**1 quarter 2010**	**Change [%] 2011/2010**
1,322.30	1,400.80	-5.60

During the first quarter of 2011, as compared to the analogous period of 2010, the extraction of commercial coal decreased by almost 5% and amounted to 1,322,300 tonnes, compared to the level of 1,400,800 tonnes extracted in the previous year. A decrease in the extraction of commercial coal with an increase in the gross extraction by above 9% results from the greater extend of preparatory works (in the first quarter of 2011, 20% more galleries were made than in the analogous period of 2010) as well as worse than expected parameters of the deposit currently explored, which had a significant impact on the recorded output ratio.

Table 6 Sale of coal of LW BOGDANKA for Q1 2011 and Q1 2010 ('000 tonnes)

1 quarter 2011	**1 quarter 2010**	**Change [%] 2011/2010**
1,442.27	1,370.90	5.21%

In the period from 1 January to 31 March 2011, 5.21% (71,370 tonnes) more coal was sold as compared to the analogous period of the previous year. A decrease in possessed stock of commercial coal to 16,760 tonnes was a consequence of an increase in coal sales with lower coal extraction. The graph below shows the figures for production and sales of commercial coal for the periods under analysis.

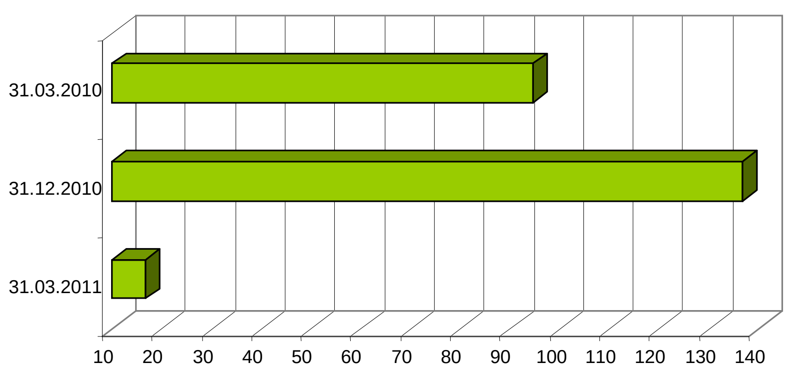


4.2.2 Stock

As at 31 March 2011 stock of commercial coal of the Parent Undertaking amounted to 16,758.24 tonnes, which means that the level of stock fell by 119,972.44 tonnes (-87.74%) as compared to the level of 31 December 2010 and by 77,885.79 tonnes (-82.29%) compared to the level of 31 March 2010.

Table 7 Stock of coal (tonnes)

Item	31.03.2011	31.12.2010	31.03.2010	Change [%](31 Mar. 2011/ 31 Dec. 2010)	Change [%](31 Mar. 2011/ 31 Mar. 2010)
Stock of coal	16,758.24	136,730.68	94,644.03	-87.74	-82.29



4.2.3 Revenue on sales

In the first quarter of 2011, the LW BOGDANKA Group's sales revenue was PLN 309,961,000, up by PLN 15,865,000 compared to the sales revenue figure for the first quarter of 2010. The rise in revenue was the result of higher sales volumes of commercial coal (+5.2%), with the average price of the coal sold being slightly lower (compared to Q1 2010).

Lubelski Węgiel BOGDANKA S.A. Group has four sources of revenue: sales of coal, sales of ceramics, other operations (including operations of the subsidiary – Łęczyńska Energetyka) and sales of goods and materials. All four sources of revenue of the Group were characterised by positive dynamics which amounted from 1.49% (sales of coal) to +220.17% (sales of goods and materials).

The main source of LW BOGDANKA Group's revenue on sales in the first quarter of 2011 (and in 2010) was the production and sale of power coal. From 1 January to 31 March 2011, sales of power coal accounted for 93.28% of the LW BOGDANKA Group's sales revenue (96.87% in the same period of the previous year). The decrease in share of revenue on coal in the total revenue results from the additional revenue in other groups and not from a decrease in value of revenue on coal. More than 80% of coal sales (in terms of value) realised in the period from 1 January 2011 to 31 March 2011 (as well as in the same period of the previous year) were carried out on the basis of long-term commercial agreements between LW BOGDANKA and Elektrownia Kozienice S.A., GDF Suez Energia S.A., Elektrownia Ostrołęka S.A. and Zakłady Azotowe Puławy S.A.

The revenue on sale of goods and materials increased in the period in question by 220.17%, i.e. by PLN 4,181,000. This amount includes power coal, bought by the Parent Undertaking for the purpose of reselling thereof to one of the customers.

The revenue from other activities accounted for 4.10% of the total revenue in the period from 1 January 2011 to 31 March 2011, compared to 1.99% a year earlier. The share of revenue from the sale of ceramics in total revenue on sales increased from 0.50% to 0.66% of the Group's total revenue.

Table 1 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group (in PLN '000)

Item	1 quarter 2011	1 quarter 2010	Change [%] (2011/2010)
Sales of coal	289,138	284,890	1.49
Sales of ceramics	2,039	1,463	39.37
Other activities	12,704	5,844	117.39
Sales of goods and materials	6,080	1,899	220.17
Total revenue on sales	**309,961**	**294,096**	**5.39**

Table 9 Structure by product range with respect to revenue on sales of the LW BOGDANKA Group (in PLN '000)

Item	1 quarter 2011	Share [%]	1 quarter 2010	Share [%]
Sales of coal	289,138	93.28	284,890	96.87
Sales of ceramics	2,039	0.66	1,463	0.50
Other activities	12,704	4.10	5,844	1.99

Sales of goods and materials	6,080	1.96	1,899	0.64
Total revenue on sales	**309,961**	**100.00**	**294,096**	**100.00**

The activities of the LW BOGDANKA Group are primarily concentrated in Poland. During the analysed period (of both 2011 and 2010), export sales constituted a fraction of revenues generated and concerned sales of ceramics. The share of export sales in total revenue on sales did not exceed 0.1%.

Table 10 Geographical structure of revenue on sales of the LW BOGDANKA Group (in PLN '000)

Item	1 quarter 2011	Share [%]	1 quarter 2010	Share [%]
Domestic sales	309,888	99.98	293,985	99.96
Foreign sales	73	0.02	111	0.04
Total revenue on sales	**309,961**	**100.00**	**294,096**	**100.00**

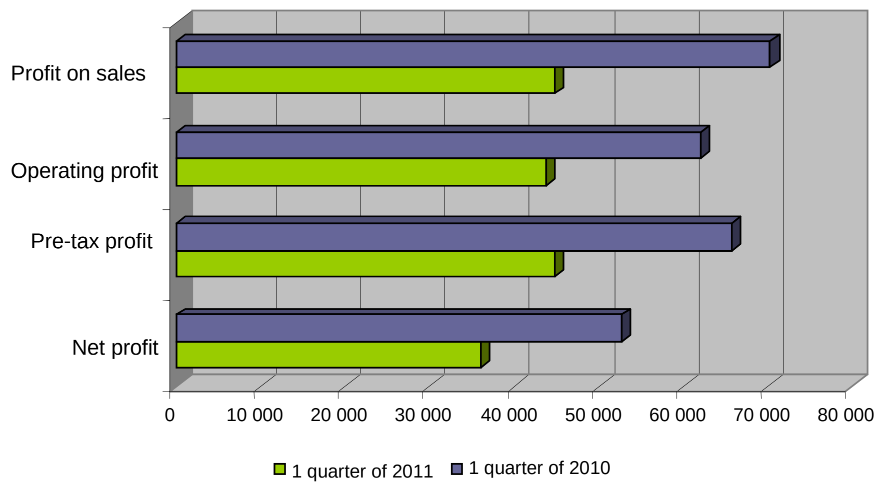
4.2.4 Statement of comprehensive income of the Group

In the first quarter of 2011, revenue on sales of the LW BOGDANKA Group, as compared to the same period of the previous year, increased by 5.39% up to the level of PLN 309,961,000. In the same period the Group's costs (costs of products, goods and materials sold along with cost of sales and administrative expenses) increased by 18.48% up to the level of PLN 265,126,000. Such dynamics in costs and revenue led to the profit on sales decreasing by 36.24%, i.e. PLN 44,835,000 for 3 months of 2011 as compared to PLN 70,319,000 for the same period of 2010.

Table 11 Selected items of the statement of comprehensive income of the LW BOGDANKA Group (in PLN '000)

Item	1 quarter 2011	1 quarter 2010	Change [%] (2011/2010)
Revenue on sales	309,961	294,096	5.39
Cost of products, goods and materials sold, cost of sales, administrative expenses	265,126	223,777	18.48
Profit on sales	44,835	70,319	-36.24
Other income	1,628	2,013	-19.13
Other expenses	285	1,566	-81.80
Other net profit/loss	-2,480	-8,602	-71.17
Profit on operating activities	43,698	62,164	-29.71
Financial income	3,963	6,238	-36.47
Financial expenses	2,826	2,650	6.64
share in (losses)/profits of associated undertakings		46	-100.00
Profit before taxation	44,835	65,798	-31.86
Income tax	8,877	13,028	-31.86
Net profit	35,958	52,770	-31.86
- attributable to shareholders of the Company	35,860	52,957	-32.28

Analysis of consolidated statement of comprehensive income on particular levels of the Group's operations (PLN '000)



Other income

For the first 3 months of 2011, other operating revenues amounted to PLN 1,628,000 compared to PLN 2,013,000 for the same period of the previous year – this means a decrease in their value by 19.13%. An amount of PLN 1,628,000 was recorded as revenue resulting from events of a one-off nature (primarily received compensations and released provisions).

Other expenses and other net profit/loss

Other expenses for the first three months of 2011 were PLN 285,000, compared to PLN 1,566,000 for the same period of 2010, which means a decrease by 81.80%. In the analysed period of 2011, other net profit/loss amounted to PLN -2,480,000 compared to PLN -8,602,000 in the analogous period of 2010.

In 2011, lower provisions and significantly lower negative exchange differences were recorded (created in 2010 in connection with, among other things, the settlement of purchased longwall coal ploughing system for low deposit mining).

Adjusted for profit on sales, other revenue, other expenses and other net profit/loss, the net operating profit (EBIT) for the first quarter of 2011 is at the level of PLN 43,698,000, down by 29.71% compared to the result a year earlier.

Financial income

Financial income for the first 3 months of 2011 was PLN 3,963,000, compared to PLN 6,238,000 a year earlier (a fall by 36.47%). Change in financial income is a result of lower average annual level of cash in the Group.

Financial expenses

Financial expenses in the first quarter of 2011 amounted to PLN 2,826,000, compared to PLN 2,650,000 a year earlier (PLN +176,000, i.e. +6.64%).

The pre-tax earnings for 3 months of 2011 were lower by 31.86% than in the previous year - the pre-tax profit for the first quarter of 2011 amounted to PLN 44,835,000 as compared to PLN 65,798,000 for the first quarter of 2010.

Adjusted for obligatory corporate tax paid by the Lubelski Węgiel Bogdanka S.A. Group, net profit of the financial year for the period from 1 January 2011 to 31 March 2011 was PLN 35,958,000, compared to PLN 52,770,000 for the same period of 2010 – down by 31.86% on a year-to-year basis.

4.2.5 The Group's profitability

Table 12 Profitability ratios of the LW BOGDANKA Group

Item	1 quarter 2011	1 quarter 2010	Change [p.p.] 2011-2010	Change [%] (2011/2010)
Gross margin on sales	23.49%	32.53%	-9.04	-27.79%
EBITDA	25.13%	32.39%	-7.26	-22.41%
EBIT	14.10%	21.14%	-7.04	-33.30%
Gross margin	14.46%	22.37%	-7.91	-35.36%
Net margin	11.60%	17.94%	-6.34	-35.34%
Return on Assets	1.26%	2.08%	-0.82	-39.42%
Return on Equity	1.81%	2.99%	-1.18	-39.46%

During the first quarter of 2011, all profitability ratios achieved lower values than in the same period of the previous year.

Gross margin on sales of the LW BOGDANKA Group decreased from 32.53% (Q1 2010) to 23.49% (Q1 2011). The decrease in that ratio resulted from a higher dynamics of products, goods and materials sold relative to the dynamics of revenues.

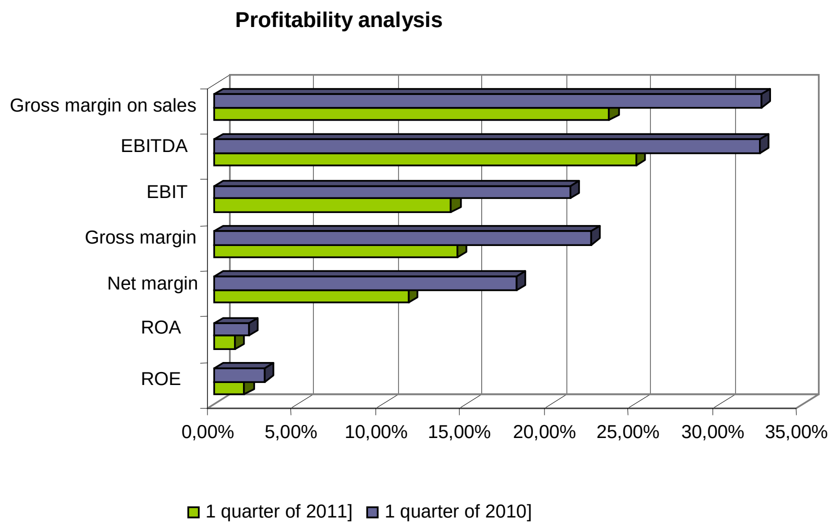
In the analysed period the profitability of EBIT amounted to 14,10%, which means a decrease by 7.04 p.p. in comparison to the same period in the previous year, whereas EBITDA fell from 32,39% (Q1 2010) to 25.13% (Q1 2011). The decrease in both above ratios is caused by higher costs of products, goods and materials sold, which result from a greater - by 20% - scope of preparatory works (in Q1 2011 1,184 m more galleries were built than in Q1 2010).

The gross profitability for the first quarter of 2011 amounted to 14.46% and was 7.91 p.p. lower than the gross profitability for the first quarter of 2010. The decrease in that ratio results from lower operating profit and lower result in financing activities.

Net margin on the Lubelski Węgiel Bogdanka S.A. Group's operations amounted to 11.60% for the first quarter of 2011, compared to 17.94% for the first quarter of 2010.

The decrease in ROA (from 2.08% to 1.26%) is a result of lower net profit and a great investment process implemented by the Parent Undertaking (including extension of the Stefanów Field) as well as outlays executed by Łęczyńska Energetyka – currently the Group generates assets which will bring profits in the future. The Company's ROA should be expected to fall until all the assets under construction are put into operation.

As was the case with ROA, the drop in the Group's ROE is not indicative of the Group's financial standing deteriorating, but rather the result of increasing share capital (by issuing shares in 2009), as well as increasing net earnings of the Group, which, undistributed, is designed for financing the implemented investment programme. The results of the use of this equity will be visible in the following years. The Company's ROE should be expected to fall until all the assets under construction are put into operation.



4.2.6 Indebtedness and financing structure of the LW BOGDANKA Group

Table No. 18 Debt ratios of the LW BOGDANKA Group

Item	31.03.2011	31.03.2010	Change [%] (2011/2010)
Overall debt ratio	29.93%	31.46%	-4.86
Debt to equity ratio	42.72%	45.90%	-6.93
Fixed capital to fixed assets ratio	104.57%	124.82%	-16.22
Short-term debt ratio	13.98%	13.31%	5.03
Long-term debt ratio	15.96%	18.15%	-12.07

As at 31 March 2011, the share of liabilities in the financing of the operations of the LW BOGDANKA Group, measured by the overall debt ratio, amounted to 29.93% and, respectively, 31.46% as at 30 March 2010. Indebtedness of the LW BOGDANKA Group did not represent a threat to its operations as well as timely fulfilment of obligations in the period covered by the abridged consolidated financial statements for the first quarter of 2011. In the analysed period, the debt to equity ratio decreased from 45.90% to 42.72% (as at 31 March 2011) – which is a result of an increase by PLN 35,958,000 in equity with a simultaneous decrease in the Group's total liabilities by PLN 2,494,000.

The Group's asset financing structure is correct - the long-term liabilities to fixed assets ratio, although down by 20.25 percentage points, is still over the border level of 100%.

Table 14 Liquidity ratios of the LW BOGDANKA Group (in days)

Item	31.03.2011	31.03.2010	Change [%] (2011/2010)
Current liquidity ratio	1.83	3.05	-40.00%
Quick liquidity ratio	1.68	2.86	-41.26%

In the period covered by the consolidated quarterly financial statements, the liquidity ratios of the LW BOGDANKA Group remained at a high, safe level, and the Group is not having any difficulties in settling its liabilities. A high level of the liquidity ratios (both as at 30 March 2011 and 31 March 2010) results from the value of cash injected to the Parent Undertaking as a result of the share capital increase (debut at the Warsaw Stock Exchange). Given the pursued investment programme and a successive usage of the obtained funds (which is also reflected by a decrease in analysed ratios by more than 40%), and due to expected partial repayment of working capital loan, a drop in values of these ratios should be expected to the levels treated as optimum in relevant literature.

Table No. 20 Turnover rates of the LW BOGDANKA Group (in days)

Item	31.03.2011	31.03.2010	Change [%] (2011/2010)
Stock turnover	20.5	23.4	-12.39%
Trade debtors collection rate	42.6	41.3	3.15%
Trade creditors payment rate	90.9	93.4	-2.68%
Operating cycle (1+2)	63.1	64.7	-2.47%
Cash conversion cycle (4-3)	-27.8	-28.7	-3.14%

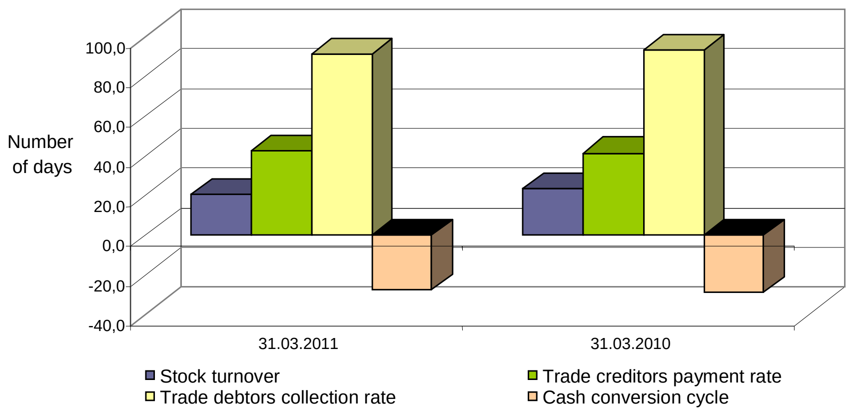
In the reporting period, the stock turnover rate was down compared to its level as of 31 March 2010, i.e. 23.4 days against 20.5 days (with a year-to-year increase in the average stock level and in the cost of products, goods and materials sold).

Trade debtors collection rate amounted to 42.6 days (as at 31 March 2011) and 41.3 (as at 31 March 2010). The drop in the rate is attributable to a year-to-year increase in sales revenue (+5.39%) with an increase in the average level of trade creditors (+31.13%).

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) in the analysed period was at 90.9 days, as compared to 93.4 days as at 31 March 2010 – which indicates that current assets are transferred into cash on average 2.5 days faster.

The trade creditors payment rate decreased in the period covered by financial information from 64.7 days (as at 31 March 2010) to 63.1 days (as at 31 March 2011).

Cash conversion cycle analysis



As a result of the trends described above, a cash conversion cycle of –27.8 days was achieved as at 31 March 2011, compared to -28.7 as at 31 March 2010. The Lubelski Węgiel Bogdanka S.A. Group uses non-interest-bearing borrowed capital to a comparable extent.

4.3 Information on the Company or its subsidiary granting sureties for a credit facility or loan or granting guarantees

In the first quarter of 2011, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiary granted sureties for a credit facility or loan and they did not grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's shareholders' equity.

4.4 Information on financial instruments

In the first quarter of 2011 the Company did not use any financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of solvency.

4.5 Costs by type of the Parent Undertaking, LW BOGDANKA S.A.

This section presents costs of LW BOGDANKA S.A. by type and function. The recording of prime costs by type covers all expenditure related to the factors and means of production used by the Company in its operating activities. The costs thus incurred, in accordance with the formula presented, reflect the use of a given means or factor of production (e.g. materials, energy or labour costs) regardless of whether these will be charged to the costs of a given period as related to the product excavated and sold (trade coal) or whether they have been used by the Company to finance the construction of a given facility with its own funds and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as fixed assets, constituting depreciation costs of the period in question.

4.5.1 Costs by type

In the first quarter of 2011, LW BOGDANKA S.A.'s costs with respect to type amounted to PLN 328,974,000 compared to PLN 287,791,000 in the first quarter of 2010, which means that the costs increased by 14.3% (PLN 41,183,000). The above nominal increase in costs was largely the result of higher costs of external services, costs of materials and energy consumption as well as personnel expenses. After adjustment of costs by type by change in stocks and the cost of own work capitalised yields and after including costs of goods and materials sold, the costs of products sold, which in the first quarter of 2011 amounted to PLN 260,500,000 (increased by 16.5%, i.e. by PLN 36,963,000 as compared to the first quarter of 2010).

Table 16 Costs by type of LW BOGDANKA S.A. (in PLN '000)

Item	Q1 2011	Q1 2010	Change [%]	Change [PLN '000]
Amortisation/depreciation	33,388	32,274	3.5%	1,114
Materials and energy used	104,552	89,818	16.4%	14,734
Contracted services	78,500	63,645	23.3%	14,855
Employee benefits	91,537	83,697	9.4%	7,840
Entertainment and advertising expenses	3,382	3,552	-4.8%	-170
Taxes and charges	5,523	5,134	7.6%	389
Other expenses	12,092	9,671	25.0%	2,421
TOTAL COSTS BY TYPE	**328,974**	**287,791**	**14.3%**	**41,183**
Change in products	16,705	2,217	653.5%	14,488

Cost of sales	**345,679**	**290,008**	**19.2%**	**55,671**
Activities for own needs	91,085	68,297	33.4%	22,788
Cost of goods and materials sold	5,906	1,826	223.4%	4,080
Cost of products sold	**260,500**	**223,537**	**16.5%**	**36,963**

Analysing the increase in costs of materials and energy used as well as costs of outsourced services it must be indicated that this change was the result of more preparatory and deposit-opening work connected with the Company's development strategy compared to last year, within the scope of which over 1,184 running metres of galleries more than in the analogous period of the previous year were completed (up by approx. 20.1%). An increase in executed preparatory works is connected with larger volume of stone subject to utilisation, which also caused an increase in costs of external services in connection thereto. Additionally, the scope of works commissioned for holidays was also higher due to workload in the Stefanów Field. An analysis of the increase in costs of materials and energy consumption shows that the increase in the cost of materials used amounted to 18.3% and the energy used – 10.2%.

Recorded increase in costs of employee benefits in the amount of 9.4% is the result of higher number of employees as well as the negotiated increase of an average salary in the Company by 3.5% starting from the beginning of 2011.

Recorded increase by 25.0% in other costs results primarily from an increase of assets insurance costs, which is the effect of both increase in rates and the assets subject to insurance (expanding assets of the Stefanów Field).

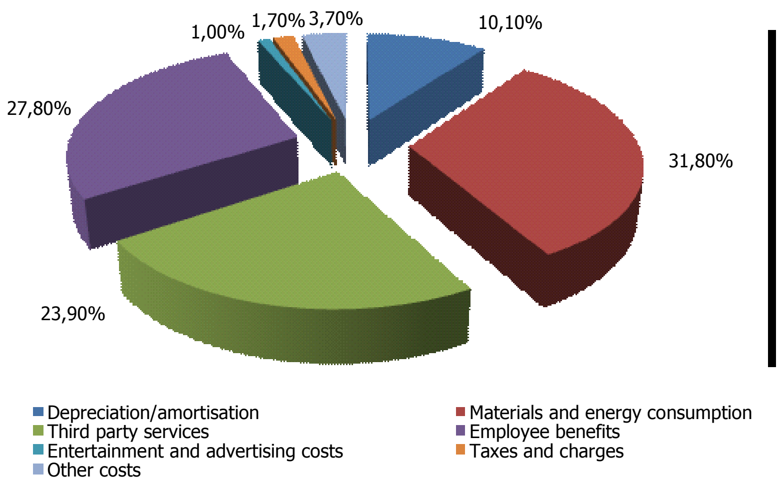
Recorded increase in costs of goods and materials sold is connected with the purchase of coal intended for one of the Company's customers.

The presented changes in costs by type had only a slight impact on the structure of costs by type. In the analysed period, as was the case a year earlier, the most significant position was the costs of materials and energy used and their share slightly increased by 0.6 p.p. to the level of 31.8%. The share of employee benefits costs fell by 1.3 p.p. and it currently makes 27.8% of the total costs by type. The share of external costs increased by 1.8 p.p. and their share at the end of Q1 2011 amounted to 23.9%. It should be noted that the above cost items (materials and energy, employee benefits, external services) accounted for 83.5% of the total costs incurred by the Company in the first quarter of 2011.

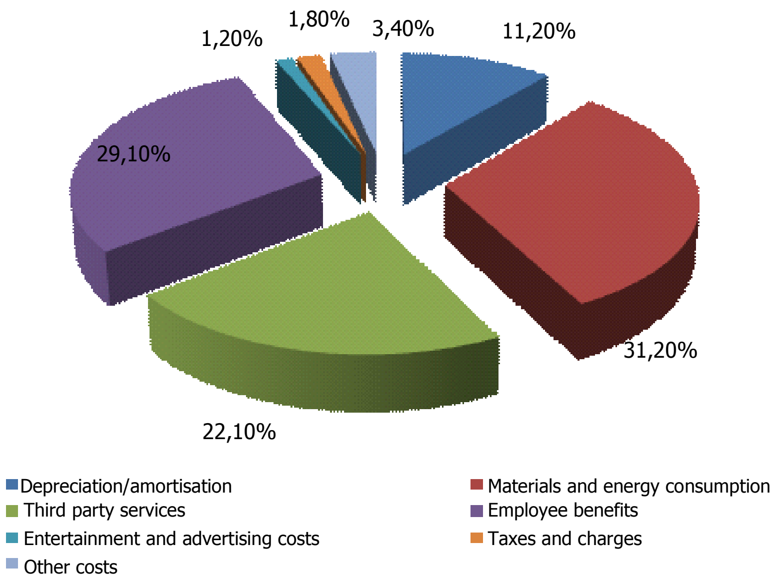
Table 21 Structure of costs by type at LW BOGDANKA S.A.

Item	Q1 2011	Q1 2010	Change (%)
Amortisation/depreciation	10.1%	11.2%	-9.8%
Materials and energy used	31.8%	31.2%	1.9%
Contracted services	23.9%	22.1%	8.1%
Employee benefits	27.8%	29.1%	-4.5%
Entertainment and advertising expenses	1.0%	1.2%	-16.7%
Taxes and charges	1.7%	1.8%	-5.6%
Other expenses	3.7%	3.4%	8.8%
TOTAL	**100.0%**	**100.0%**	

Costs by type for 3 months of 2011



Costs by type for 3 months of 2010



4.5.2 Costs by function

In the first quarter of 2011 Lubelski Węgiel Bogdanka S.A.'s cost of products sold amounted to PLN 260,500,000, which means an increase by PLN 36,963,000, or 16.5%, compared to the analogous period in 2010. An analysis of the different components of the cost of sales shows that the increase is largely attributable to an increase in the cost of products, goods and materials sold (+17,5%), which is a result of an increase in coal sales by 5,2% recorded in the first quarter of 2011 as well as an increase in operating costs connected with the implemented development strategy (materials and energy, employee benefits, external services, others). An increase in selling costs (+7,8%) and administrative costs (+10.1%) was also recorded, which was caused mainly by higher personnel expenses and costs connected with insurance, maintenance and protection of the Company's assets (including facilities in the Stefanów Field).

Table 18 Cost of sales (in PLN '000)

Item	Q1 2011	Q1 2010	Change [%]	Change [PLN '000]
Costs of products, goods and materials sold	233,055	198,416	17.5	34,639
Selling costs	9,688	8,989	7.8	699
Administrative costs	17,757	16,132	10.1	1,625
Cost of sales	**260,500**	**223,537**	**16.5**	**36,963**

Due to a significant increase in the costs of products, goods and materials sold, the structure of the Group's cost of sales changed causing an increase of this group of costs and a simultaneous fall of the share of administrative costs and selling costs.

Costs of products, goods and materials sold increased from 88.8% in the first quarter of 2010 to 89.5% in the first quarter of 2011. The share of other groups of costs decreased. Currently, the share of selling costs amounts to 3.7%, and administrative costs – 6.8%.

Table 18 Cost of sales - structure

Item	Q1 2011	Q1 2010	Change [%]
Costs of products, goods and materials sold	89.5%	88.8%	0.8
Selling costs	3.7%	4.0%	-7.5
Administrative costs	6.8%	7.2%	-5.6
Cost of sales	**100.0%**	**100.0%**	**X**

4.6 Assessment of the Company's possibilities to enforce its investment plans

The Company plans that the structure of financing its property investment expenses will remain unaltered, i.e. they will mainly be financed using its own funds and funds generated from operating activity. Furthermore, the Management Board does not preclude the possibility to increase the value of its interest-covered debt, which will be dependent upon owners' policy with respect to the distribution of profit for the financial year 2010 (dividend policy) and the scope and the pace of completion of the property investments planned. As at the date of drafting this information, the Company sees no threat as to the possibility to acquire its additional financing in the form of debt. As at 31 March 2011 the Company's current loan in the amount of PLN 247 million constituted nearly 13% of the shareholders' equity (PLN 1,956 million) and approx. 9% of the balance-sheet total.

LW BOGDANKA S.A. does not plan for 2011 any capital expenditure in unrelated undertakings. However, in the event of obtaining approvals of statutory bodies to implement by the subsidiary (Energetyka Łęczyńska) its own development strategy including construction of heat and power station, the Company does not preclude its participation in that project by way of an increase in capital and acquisition of new shares in the subsidiary.

5. INFORMATION ON KEY MATERIAL AND EQUITY INVESTMENTS OF THE LW BOGDANKA GROUP

5.1 Material investments of the LW BOGDANKA Group in the first quarter of 2011

In the first quarter of 2011 the LW BOGDANKA Group executed the scope of investment works necessary to double coal extraction in 2014.

A list of key investment expenses incurred in the first quarter of 2011 is presented in the table below.

Table 20 A list of key investment expenses incurred in the first quarter of 2011 and the first quarter of 2010 (PLN '000).

Item	01.01.2011 - 31.03.2011	01.01.2010 – 31.03.2010
Investment expenses on acquisition of tangible fixed assets	192,095	248,185
Investment expenses on acquisition of intangible fixed assets	236	-

Investment expenses (payments according to dates under the agreement) include liabilities due to investments executed in the previous year and part of outlays incurred in the first quarter of 2011.

In the first quarter of 2011, due to investment execution the outlays on tangible fixed assets in construction amounted to PLN 86,487,500. These outlays concern the following investment groups:

Table 21 Key material investments of the LW BOGDANKA Group in the first quarter of 2011 and the first quarter of 2010 (PLN '000)

Key material investments	Outlays incurred from 1 January 2011 to 31 March 2011	Outlays incurred from 1 January 2011 to 31 March 2011
Construction and assembly work	78,928.00	77,108.73
Completion of deliveries and purchases of finished goods	5,472.00	103,105.62
Intangible fixed assets	234.60	76.38
Other	24.90	304.97
Advance payments for fixed assets under construction	1,828.00	0
Total	**86,487.50**	**180,595.70**

5.1.1 Fulfilment of the objectives of the issue/use of proceeds from the issue of series C shares

The subject of the first public offering of the Company in June 2009 were 11,000,000 series C shares. The first quotation of rights to shares of the Company on the Warsaw Stock Exchange (the "WSE") took place on 25 June 2009, and the first quotation of rights to series C shares on the Warsaw Stock Exchange took place on 22 July 2009.

In connection with the issue of series C shares, the Company obtained proceeds of PLN 528,000,000 (after deducting the costs of issue, LW BOGDANKA S.A.'s proceeds amounted to PLN 521,051,000). The proceeds from the issue of the Company shares will allow it to finance, except for investment tasks specified in the Issue Prospectus (objectives of the issue), additional projects, i.e. performance of mining excavations in the Stefanów Field, construction of storage silos in the Stefanów Field as well as the purchase of a coal mine face complex.

In the first quarter of 2011, the Company used a total of PLN 46,409,000 from the proceeds from the issue of series C shares, to perform the following investment tasks:

- construction of lifting and ventilation shaft 2.1 in the Stefanów Field;
- construction of the excavated material haulage system from the Stefanów Field to the Mechanical Coal Processing Plant;
- construction of structures in the Stefanów Field (lifting machine building and switch room for shaft 2.1, as well as main fans station at shaft 2.1);
- air-conditioning of the underground part of the mine.

5.1.2 Investments in the first quarter of 2011

The basic investment plan for the first quarter of 2011 was to continue the commenced tasks aiming at doubling the extraction in 2014.

The plan for 2011 includes:

- further building the excavation and ventilation shaft 2.1 in the Stefanów Field along with the ancillary facilities,
- extending the Mechanical Coal Processing Plant and building a belt conveyor trestle bridge for the excavated material transport system from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka Field,
- building horizontal workings,
- environmental protection investments,
- building new building facilities and modernising the existing ones,
- purchasing finished products.

<u>Building the excavation and ventilation shaft 2.1 in the Stefanów Field</u>

In the first quarter of 2011, the following works were performed:

1. Hoist tower together with the lift machinery room building for shaft 2.1:
   a) a steel framework for the tower of the height of 61m was constructed,
   b) installation shaft
      - ferroconcrete +71 m
      - steel +65 m
   c) 40% of walls in the lift machinery room building.
2. Lifting equipment of shaft 2.1:
   a) The electrical part of the lifting machine of shaft 2.1 was assembled and commissioned to the extent allowing installation of ropes and adjustment of the lifting facility.
   b) Equipment elements for the mining shaft lifting equipment (load bearing ropes, compensatory ropes, suspensions of gin tubs, suspensions of compensatory ropes). Skipping tubs of the mining shaft lifting equipment were completed and collected from the producer, rope pulleys of the mining shaft lifting equipment are in the implementation stage.

In the Company's opinion (on the basis of the current execution stage), the deadline for the construction of the lift machinery room building and hoist tower for shaft 2.1 was postponed until the end of July 2011, for reasons of delays in assembling the steel framework.

3. Shaft and loading equipment:
   - Working designs are being prepared – the execution status is about 80%.

The construction of shaft equipment, due to delays in assembling the steel framework of the lift machinery room building and the hoist tower, and due to delays in assembling underground equipment, will be postponed until the end of July 2011.

4. Construction of storage reservoirs in the Stefanów Field – storage reservoir 2fS was finished, storage reservoir 1fS – its loading and unloading chambers were completed, 10 meters of depth were provided.

Extension of the Mechanical Coal Processing Plant

In the first quarter of 2011, the following works were performed:

1. Task 2 – Extension of the MCPP processing capacity from its current level of 1200 up to 2400 t/h:
   a. Currently, the stage of preparing working designs is almost finished.
   b. Demolition works for the existing foundations of facilities 16.3/16.4 were completed, and fragments of foundations of facilities 14.4 and 16.3/16.4 were constructed. Foundation works are being continued for other facilities. The execution status of foundation works is about 75%.

   In terms of the extension of the MCPP in Bogdanka, the deadline will not be met due to large discrepancies with the schedule of works, resulting, among others, from the main subcontractor's withdrawal from the agreement, and selection of new subcontractors - that resulted in disturbing the schedule of the investment process. On 11 May 2011, the investment contractor – Mostostal Warszawa – ensured the Company that the first stage of works would be completed until 24 September 2011, and declared that the final acceptance of the investment is predicted for July 2012, in contrast with the prior deadline of 31 December 2011.

   Task 1 – Construction of the excavated material haulage system from the Stefanów Field to the MCPP.
   a. The execution status for building construction works is about 90%.
   b. Installation of machines and equipment in building facilities is under way.
   c. Installation of power supply system in building facilities is under way.
   d. Installation of the central heating system in the conveyor belt (facilities 207.2, 206.2 and 205.3) was completed. The installation is in the start-up stage.

Due to the lengthy procedures of accepting the investment by construction supervision authorities and the procedure of obtaining a certificate of occupancy for the construction facilities, the deadline for completion of the investment may be extended by about 1-1.5 months from the end of July 2011.

2. Extension of the coal storage area – the concept for extension of the existing commercial coal storage area is under way.

Construction of buildings in the Stefanów Field

In the first quarter of 2011, the following works were performed:

1. The lifting machine room building – a permit for its occupancy was obtained.
2. The main fans station at shaft 2.1 – assembly of mechanical elements
    - Rotary flaps
    - Rotors for the fan systems – 2 items
    - Assembly of main banks – 2 items
    - Assembly of reverse flaps – 2 items
3. The lifting machine supply switch room of shaft 2.1 – switch room 6 kV, 500 V and 400 V were completed and commissioned. 110 kV equipment of the field was assembled.
4. Extension of the OHS complex was completed.

Central air-conditioning system of the Stefanów Field

In the first quarter of 2011, the construction of the basic part of the air conditioning station was completed – a certificate of occupancy for the air-conditioning station was obtained. Main face air-conditioning devices were delivered in 100%. The start-up of the installation was commenced.

Extension of the Bogdanka station's track system

The construction and start-up of the first stage of the extension of the Bogdanka station's track system was completed.

Making coal seams in the Stefanów Field available

In the first quarter of 2011, the following works were performed:

1. Workings at a level of 990 in the Stefanów Field – drilling works of all workings at a level of 990 were completed. The rebuilding of detour W and of the loading heading were under way, as well as the development of transportation systems for floor-mounted and suspended creepers.
2. Ventilation and transport workings – basic ventilation and transport workings will be completed in 2011. In the first quarter of this year, the footboards were developed on the part of the ventilation heading 1/VIII/385.
3. Workings in seam 385/2 to start up the first panel 7/VII in the Stefanów Field – reinforcing of the panel cross-heading 7/VII was completed. Works at the development of the conveyor haulage from the panel to storage reservoirs are going on.
4. Workings in seam 385/2 field VIII – under way is the drilling of under-panel heading 5/VII/2,421.0 m, under-panel heading 6/VII – 1,806.0 m.
5. Workings in seam 385/2 field VIII – under way are: the under-panel heading 1/VIII/385-1,281 m, for the second wall in the Stefanów field, and an under-panel heading 2/VIII – 966 m.

Purchases of finished goods

1. Reinforcement of panel 1/VI in seam 385 in the Stefanów Field – a coal-ploughing complex, which finished the works in panel 1/VI/385 in October 2010, will be transported to panel 7/VII/385. It will consist of the following: powered lining sections, longwall scraper conveyor, mining plough, 3.3 kV supply and control facilities, and bottom road scraper conveyor. This complex worked at the length of 250 m, and will be extended to 305 m. The delivery is under way in accordance with contract No. 359/IZ/2009 of 2009.
2. The items which were purchased in the first quarter are:
   - sets for transporting people with suspended creepers,
   - transport containers,
   - face pumps,
   - slush and cementing pumps,
   - emulsion pumps,
   - cementing aggregates,
   - air compressors,
   - transformer stations and switch-off facilities,
   - ventube fans,
   - air coolers,
   - labour-saving mechanical devices,
   - carriers for transporting euro-pallets.
   - roadheading machines,
   - belt conveyors,
   - suspended internal combustion locomotives.

Replacement investments

In the first quarter of 2011 the following works were completed:

1. Construction of building facilities in the Bogdanka and Nadrybie Field.
   a. Extension of the administrative building (of the Management Board) – facility under construction, completion scheduled for 15 June 2011.
   b. Conversion of a shaft shelter – this facility has already been commissioned.
   c. Construction of power supply to the shaft shelter and the Management Board building – task completed.
2. Modernisation of the existing building facilities.
   a. the OSH complex in Nadrybie – commenced repair of the bath within the scope of conversion of the 2nd, 3rd and 4th floor and making of new façade;
   b. Yard of the TMA department under gantry in Bogdanka, extension of the car park in Bogdanka, ventilation channels of shaft 1.4 in Nadrybie - these facilities have already been commissioned.
   c. Roads and yards in the vicinity of the main warehouse – task under construction.
   d. Roads and yards in the vicinity of shaft 1.2 – a tender offer for execution has been announced.
   e. the "Stary Tartak" Training Centre – works within the scope of construction of new roofing

and replacement of wooden façade have been commenced, date of completion – 15 June 2011.

3. Lifting machines and other power systems
   a. Modernisation of emergency-inspection B 1100A lifting facility
   b. Modernisation of 110 kV GSTR in Bogdanka - conversion concept has been developed.
4. Telecommunication systems and devises - under construction.
5. Alarm and monitoring systems – under preparation.
6. Modernisations of mining machines, the main items being:
   - Panel lining Glinik 15/32 - completed,
   - WARAN direct station - completed,
   - ploughing conveyor trough PF4/1032 - completed.
7. Repair of machines and facilities, the main items being:
   - Repairs of coal cars - under construction,
8. Power and telecommunication cable networks - these facilities are under construction.

Environmental protection

In the first quarter of 2011, the following works were under way:

1. Extension of the mining landfill – a building project was prepared for the first stage of the development of an existing mining landfill. The working design is under way.
2. Design works are continued for the construction of the Szczecin storage reservoir. The time limit for performing design works was extended until 20 December 2011.

Performance and modernization of workings in the Bogdanka and Nadrybie fields

In the first quarter of 2011, the following works were performed:

1. Longwall workings in the Bogdanka field – an over-panel heading in 13/II/382 for panel 13II in seam 382 is being drilled; an over-panel heading for panel 6/IV and under-panel heading for panel 6/IV in seam 385 in field IV are being drilled. In the Nadrybie field, a cross-heading for panel 2/II is being prepared and an under-panel heading 3/II is being drilled. Other workings – the 2fN heading with a conveyor belt was drilled. The drilling of R-27 heading is under way.
2. Modernizations and developments of mining workings – the task is under way.

Modernization of storage reservoirs – Documentation for modernization of the 3fB reservoir is being prepared - its realization will start in the first half of 2011.

Delays in performance of developmental investment tasks will not affect the time limits for investment in the Stefanów Field until 2014.

5.2 Equity investments of the LW BOGDANKA Group in the first quarter of 2011

In the first quarter of 2011, the LW BOGDANKA Group did not carry out any equity investments.

6. POSITION OF THE MANAGEMENT BOARD OF LW BOGDANKA S.A. REGARDING THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS FOR THE YEAR IN QUESTION, IN LIGHT OF THE RESULTS SET OUT IN THE QUARTERLY REPORT IN RELATION TO THE FORECAST RESULTS

LW BOGDANKA S.A. did not publish financial results' forecasts for 2011.

7. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP

The strategic objective of the development of the LW BOGDANKA Group is to build and increase its shareholder value by:

- gaining access to new reserves and increasing the level of coal extraction based on the enlargement of the Stefanów Field;
- maintaining a stable position as the main supplier of coal in eastern Poland, particularly for the commercial power industry;
- strengthening its competitive position by cutting the units costs of extractions and production.

The main strategic objectives of development defined by the LW BOGDANKA Group are:

- doubling the level of extraction of raw materials and thereby doubling the share in the market for hard coal producers in Poland;
- improving the efficiency of hard coal extraction and production;
- ensuring that LW BOGDANKA S.A. is self-sufficient regarding the supply of electricity by developing electricity production activities,
- environmental protection measures.

Enlarging the Stefanów Field will enable LW BOGDANKA S.A. to double its production capacity, and this to increase the annual quantity of hard coal extraction to the target level of 11.5 million tonnes per annum in 2014.

8. DESCRIPTION OF RISKS WHICH, IN THE ASSESSMENT OF LW BOGDANKA S.A., WILL AFFECT THE RESULTS ACHIEVED BY THE COMPANY AND ITS GROUP WITHIN AT LEAST THE FOLLOWING QUARTER

8.1.1 Risks associated with the Company's social and economic environment and market environment

8.1.1.1 Risk associated with the social and economic situation in Poland and the world

LW BOGDANKA S.A.'s financial standing depends on the economic situation in Poland and in the world. The financial results generated by the Company are affected by the rate of increase in domestic and global GDP, particularly the rate of increase in industrial production, changes in exchange rates, the level of inflation, the rate of unemployment, national fiscal policy, and the demand for electricity and heat energy, etc.

In the event of a significant deterioration of the economic situation of the customers for the power coal or in connection with a deterioration of economic situation in Poland, which will result in a decrease in demand for electricity and heat energy, the Company's financial results may decline. However, due to long-term commercial agreements, which oblige the customers to a specified level of power coal purchase, the risk of a significant decline is scarce. This thesis finds its confirmation in the fact that regardless of the macroeconomic situation in Poland and the world, since 1994 LW BOGDANKA S.A. has regularly achieved positive financial results.

8.1.1.2 Risk associated with the economic policy of the State in relation to the hard coal mining sector

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA market position. Those plans are set forth in particular in the following documents:

- "Strategy for hard coal mining sector in Poland for 2007-2015" adopted by the Council of Ministers in July 2007,
- "Poland's energy policy until 2025" adopted by the Council of Ministers in December 2004, which includes the consolidation plans for the fuel-energy sector, updated by the "Poland's energy policy until 2030" adopted by the Council of Ministers on 10 November 2009.
- "The privatisation plan for 2008-2011" adopted by the Council of Ministers on 22 April 2008, updated on 10 February 2009.

Implementation or amendment of the adopted assumptions may have a significant impact on the future competitive position and financial results of LW BOGDANKA.

LW Bogdanka carefully monitors the implementation of processes resulting from the abovementioned documents, and analyses their potential consequences from the point of view of likely threats, possibilities and measures which assure implementation of the Company's long-term strategy and make it possible to achieve the planned results of operations.

8.1.1.3 Risk associated with the levels of prices for raw materials for power production in Poland and the world

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by LW BOGDANKA S.A. The current political and economic situation in North African and Middle East countries (Egypt, Libya, Tunisia, Syria) as well as economic situation in Far East countries (China, Japan) may directly affect the level of supplies of fuels for power generation purposes, and consequently lead to a change in prices of all the energy source materials on the world markets, including coal, which may affect the financial results of the Company.

The Company mitigates the risk associated with prices of raw materials for energy production by signing long-term commercial contracts with key customers for power coal.

The Company, in its price settlements with key customers based on the actual coal calorific value supplied bears a risk of change in prices related to the change of actual coal calorific value resulting from excavated coal deposits. The Company mitigates that risk by an ongoing monitoring of quality level of the supplied coal, by a proper planning and improving the extraction and work of the Mechanical Coal Processing Plant based on state-of-the-art technological solutions applied in this area.

8.1.1.4 Interest rate risk

LW BOGDANKA S.A. is a party to financial agreements based on variable interest rates, therefore it is exposed to a risk of fluctuations in interest rates with respect to loans incurred, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in financial expenses of the Company and hence have an adverse effect on the Company's financial results (or, alternatively, a possible decrease in interest rates may cause a decrease in financial expenses of the Company bringing a positive effect on its financial results).

In the Company's assessment the interest rate risk has a limited bearing on the financial standing of LW BOGDANKA S.A. given a relatively low degree of financing the Company's assets with third party capital.

The Company does not use any hedging instruments against the risk of fluctuations in interest rates.

8.1.1.5 Risk connected with exchange rates

Analysis of historical data of the Company shows that about 0.02% of the value of its total revenue on sales in the first quarter of 2011 came from export. The territory of Poland remains the main market for the Company, and most transactions are settled in the domestic currency. As at the date of submitting the Report, LW BOGDANKA's operations are not exposed to currency risk.

8.1.1.6 Risk associated with the impact of current macroeconomic situation on debt financing availability

Currently the Company implements a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds (proceeds from the issued series C shares, income on current operating activity) and debt financing, currently totalling PLN 247 million. At present, the Company has a significant level of cash (PLN 325 million as of 31 March 2011), but it does not exclude the possibility of increasing the value of interest-bearing debt in the next several months, which will be dependent on the scope and speed of planned investments in tangible assets. The Company sees no threat as to the possibility to acquire its additional financing in the form of debt. The current interest-bearing debt in the amount of PLN 247 million, accounts for approx. 12.4% of the shareholders' equity (PLN 1,993 million) and 8.7% of the balance-sheet total.

8.1.1.7 Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events

The operating activities of LW BOGDANKA are exposed to risks and dangers beyond its control resulting from the specific nature of conducting activities in the mining industry. These include events associated with the environment (e.g. industrial and technological malfunctions) and extraordinary events (e.g. geotechnical phenomena, mining disasters, fires or flooding of excavations with mine waters). Such events or phenomena could cause a temporary suspension of LW BOGDANKA S.A.'s operating activities or losses relating to property, financial assets and employees or could result in LW BOGDANKA S.A. being held legally liable.

The most important natural threats occurring in the mine include:

- coal dust explosion threat – class "b";
- fire threat - IV self-combustion group (on a five-grade scale);
- methane hazard – methane category I (on a four-grade scale),
- water threat – category I and II (on a three-grade scale).

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, including the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post–industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Group in the future. The Company is under obligation to create a mining damage fund to finance costs related to this area of the Company's activity.

The safety level of the operating conditions in LW BOGDANKA mine is relatively high, which is reflected in the low accident indicators compared to other companies in the industry. This is due to, in particular, the Company's strict compliance with the principles of health and safety in the workplace, ongoing monitoring of threats at individual workstations, appropriate preventative measures, the absence of the risk of mine collapses, gas breakouts and rock outbursts and the low risk of a methane explosion (methane threat category I, on a four-grade scale).

Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on LW BOGDANKA operations include:

- the Company's use of advanced mining machines and equipment, which reduces the risk of industrial malfunctions occurring;
- no geological disruptions occurring and the fact that the mining deposits are relatively regularly laid out;
- the relatively low costs of repairing mining damage resulting from the low urbanisation of the area in which LW BOGDANKA extracts hard coal,
- high qualifications of the personnel.

8.1.1.8 Risk of hostile takeover of the Company

Lubelski Węgiel BOGDANKA S.A., as a result of its IPO on the Warsaw Stock Exchange, has been a public company since 25 June 2009. On 9 March 2010, the State Treasury sold, in block trades, 15,882,000 shares it was holding, which accounted for 46.7% of the Company's share capital. As a consequence, LW BOGDANKA S.A. became a private entity, 90.5% shares of which can be subject of trade on the WSE.

This situation poses a risk of the so-called hostile takeover.

The Company is implementing its investment programme (Stefanów Field), which is to bring about a growth in the extracting capacity of the mine up to 11.5 million tonnes of coal per year (starting from 2014), and consequently, the achievement of better results as well as technical and economic and financial indices.

The prospects of such a growth, together with the lack of full economic effects prior to the programme completion in 2014, pose a risk of change in control over the Company on terms that would be unfavourable for the existing shareholders.

Attempts to take over control of the Company can be expected from an investor in the fuel and power industry, which has planned or is planning to take over mining plants, or who owns or is planning to build, in the area of the Company's operations, new energy generating capacities based on the coal of parameters produced by the Company.

This risk consequently results in threats as regards implementation of the established operational strategy by the Company.

The Management Board undertakes actions aimed at increasing the value of the Company, through improvement of the structure and efficiency of mining and cost optimisation. It is also important to show to investors the real value of shares, both in relation to the currently achieved results as well as to our resource potential and growth perspectives.

8.1.2 Risk directly associated with the Company's operations

8.1.2.1 Risk associated with estimating the size of deposits

Data on quantity and quality of hard coal which is available to LW BOGDANKA or which may be available in future is obtained from geological documentation and based on projects of deposits development. The data is further updated on an annual basis in the resources records which contain changes that may be caused by:

- a more detailed examination of the deposit,
- mining and losses,
- changed boundaries of the deposit, including a change to the depth in which the resources are documented,
- reclassification of the resources.

Therefore there is a risk that the quantity and quality of the estimated resources will be reviewed (in plus or in minus) as a result of gaining better knowledge about the deposit parameters. Any significant negative adjustment of the deposit size may result in shortening of the assumed mining period, and in consequence have an adverse effect on the life of the mine as well as on the future financial results of LW BOGDANKA S.A.

The Company wants to emphasise that specific geological conditions of the deposit exploited by LW BOGDANKA (the fact that the mining deposits are relatively regularly laid out, the geological structure of the deposit is regular - without major disruptions and faults) allow the size of a given deposit to be precisely estimated. Furthermore, the size of the deposit which serves as a basis for the Company to plan the development of its mining capacities has been reviewed many times, and the exploitation works carried out so far confirmed the accuracy of deposit size estimates.

8.1.2.2 Risk associated with the launch of extraction of new deposits

A material aspect of the operations conducted by LW BOGDANKA S.A. is the necessity to secure future extraction possibilities by providing access to new coal resources.

If the activities leading to obtaining and extraction of new deposits are restricted or discontinued, or if unforeseen formal, legal or technical difficulties occur during the period of preparing the deposit for the extraction, the mining capacity of the Company may be limited, which in consequence may shorten the life of the mining plant and/or reduce the assumed level of extraction of hard coal thus decreasing future financial results of LW BOGDANKA. Considering how the works related to enlarging the mining area are advanced, the risk described in this section is insignificant in relation to the Company.

In April 2009, the Company obtained a licence for extracting a hard coal deposit in a new enlarged mining area, which will enable the Company to increase the extraction level in pursuance of the investment programme regarding the Stefanów Field. Moreover, in the Company's assessment, the cost of obtaining a new deposit with the possibility of extraction with the use of two mining shafts as part of the Stefanów Field extension programme is relatively low, as the investment is based on, among other things, the development of the existing historical infrastructure.

8.1.2.3 Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various kinds of stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). There is a potential risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and sales and the possibility of punctually making deliveries to the customers of LW BOGDANKA S.A., and therefore on the financial results achieved by the Company.

The Company stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA S.A. extracts coal by the longwall system and its target production capacity is obtained from two mining faces, while due to technical and technological mining conditions the planned level of extraction can be maintained if a stoppage occurs at one of the faces by intensifying work on the other. The enlargement of the Stefanów Field planned by the Company and the associated start-up of a second mining shaft will further reduce the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down.

The Company would also like to point out that it uses advanced mining equipment and machines in its mining operations and conducts intensive research and development work aimed at increasing the productivity of its operations, introducing solutions with a high degree of technical and technological reliability (underground coal storage silos with a capacity of 11,500 tonnes) and increasing the safety of the work environment. These measures will significantly reduce the Company's technical and technological risk.

8.1.2.4 Risk associated with high costs of technologies applied by the Company

The technology of power coal extraction applied by the Company involves the use of highly specialised machines and equipment produced only by several producers in the world. As a result of the Company's investment plans considering the extension of the Stefanów Field, it will be necessary to make investments in new specialised mining machines. Due to global concentration of producers of the aforementioned machines and equipment, there is a risk of unexpected increase in prices of specialised machines and equipment, which could have impact on the increase of investment expenditures which must be borne in connection with implementation of the Company's development strategy.

8.1.2.5 Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of the Company's computer systems could adversely affect its ongoing operations and therefore affect its future financial results.

However, the Company stresses that LW BOGDANKA is systematically taking action aimed at minimising the risk associated with the possibility of IT systems malfunctioning.

The Company implemented a "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." regulating organisational and technical measures for data protection and maintaining the continuity of systems' operation. This refers to the organisation of access to data, making safety copies and their storage, using firewalls, anti-virus systems on servers and employees' PCs. The servers supporting the systems are high-class equipment with double power and data storage systems. In October 2010, the Company implemented a server cluster for main ORACLE databases and a centralised data backup. Further activities are being carried out, aiming at the development of a cluster system for other servers; the Company is planning to complete this process in May 2011.

IT systems used at LW BOGDANKA have no effect on operating activities associated with extracting hard coal and therefore if they malfunction the continuity of hard coal extraction would not be threatened.

8.1.2.6 Key customer risk

Vast majority of the power coal produced by the Company is sold to a relatively small group of large contracting parties operating on the domestic market. There is therefore a risk that the reduction or termination of cooperation with a key customer or the deterioration of the financial/economic situation of any of the main customers of the Company could have an adverse effect on the financial results achieved by the Company.

As at the day of submitting the Report, the Company has signed contracts for the entire sales of coal for 2012, and entered into agreements with three main recipients (ENEA Elektrownie Kozienice S.A., Energia Elektrownie Ostrołęka and Vattenfall Poland S.A.) thus ensuring a market for coal in the long-term perspective until 2025. There is a risk that as a result of privatisation and consolidation processes in the energy capital market, one of the key recipients will significantly strengthen its position in relation to the Company by taking over higher volumes of the Company sales than they are now. This poses a risk of increasing the dependency of the Company on one key recipient.

There is also a risk that power investments in new capacities will not be implemented, or that power investments will be inclined towards substitute sources of energy (atom, natural gas, shale gas, renewable sources of energy) or that investments will be significantly delayed – which may cause a problem for the Company regarding allocation of significant volumes of coal originating from increased extraction. The Company mitigates this risk by looking for alternative recipients: supplies of the Company's coal mixed with low-sulphur imported coal for the needs of the recipients who require low-sulphur coal, and by looking for possibilities of export sales.

There is also a risk that as a result of investment delays in the Company, the level of higher extraction will be achieved later than it was assumed in the investment, mining and coal sales plans. This brings about a problem of performing sales contracts for the needs of the key recipients, which are concluded well in advance, and a risk of incurring contractual penalties by the Company. The Company mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

8.1.2.7 Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by the Company

On both the Polish market and export markets, LW BOGDANKA S.A. is exposed to price competition from other producers of power coal in Poland (e.g. the mine companies Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.), as well as from eastern markets (including Russia, Ukraine and Kazakhstan).

In the case of domestic coal companies, significant risk factors associated with competition are:

- consolidation processes in the mining industry (vertical and horizontal consolidation within large energy groups) leading to the creation of powerful entities in terms of capital which determine how the domestic power coal market will develop;
- government assistance for hard coal mines in the Silesia region covered by a restructuring programme.

In the case of coal suppliers from eastern markets, LW BOGDANKA has a significant logistics advantage. In comparison to Polish producers of hard coal, the Company's competitive strengths minimise the risk associated with price competition.

Another significant risk factor associated with competition are the less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content), which limits the range of applications of the coal extracted in LW BOGDANKA to industry and power production and forces the Company's customers to invest in fume desulphurisation installations. However, because customers for power coal have technologies which are prepared for burning coal with a particular calorific value and because, as at the date of submitting this Report, all of the key customers of the Company have fume desulphurisation installations, the risk associated with the less favourable quality parameters of the coal produced by LW BOGDANKA is, in the Company's assessment, very limited.

8.1.2.8 Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW BOGDANKA payable by its customers and the surplus of Company's receivables in comparison to liabilities. As at the end of the first quarter of 2011, trade debtors and other short-term receivables of the Company accounted for 5.66% of the balance-sheet total.

In order to protect against the risk of potential insolvency of its customers, the Company strictly monitors the payment of trade debtors. Additionally, the customer insolvency risk is mitigated by the fact that main recipients of hard coal produced by the Company are large entities with high capital operating in the power sector and the risk of their potential insolvency is low.

8.1.2.9 Risk of delays in planned investments due to, among other things, the obligation to apply the Public Procurement Act

The Company is carrying out activities aiming at the increase of production capacities by extension of the Stefanów Field, the processing plant and the track system. Contracts for performance of these tasks were awarded through public procurements.

Moreover, there is a risk of delay in performing the investment schedule due to reasons beyond the Company's control.

A delay in implementing these investments can result in a decrease in revenues of LW BOGDANKA, and therefore adversely affect its financial results. The Company exercises due diligence in order to avoid any delay in the investments. The Developmental Investments Department carries out constant monitoring of work implementation against the adopted schedules. As at the date of submitting the Report, delays in investments are those described in Section 5.1.2 of the Report.

8.1.2.10 Risk associated with the strong position of the trade unions in the Company

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, four trade union organisations operate at the Company, associating the total of 65.42% of the Company's employees. The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating at the Company could affect the operating activities conducted by LW BOGDANKA. It concerns also possible protests connected with a risk of the Company's hostile takeover.

In the Company's opinion, cooperation of the Management Board of LW BOGDANKA with the trade unions operating in the Company has so far been successful. The Company's objectives include continuation of the cooperation between its Management Board and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving the Company's objectives and strategy.

8.1.2.11 Risk of the employees of the Company being additionally employed in external entities cooperating with the Company

Such cooperation involves external entities providing outsourcing services to the Company, which consists in providing workers to perform mining and maintenance/refurbishment work on Saturdays, Sundays and holidays. Because that work requires that people with appropriate qualifications and experience be employed, the people employed by the abovementioned entities are mainly employees who work at the Company from Monday to Friday on the basis of an employment contract concluded directly with the Company.

If the provision of work for LW BOGDANKA by the employees of LW BOGDANKA through external entities could not be continued, the Company would be forced to hire additional employees or to reduce production, which could consequently have a negative effect on the financial results achieved by LW BOGDANKA.

8.1.2.12 Key supplier risk

The specific nature of the Company's operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under agreements concluded with the Company.

LW BOGDANKA S.A., when signing agreements with suppliers, assesses possible threats for the contract performance and options for establishing cooperation with other suppliers. Furthermore, in order to secure the performance of "higher risk" contracts, the Company requires that a performance bond is made.

8.1.2.13 Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements signed by the Company (particularly those relating to the purchase of specialist equipment and technology), it is exposed to a risk of an agreement being concluded on unfavourable terms.

This risk also occurs where a business partner has a very strong negotiating position (e.g. in the case of a contract for deliveries from the only manufacturer of a particular product).

The Company is taking the following measures to minimise the probability of this risk occurring and its impact:

- rigorous legal and substantive supervision of the process of concluding agreements resulting from tender procedures according to the procedures of public tenders and others;
- securing commercial contracts relating to the sale of its products with an option to renegotiate the prices depending on market changes that may occur;
- training in the logistics of concluding contracts and market analysis and training in negotiations and trading, particularly at the international level.

8.1.2.14 Risk associated with related party transactions

The Company concludes transactions related parties which may be subject to inspection by tax authorities. The man subject of examining the transactions is whether they have been concluded on an arm's length basis or not.

In the Company's opinion, all transactions concluded with related parties ware and continue to be concluded solely on an arm's length basis. It cannot be ruled out however that the tax authorities will decide to the contrary in assessing the transactions conducted by the Company and its related parties, which could result in a difference in calculating the taxable income and the necessity of paying additional tax along with default interest.

8.1.3 Financial risk factors

8.1.3.1 Liquidity risk

In mid-2009, Lubelski Węgiel BOGDANKA S.A. acquired PLN 528 million gross from the issue of 11 million of shares on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.). The Issue Prospectus said that the money raised from increasing the share capital would be used as financing for the Group's investment plan (e.g. the extension of the Stefanów Field).

A major factor in evaluating a company's insolvency risk is the level of the company's operating cash flows, cash and liquidity ratios. In the case of the Company, cash as at 31 March 2011 achieved the amount of PLN 325 million, while current liquidity ratio and quick liquidity ratio amounted to 1.72 and 1.57, respectively. During the first quarter of 2011, cash flows from operating activities amounted to PLN 74,445,000. As at the date of submitting the Report, the Company is not threatened with insolvency. In order to avoid potential threats in the future and minimise the Group's liquidity risk, long- and short-term analyses and forecasts are prepared as the basis for identifying the Company's cash requirements. This makes it possible to plan inflows and outflows and to determine the optimum level of cash and the optimum method of financing for the future, taking into account the principles of economic calculation.

8.1.3.2 Credit risk

Currently (as at 31 March 2011), the Company's debt (in aggregate long- and short-term) is PLN 247,000,000. As a further development of the Mine is planned in the future (launching coal production in the Stefanów Field, purchasing new mining machinery and equipment, etc.) and as levels of cash flows from operating activities and money raised by issuing shares are limited, additional sources of external financing, e.g. a bank loan, may need to be used. Additionally, currently (as at the day of preparing this information) an effective schedule of repayments concerning the above mentioned credit facility provides for quarterly repayments of the capital in 2011 for the total amount of PLN 50,000,000.

The current economic situation of Poland, comments of analysts and economists, or even suggestions of the Members of the Monetary Policy Council, provide reasons for a possible further increase in the interest rates in Poland. An increase in interest rates by the Monetary Policy Council will translate into growth of the WIBOR rate, in relation to which the costs of the Group's debt is established, the consequence of which will be the growth of financial expenses and reduction of the gross and net result.

In the Company's assessment, the interest rate risk has a limited bearing on the financial standing of LW BOGDANKA S.A. given a relatively low degree of financing the Company's assets with third party capital.

The Company does not use any hedging instruments against the risk of fluctuations in interest rates.

8.1.3.3 Insurance risk

The Company insures its business, however, as is also the case of other mining entities worldwide, certain risks related to mining activity, such as quake of formation, are not covered with insurance. Furthermore, it cannot be guaranteed that insuring the risks taken out by the Company will prove sufficient for covering all possible losses or liabilities. An occurrence of an adverse event which is not covered in whole or in part by insurance, may have a direct effect on the Company's financial standing, results of its operations and the generated cash flow.

8.1.4 Risks associated with environmental protection

8.1.4.1 Risk associated with reclamation and mining damage

The Company is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be stricter. Any possible tightening of the standards in this respect may result in higher costs for the Company.

As the mining area of the Company will be enlarged, the damage resulting from mining, both in buildings and agricultural land, will increase proportionately. Simultaneously with the coal extraction, the land settlement will enlarge within the mining area, which will result in a higher level of ground waters and local land undercuts. The growing damage resulting from mining will translate into higher outlays on the removal of the mining damage (purchase of developed real properties). Therefore, in addition to the existing recovery work, the Company will continue to protect buildings against the results of mining damage and to reimburse the costs incurred by investors on adjusting the new buildings under construction on the mining land to the current conditions. This may adversely affect the financial results of the Company.

8.1.4.2 Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment

The operations of LW BOGDANKA have a significant impact on the environment. Given the nature of that impact, the Company must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including BAT requirements), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. Accordingly, the environmental protection standards are also applicable to Łęczyńska Energetyka.

As at the date of submitting the Report, the Company's operations are conducted in compliance with law and BAT requirements. The Company holds all permits required in connection with its operations, including, in particular, integrated permit for the installations covered with IPPS requirements (Zakład Ceramiki Budowlanej EkoKlinkier, mining waste dump). Both the Company and Łęczyńska Energetyka were granted the CO2 emission allowance for the settlement period 2008-2012.

However, there is a risk that, given the new Mining Waste Act, the Company will have to introduce changes in the manner it manages its mining waste. The Mining Waste Act introduces new rules governing the management of such waste, and stipulates an obligation to approve a mining waste management programme and to obtain a permit for operating facilities for their utilisation. The Company's operations will have to be adjusted to the new requirements as from 1 May 2012.

Furthermore, it must be stressed that since the environmental law regulations are subject to continuous changes, and the prevailing last years' trends in the EC environmental laws lead to tightening the standards of environmental protection, it cannot be ruled out that in the future further legislative changes will introduce even stricter standards of the use of environment, which may also apply to the sector of operations of the Company or Łęczyńska Energetyka. The changes may lead to the necessity of adjusting the Company's operations or the operations of Łęczyńska Energetyka to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to the Company or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays and hence adversely affect the Company's financial results.

8.1.4.3 Investment risks associated with protected areas

The Company's plant is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Natura 2000 network regulations located partially on the area of the Company's mining land and three others in close vicinity of the Company's mining land). Those environmental conditions do not pose an obstacle for the Company's activity in its present scope. Nevertheless, all the planned investment activities of the Company must be analysed from the perspective of their potential negative impact on protected areas.

According to the law, business activity which has negative impact on the environment of the protected areas (and in their vicinity) may be significantly limited. During the proceedings aiming to issue investment decisions, a competent administrative authority examines the environmental impact of the investment by analysing the description, characteristics, technical and project data of a given investment. Should the authority find it necessary, it may impose certain obligations on the investor in order to eliminate the negative impact. Therefore, if a planned investment is located in the zone of impact on protected areas, the investor must take into account the possibility that it may be encumbered with certain obligations, which in practice usually means the necessity of additional investment expenditures.

There is a risk that in connection with its investment activity, certain obligations may be imposed on the Company or the requirements concerning the limitation of the negative environmental impact will be stricter (e.g. the obligation to introduce certain technological solutions with respect to water and sewage management in connection with the impact on the ground water environment and the risk of negative changes in the ground water levels). Those investment restrictions may require higher investment costs and therefore may affect the Company's financial result.

8.1.5 Risk factors associated with proceedings and legal environment

8.1.5.1 Risk of change to tax laws

The laws on the tax on goods on services, the corporate income tax, personal income tax, real property tax and social insurance contributions are frequently changed, which results in certain inconsistency and unpredictability in the conduct of tax authorities in relation to taxpayers. The regulations currently in force also include discrepancies and unclear issues which result in differences of opinions as to the legal interpretation of the tax laws both between state authorities and between state authorities and companies. Tax settlements may be the subject of control of tax authorities which, if irregularities are found, have the right to calculate the tax arrears with interest. Tax declarations submitted by companies may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions with affiliates, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

8.1.5.2 Risk of real estate tax on mining excavations

In line with its strategy, when the Company draws up its real estate tax returns, it does not take into account the value of building structures and equipment located in its pits for the purposes of calculating the tax. There is a risk of the tax authorities and courts taking a position in this matter according to which for the purpose of charging real estate tax, a mining excavation should be treated not as a unified structure but as a building structure consisting of individual structures (or devices) which are functionally connected to each other, i.e. shafts, side drifts, power lines etc. used to extract minerals. In this sense, the structures and devices in question would constitute a constituent part of a pit used for conducting business activities and real estate tax should be levied on those structures (devices). Such a risk is indicated by certain court judgements issued in the context of factual statuses which occurred after 1 January 2003, i.e. after the amendment of the Act on Local Taxes and Charges (consolidated text in Dz.U. of 2006, No. 121, item 844, as amended), by virtue of which a definition of building structures was introduced into the Act on Local Taxes and Charges by reference to the provisions of construction law (e.g. the judgements of the Provincial Administrative Court in Wrocław of 14 April 2008 and of 16 May 2007). The issue of charging real estate tax on mining excavations and the building structures and equipment located in them is controversial in the light of applicable tax laws.

For the purposes of calculating real estate tax on mining excavations, the value of fixed assets recorded in the fixed asset account in group 2 (land and water engineering structures), subgroup 20 (complex building structures in industrial areas), type 200 (building structures for mining) is taken into account, with the exception of selected fixed assets.

Please also note that in December 2008 a government draft amendment to the Mining and Geological Law was put before the Sejm (the lower chamber of Polish parliament). The draft provides that "underground mining excavations and the installations and equipment that they contain are not building structures or construction devices in the meaning of the provisions of construction law". If an amendment to the act is adopted in this form, it will settle the issue of whether mining excavations should be subject to real estate tax, though this would only be effective in the future. The ministerial justification for the amended provisions states that the proposed change results from the inconsistency of past judgements and practice relating to charging real estate tax on mining excavations and the building structures and devices located in them. However, it does not refer to the issue of taxation or its absence until the moment when the amended laws are introduced. As at the date of submitting this Report, the Sejm of the Republic of Poland enacted new Mining and Geological Law, in a version which does not resolve the issues present above, however. Issues connected with real estate tax on mining excavations were not clearly regulated, and a decision was made to include these issues in another Act of Parliament pertaining to tax.

8.1.5.3 Risk associated with expenses for creating certain mining pits and their classification for the purposes of corporate income tax

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. The created pits are recorded in the accounting books as fixed assets or directly as operating costs and the point when such costs are incurred.

The pits comprising a fixed underground mine infrastructure are classified by the Company as fixed assets. The exploitation and movement pits are classified as operating costs at the time when such costs are incurred - cost pits. They include the following pits:

a. preparatory pits for liquidation – when the excavation from the exploitation field the preparatory pits are associated with ends, those pits are liquidated as useless for the remaining parts of the mine. Some of those pits which perform the function of near-wall pits are liquidated gradually along the progress of the exploited wall. The classification of this group of pits for liquidation is determined at the stage of planning the method of preparing the deposits for exploitation;
b. special pits of auxiliary nature – created from pits localised on exploitation fields (blasting niches, drill niches, section chambers). They are liquidated with other movement pits for which the operation has already been performed;
c. selector pits – they are used for deposit extraction (walls and cross-cuts). Those pits are liquidated when the extraction in the field of the wall is completed and when they are no longer necessary for operation of the remaining parts of the mine;
d. pits and examination holes – corridor pits and openings performed from the surface and mining pits for the purposes of examination of the deposit. The purpose of those pits is to examine the deposit structure and collect information on its exploitation.

Some of the cost pits referred to above were performed earlier than 1 year ago. In the light of the current tax laws, one cannot exclude a possibility of other qualification of this type of costs for the purposes of corporate persons income tax than the one performed by the Company, which could potentially mean decreasing the cost base for tax purposes in past and current settlements of the income tax and a potential payment of additional amounts of the tax. The mining companies have made an attempt to clarify this issue - they suggest changes and clarification of the classification rules concerning this aspect of Fixed Assets Classification.

8.1.5.4 Risk of a change in the law and its interpretation and application

The provisions of law in Poland are frequently changed. Interpretations of the law and the way in which it is applied are also changed. Laws can be changed to companies' advantage, but changes can also have adverse consequences. Changing laws and varying interpretations, particularly with regard to tax law, geological and mining law, the law governing business activity, labour and social security law and the law relating to securities, could have adverse consequences for the Company. Particularly frequent are interpretational changes in tax laws. There is no consistency in the practice of tax authorities or in case law relating to taxation. If tax authorities adopt an interpretation of tax law which differs from that adopted by the Company or if the Mining Law introduces new requirements to be imposed on the Company, it could lead to a deterioration of its financial situation and as a result negatively affect its results and development prospects.

8.1.5.5 Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. is listed on the Warsaw Stock Exchange, it is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Company's activity to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (Dz. U. of 2005, No. 184, item 1539, as amended). For a failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the Company's activity from the perspective of disclosure requirements.

9. PROCEEDINGS PENDING BEFORE A COURT, THE RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION AUTHORITY

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the first quarter of 2011, neither LW BOGDANKA S.A. nor its subsidiary were parties to proceedings pending before court, arbitration body or administrative body, regarding:

- liabilities or claims of LW BOGDANKA S.A. or its subsidiary worth at least 10% of LW BOGDANKA S.A.'s shareholders' equity,
- two or more proceedings concerning liabilities or claims worth a total of at least 10% of LW BOGDANKA S.A.'s shareholders' equity.

10. RELATED PARTY TRANSACTIONS

In the first quarter of 2011 the Company and its subsidiary concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on terms other than market terms.

Information on the transactions of the LW BOGDANKA Group with related companies is set out in Section 10 of the Consolidated Quarterly Financial Statements of the LW BOGDANKA Group for the first quarter of 2011.

11. OTHER INFORMATION WHICH, IN THE OPINION OF THE MANAGEMENT BOARD, IS SIGNIFICANT FOR ASSESSING THE EMPLOYEES, ASSETS, FINANCIAL STANDING AND FINANCIAL RESULT AND CHANGES THEREIN AND INFORMATION WHICH IS SIGNIFICANT FOR ASSESSING THE POSSIBILITY OF THE LW BOGDANKA S.A. GROUP SETTLING ITS LIABILITIES

11.1 Adopting resolution on payment of dividend at LW Bogdanka S.A.

On 10 May 2011, the Annual General Shareholders Meeting adopted a resolution on distribution of net profit for 2010. It was decided to distribute the net profit amounting to PLN 227,362,313.44 (two hundred twenty-seven million three hundred sixty-two thousand three hundred and thirteen zlotys 44/2010) as follows:

1. The amount of PLN 47,619,026.00 (forty-seven million six hundred nineteen thousand and twenty-six zlotys) - for distribution to the shareholders, i.e. to pay a dividend of PLN 1.40 (one złoty 40/100) per share.
2. The amount of PLN 179,743,287.44 (one hundred seventy-nine million seven hundred forty-three thousand two hundred and eighty-seven zlotys 44/100) - to the Company's reserve capital.

Number of shares subject to dividend is 34,013,590.

Further, the General Shareholders Meeting scheduled the dividend date to take place on 29 July 2011, and the dividend payment date – on 26 August 2011.

This was announced by the Company in Current Report No. 11/2011 of 10 May 2011.

11.2 LW BOGDANKA qualified for inclusion in Respect Index

In January 2011, LW BOGDANKA S.A. was qualified for inclusion in the Respect Index, Central and Eastern Europe's first index of socially responsible companies.

The qualification was preceded by an analysis aimed at selecting companies which are managed in a responsible and sustainable manner and which are attractive to investors. The analysis included examining the following aspects: the level of investor relations, corporate governance and disclosure governance, the quality of reporting and communication with the market, organisational strategy and management, environmental policy, and relations with employees.

11.3 Conclusion of a significant agreement with Korporacja Gwarecka S.A.

On 5 February 2011, the Company announced in Current Report No. 3/2011 that the net value of agreements concluded by and between the Company (the "Client") and Korporacja Gwarecka S.A. with registered office in Bogdanka (the "Contractor") in the period of the last 12 months (including the agreement described below) amounted to PLN 322 million net, and thus exceeded the value of 10% of the Company's shareholders' equity. An agreement of the highest value was the agreement concluded on 4 February 2011 (the "Agreement") by and between LW Bogdanka S.A. and Korporacja, concerning the performance of works at the Company connected with production, extraction, mechanical processing, quality control and shipping of hard coal, conducting preparatory works, maintenance and renovation works and other works, specified in the description of the subject matter of the order, necessary for performance of the works at LW Bogdanka S.A. (including the Stefanów Field) specified above, on Saturdays, Sundays and holidays which are official holidays within the period of 24 months from 1 February 2011 to 31 January 2013. The maximum amount of the Agreement amounts to approx. PLN 319 million net and depends on the scope of services commissioned and performed.

The Agreement provides for the following liquidated damages:

a. In the event that, due to reasons attributable to the Contractor, it fails to achieve minimum monthly extraction of coal yield in any monthly accounting period, it shall be obliged to pay to the Client liquidated damages in the amount of PLN 20 for each tonne of coal yield below the minimum monthly extraction level;
b. In the event that, due to reasons attributable to the Contractor, it fails to perform minimum monthly progress of preparatory works in any monthly accounting period, it shall be obliged to pay to the Client liquidated damages in the amount of PLN 5,000 for each running meter below the minimum monthly progress of preparatory works;
c. In the event that the Contractor, due to reasons attributable to it, fails to perform or fails to duly perform services other than those specified in points a and b, it will be obliged to pay to the Client liquidated damages in the amount equivalent to 200% of the net value, according to the rates specified in the Agreement, of the number of workdays, estimated by the representatives of both parties, necessary for due performance of the non-performed part of the task;
d. The payment of the liquidated damages does not exclude the Client's right to pursue damages against the Contractor under the general principles of law, in the event that the amount of incurred damage exceeds the amount of the liquidated damages. Other terms and conditions do not differ from the market standards.

The Agreement substitutes the agreement effective in the period from 3 February 2009 to 3 February 2011, referred to in Article 8.6.5.1. of the Issue Prospectus of LW Bogdanka S.A., published on 15 May 2009.

11.4 Conclusion of a significant agreement with Vattenfall Heat Poland S.A.

On 11 April 2011 the Company concluded Agreement on Sale/Purchase of Power Coal (the "Agreement") with Vattenfall Heat Poland S.A., with registered office in Warsaw. The Agreement concerns coal supplies provided by the Company in 2012 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, whose owner is Vattenfall Heat Poland S.A.

The Agreement is in effect from the date of conclusion thereof until 31 December 2012. According to current prices, the net value of the Agreement amounts to PLN 217,56 million +/- 10%.

The Agreement provides for the following liquidated damages: The Party to the Agreement which fails to collect or supply the contracted amount of coal in settlement periods, shall pay the other Party liquidated damages in the amount of 10% of the value of the undelivered/uncollected coal.

The Agreement provides for the following terms of termination: Each Party is entitled to terminate this Agreement upon a three-months' notice.

The Company announced the conclusion of the Agreement referred to above in Current Report No. 7/2011 of 12 April 2011.

11.5 Appointment of a member of the Management Board of Lubelski Węgiel BOGDANKA S.A., elected by the employees, for the seventh term of office.

On 3 March 2011 the Company's Supervisory Board appointed Mr Lech Tor for the seventh term of office of the Company's Management Board. From 3 March 2011, Mr Lech Tor performs the function of the Management Board member elected by the employees.

Mr Lech Tor completed higher professional education with a bachelor's degree. He is a graduate of the John Paul II Catholic University of Lublin, Faculty of Social Sciences, specialisation: management and marketing (he graduated in 2007). He completed secondary education at the Electric Technical School in Zamość in 1997 with a title of technical electrician, specialisation: general electromechanics.

Since 4 February 1988 Mr Lech Tor has been an employee at Lubelski Węgiel Bogdanka S.A. in Bogdanka in the position of an underground electrical devices fitter. He is a holder of Polish Electricians Association license and intra-company authorisations to operate electrical devices up to 10 kV. In 2010 he also completed DEx I training for electrical maintenance supervisors, conducted by Central Mining Institute in Katowice.

11.6 Employment

Employment at the Company as at 31 March 2010 and 2011 is presented in the table below:

Table 22 Employment at the Company as at 31 March 2010 and 31 March 2011

Employment	I quarter of 2010	I quarter of 2011	Change I quarter of 2011/ I quarter of 2010 [%]
Total workers	3330	3454	103,72%
Underground workers	2539	2600	102,40%
Surface workers	791	854	107,96%
Full-time employees underground	286	301	105,24%
Full-time employees on the surface	281	279	0,99%
Total underground	2825	2901	102,69%
Total staff	3897	4034	103,52%

Employment in the first quarter of 2011 increased by 137 persons, i.e. by 3,52% in relation to the employment level at the end of the first quarter of 2010.
In the first quarter of 2011, 93 persons were employed at LW BOGDANKA S.A.; including 72 persons employed from outside the mining industry, 10 mining school graduates, 10 graduates of other schools, 1 person from another mining company.

At the same time 27 employees left the Company:

- 23 persons retired (pension or disability retirement),
- 1 person deceased,
- 3 persons - other dismissals (including termination by mutual consent of the parties, disciplinary dismissals, expiration of temporary employment contracts, termination by an employer giving notice, termination by an employee giving notice, unpaid leave, military service).

The Group's employee turnover rate, calculated as the product of the difference between the number of people taken on and the number of people dismissed in a given period divided by the number of employees as of the end of the first quarter of 2011, is 0.0025, which shows that the Group employs more people than it dismisses. The Company values employees with many years of service for the Company and treats them as its key resource. The positive value of the employee turnover rate shows that the Group benefits from its efforts to improve the qualifications of its personnel. Employment stability improves the employees' morale. Also, the Company can make full use of its personnel's innovative ideas. Knowledge of the Company's organisational structure helps to improve its internal processes.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS:

Name and surname	Position / Function	Date	Signature
Mirosław Taras	President of the Management Board	10 May 2011	
Krystyna Borkowska	Vice-President of the Management Board for Economic and Financial Affairs Chief Accountant	10 May 2011	
Zbigniew Stopa	Vice-President of the Management Board for Technical Affairs	10 May 2011	
Waldemar Bernaciak	Vice-President of the Management Board for Trade and Logistics	10 May 2011	
Lech Tor	Member of the Management Board elected by the employees	10 May 2011	