DIRECTORS' REPORT ON OPERATIONS

OF LUBELSKI WĘGIEL BOGDANKA S.A.

for the period from 1 January 2011 to 31 December 2011

BOGDANKA, MARCH 2012

CONTENTS

1. BASIC INFORMATION ON LW BOGDANKA S.A.

1.1. Name and registered office of the Company

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

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 identification number (REGON):	430309210
tax registration number (NIP):	713-000-57-84

1.2. Legal Form

Lubelski Węgiel BOGDANKA S.A. is a joint stock company, operating under the laws of Poland.
The Company was created as a result of the restructuring of the state enterprise Kopalnia Węgla Kamiennego Bogdanka with registered office in Bogdanka, under the Act on the Privatisation of State Enterprises of 13 July 1990 (Dz. U. No. 51, item 298, as amended). The deed of transformation of a state-owned enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A. was prepared on 1 March 1993 (Rep. A No. 855/1993). In performance of a bank settlement, as a result of debt conversion, mine plant KWK Bogdanka S.A. ceased to be a state-stock company as at 29 December 1994, as the new shareholders (creditors) took up 4.0 % of shares in the Company.

On 9 March 2010 the State Treasury sold 46.69% of shares in the Company. Therefore, it ceased to hold a majority in the Company's share capital. The number of Company's shares amounts to 34,013,590. On 4 January 2012, 3,208,111 employee shares were introduced to trading on the Warsaw Stock Exchange. The total number of LW BOGDANKA's shares in public trading amounts to 33,978,701. As at the date of publishing this Report, the remaining 34,889 shares are registered shares.

1.3. Legal regulations which provide a basis for the Company's activities

The Company operates on the basis of legal acts which include the following:

- the Commercial Companies Code of 15 September 2000 (Dz.U. No. 94, item 1037, as amended);
- the Geological and Mining Law of 9 June 2011 (Dz.U. of 2011 No. 163, item 981);
- the Company's Articles of Association.

The founder of the Company is the State Treasury, represented by the Minister of the State Treasury.
The Company may operate in Poland and abroad.
The Company was established for an indefinite term.

1.4. History of the Company and its legal predecessors

Lubelski Węgiel BOGDANKA S.A. with registered office in Bogdanka is a legal successor of a state enterprise under name KWK Bogdanka with registered office in Bogdanka.

The enterprise history begins with Resolution No. 15/75 of the Council of Ministers adopted on 17 January 1975 – i.e. decision on construction of a pilot and excavation mine in Bogdanka. Groundbreaking plaque for the enterprise was Ordinance No. 4 of the Minister of Mining and Power Industry on establishment of a state enterprise under name Kopalnie Lubelskiego Zagłębia Węglowego w Budowie (under construction) (KLZW w budowie) of 17 January 1975. The Minister of Mining and Power Industry with Ordinance No. 15/Org/84 of 1 January 1985 put KLZW w Budowie into liquidation and on its base he created Lubelsko-Chełmskie Gwarectwo Węglowe w budowie (under construction) (LChGW w budowie). By virtue of Resolution of the Council of Ministers

No. 34/88 of 8 February 1988, construction of one of the two mines of LChGW w budowie – i.e. K-2 mine in Stefanów - was discontinued. With Ordinance No. 72/Org/88 of the Minister of Industry of 30 June 1988, LChGW w budowie was put in liquidation on 1 October 1988. On 31 December 1988, the property and rights and obligations of the liquidated company were transferred to a state-owned enterprise under the name Dąbrowskie Gwarectwo Węglowe in Sosnowiec.

As at 31 December 1988, under Ordinance No. 44 of the President of the Council of Ministers of 4 November 1988, the state enterprise Dąbrowskie Gwarectwo Węglowe was divided, along with other mining consortia, and Przedsiębiorstwo Eksploatacji Węgla Wschód in Sosnowiec was created, into which KWK Bogdanka was included as an independent establishment of that enterprise. In November 1989, by virtue of Resolution of the Council of Ministers No. 7/89 financing construction of the mine from the state budget means was suspended.

On 23 December 1989, the Minister of Industry, as a result of a division of the state-owned enterprise – Przedsiębiorstwo Eksploatacji Węgla Wschód, on 1 January 1990 formed, pursuant to Ordinance No. 335/Org/89 – a state-owned enterprise under the name Kopalnia Węgla Kamiennego Bogdanka in Bogdanka.

In connection with the political and economic transformation started in Poland, under Ordinance No. 42/Org/93 as at 1 March 1993, pursuant to Article 2.1 of the Act on Transformations of Certain State-Owned Enterprises of Particular Importance for the State Economy of 27 February 1993 (Dz.U. No. 16, item 69), the state-owned enterprise was transformed in a state-stock company under the name Kopalnia Węgla Kamiennego Bogdanka Spółka Akcyjna in Bogdanka. The Company was registered on 30 April 1993 in the District Court in Lublin, VIII Commercial Division.

On 26 August 1994, pursuant to provisions of the Act on Financial Restructuring of Enterprises and Banks and Amending Certain Acts (Dz.U. No. 18, item 82 as amended), KWK Bogdanka S.A. concluded a bank settlement with Bank Depozytowo Kredytowy w Lublinie S.A., which became final on 28 September 1994. As a result of the bank settlement, on 29 December 1994 the Company's share capital was increased by means of an issue of Series B shares and Series C shares (18 April 1995), which were taken up under debt conversion by: State Treasury, Bank Depozytowo-Kredytowy w Lublinie S.A., Puchaczów commune and National Fund for Environmental Protection and Water Management in Warsaw. Creditors in the settlement procedure took up the total of 4.01% of the Company's share capital.

Within the process of equity and organisation restructuring of the Group, the Extraordinary General Shareholders Meeting of KWK Bogdanka S.A. on 10 August 2000 as well as the Lubelski Węgiel Group on 11 August 2000 adopted resolutions on the merger of KWK Bogdanka S.A. (the acquiring company) and the Lubelski Węgiel Group (the target company) by way of incorporation with no increase in the capital, in accordance with the balance sheets as of 30 June 2000. The established share exchange ratio was: 1 share of KWK Bogdanka S.A. for 4.59 shares of the Lubelski Węgiel Group.

The District Court in Lublin – XI Commercial and Registration Division registered the merger of the companies and crossed out the Lubelski Węgiel Group from the register as of 2 January 2001.

For the purpose of allocating shares to the existing shareholders of the Lubelski Węgiel Group – KWK Bogdanka S.A., on the basis of the resolution of the Extraordinary General Shareholders Meeting No. 2 of 10 August 2000, acquired 181 own shares from KOBO sp. z o.o. on 2 January 2001. The shares were issued to one legal person and ten natural persons.

By virtue of Resolution No. 1 of the Extraordinary General Shareholders Meeting of 12 February 2001, the Company's name was changed from KWK Bogdanka S.A. into Lubelski Węgiel BOGDANKA S.A.

On 26 March 2001 Lubelski Węgiel Bogdanka Spółka Akcyjna was registered in the Register of Entrepreneurs maintained by the District Court in Lublin, XI Division of the National Court Register, under KRS No. 0000004549.

By virtue of Resolution No. 2 of 28 December 2004, the Extraordinary General Shareholders Meeting, with the shareholders' consent, retired 19,610 Series B registered Shares and by virtue of Resolution No. 3 has decreased the share capital of the Company by PLN 980,500 to the amount of PLN 115,067,950.

The District Court in Lublin – XI Commercial Division of the National Court Register as of 13 January 2005 registered the change to the Company's share capital and the amendment to the Articles of Association.

On 29 April 2008 the Extraordinary General Shareholders Meeting of the Company adopted a resolution authorising the Management Board to undertake activities aimed at preparing the procedure for the first public

offering of the shares issued within the framework of increasing the Company's share capital as well as admitting and introducing shares to trading on the stock exchange.
On 14 November 2008 the Extraordinary General Shareholders Meeting of the Company adopted a resolution regarding:

- preparing financial statements of the Company in compliance with the International Accounting Standards (IAS) as well as International Financial Reporting Standards (IFRS);
- increasing the Company's share capital by up to PLN 55,000,000.00 by means of a public issue of up to 11,000,000 of the new ordinary Series C bearer Shares with par value of PLN 5.00 per share, with a total exclusion of a pre-emptive right of the previous Company's shareholders;
- applying for admitting Series A Shares, Series B Shares and Series C Shares as well as rights to the Company's Series C Shares to trading on the regulated market as well as their dematerialisation;
- authorising the Management Board to acquire Rights to Series C Shares and the Company shares.

On 28 November 2008 the Company submitted the Issue Prospectus to the Financial Supervision Authority (the "Financial Supervision Authority"), which was prepared in relation to the public offering of Series C Shares and intention to apply for admitting Series A Shares, Series C shares and Rights to Series C Shares to trading on the regulated market (the "Issue Prospectus" or the "Prospectus") . The Prospectus was approved by the Authority on 14 May 2009.

On 22 June 2009 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, WSE) decided to admit to public trading on the main market the following Company shares:

1. 19,770,590 Series A Shares,
2. 11,000,000 Series C Shares.

On 23 June 2009 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. decided to introduce on a standard basis, 11,000,000 Rights to ordinary Series C bearer Shares of Lubelski Węgiel BOGDANKA S.A. with par value of PLN 5.00 per share, to trading on the main market as of 25 June 2009.

The first day of quotation of Rights to Series C Shares at the WSE was 25 June 2009.

O 13 July 2009 the Company received the decision of the District Court in Lublin, XI Commercial Division of the National Court Register of 10 July 2009 regarding the registration of the increase in the share capital of LW BOGDANKA S.A. by means of the issue of 11,000,000 of Series C Shares of the Company.

As at the date of submitting the Report, the share capital after the registration amounts to PLN 170,067,950 and is divided in 34,013,590 shares with par value of PLN 5 per share.

On 17 July 2009, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. adopted a resolution designating 21 July 2009 as the date of the last quotation of 11,000,000 rights to the Company shares.

The Management Board of the WSE also adopted a resolution on introducing on a standard basis to trading on the main market the following ordinary bearer shares of LW BOGDANKA S.A.:

- 19,770,590 Series A Shares, marked with the code "PLLWBGD00016" by the National Depository of Securities (the "NDS");
- 11,000,000 Series C Shares, on the condition that on 22 July 2009 the NDS would register the Series C Shares and mark them with the code "PLLWBGD00016".

The first quotation of the Series C Shares on the WSE was carried out on 22 July 2009.

On 9 March 2010, the State Treasury sold 46.69% of shares in the Company on the Stock Exchange. Therefore, it ceased to hold a majority in the Company's share capital.

The stages of privatisation of LW BOGDANKA S.A. were recorded at the beginning of 2008 in the "Privatisation Plan for 2008-2011", prepared by the Minister of the State Treasury.

As provided for under the Act on Commercialisation and Privatisation of State-Owned Enterprises of 30 August 1996 (Dz. U. of 1996, No. 118, item 561), after the State Treasure had sold its first shares on general terms, which took place on 9 December 2009, the process of signing contracts for gratuitous acquisition of shares by eligible employees was initiated on 7 April 2010. The process was completed on 9 March 2012. This deadline does not apply to those heirs of eligible employees deceased before its expiry who, by 9 March 2012 at the latest, petitioned the court for inheritance ascertainment or produced to the Company a registered inheritance certificate prepared by a notary public. Such heirs have 24 months from the date of the court's decision on inheritance ascertainment becoming final and legally binding or one month from the date of producing the inheritance certificate to conclude the agreement on free-of-charge acquisition of shares. More information is provided in section 11.1 of the Report.

1.5. Organisational structure and management system at LW BOGDANKA S.A. and its Group

The role of LW BOGDANKA S.A. within the Group primarily involves defining the Group's development strategy. The Company also exercises ownership supervision, mainly by way of exercising rights conferred by the shares in Łęczyńska Energetyka, at the Shareholders Meeting of that company. Moreover, as at the day of submitting the Report, two members of the Company's Management Board perform functions in the Supervisory Board of the subsidiary.

Internal organisation of LW BOGDANKA S.A. is determined by Organisational Rules of the Company. In accordance with the Company's Articles of Association, each amendment to the Organisational Rules of the Company as a whole Company's enterprise requires a resolution of the Company's Management Board.

The Company's corporate bodies are:

a) the Management Board;
b) the Supervisory Board;
c) the General Shareholders Meeting.

Powers of the Company's governing bodies result from the provisions of the Commercial Companies Code as well as the Company's Articles of Association. Particular powers of the Company's individual governing bodies are determined by:

a) for the Management Board - the Rules of Procedure of the Management Board of Lubelski Węgiel BOGDANKA S.A.;
b) for the Supervisory Board – Rules of Procedure of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.;
c) for the General Shareholders Meeting – Rules of Procedure of the General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A.

The Company is headed by the Management Board of LW BOGDANKA, which consists of five persons:

a) President of the Management Board;
b) Vice-President of the Management Board, Trade and Logistics;
c) Vice-President of the Management Board, Technical Affairs;
d) Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;
e) Member of the Management Board, elected by the employees.

The Management Board members organise and supervise the organisational units within their own division. The organisational structure of the Company also includes the Chief Engineer - Head of Mining Supervision in Mining Facility, who organises and supervises the operation of the mine in accordance with the provisions of the Geological and Mining Law.

More information on the rules governing the appointment and functioning of the Management Board is provided in section 13.8.1 of the Report.

1.6. Changes in basic management rules of LW BOGDANKA S.A. and the LW BOGDANKA Group

In 2011 the following organisational units were introduced to the organisational structure of the Company:

- Technology and Construction Section,
- Chief Mechanic for Pitheads and Main Drainage, EM Department Manager,

- Officer for Railroad Transport Safety Management System,
- CSR Coordinator – Ethics Spokesperson.

In order to make the rules of management of LW BOGDANKA S.A. more precise, the following steps were taken in 2011:

1. a Corporate Risk Management System and the procedure for its implementation were adopted,
2. the Organisational Rules were extended to include the rules regarding the introduction of Internal Audit at the Company,
3. a Corporate Risk Management Committee was appointed,
4. a document titled "The debt recovery policy of Lubelski Węgiel BOGDANKA S.A." was implemented
5. the Railroad Transport Safety Management System (SMS) was introduced, as well as internal regulations of Lubelski Węgiel BOGDANKA S.A.'s rail transport provider,
6. the Code of Advertising and Marketing Communication Ethics was introduced,
7. the Code of Ethics developed for the Lubelski Węgiel BOGDANKA Group was introduced,
8. amendments were introduced to Regulation No. 3/2002 of 25 January 2002 on budgeting and cost control in the management system,
9. amendments were introduced to Lubelski Węgiel BOGDANKA S.A. Rules for organising tender procedures outside the scope of application of the Polish Public Procurement Law,
10. amended Work Regulations were adopted,

amendments to the Sales Terms and Conditions of Building Ceramics by Lubelski Węgiel BOGDANKA S.A. were introduced.

On 10 May 2011 the Annual General Shareholders Meeting adopted the amended Articles of Association of Lubelski Węgiel BOGDANKA S.A. The amendments concerned the governing law and the conversion of registered shares into bearer shares; furthermore, since eligible employees had exercised their rights, the provisions granting them those rights were deleted; the new Articles of Association do not provide for an appointment of a Management Board member nominated by employees or a Supervisory Board member nominated by employees.

1.7. Information on branches (establishments) owned by the Company

Lubelski Węgiel BOGDANKA does not have any branches (establishments).

1.8. Organisational and capital affiliations of LW BOGDANKA S.A.

In 2011 Lubelski Węgiel BOGDANKA had capital interests in the following business entities:

Table 1 Capital interests of the Company

Company's business name Registry No.	Company's share in the share capital		Share capital	Core activities
	31 Dec. 2010	31 Dec. 2011 and 20 Mar. 2012		
Łęczyńska Energetyka Spółka z ograniczoną odpowiedzialnością in Bogdanka KRS 0000007317	88.70 % (73,332 shares)	88.70 % (73,332 shares)	PLN 82,677,000.00 divided into 82,677 shares of PLN 1,000	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water
Kolejowe Zakłady Maszyn KOLZAM S.A. in Racibórz KRS 0000115564	34.75 % (33,610 shares, including 13,750 preferred shares)	34.75 % (33,610 shares, including 13,750 preferred shares)	PLN 750,000.00 divided into 150,000 shares of PLN 5.00	manufacturer of a rolling stock company in bankruptcy

<u>Łęczyńska Energetyka sp. z o.o.</u>

Łęczyńska Energetyka sp. z o.o. with registered office in Bogdanka (hereinafter referred to as "Łęczyńska Energetyka", the "subsidiary") provides the Company with services with regard to heat energy supplies and conducts water and wastewater management. The subsidiary holds water supply and sewage effluent disposal consent for:

– use of intakes and collection of underground waters in Bogdanka, Nadrybie and Stefanów,
– disposal of cleaned sewage,
– usage of devices cleaning sewage.

Łęczyńska Energetyka also conducts activities with regard to managing hazardous waste.

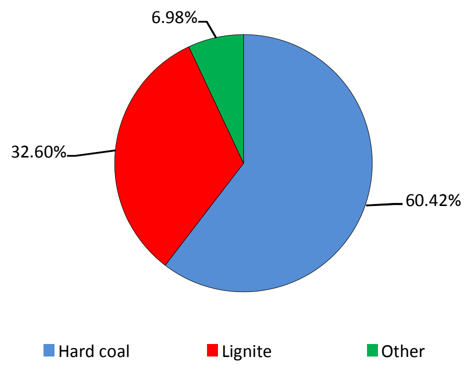
2. DESCRIPTION OF THE COMPANY'S BUSINESS ACTIVITY

2.1. The coal market in Poland

Hard coal - Poland's most important energy source

Coal is Poland's main energy source, accounting for 93% of domestic electrical energy output, 60% of which is attributable to hard coal and 33% to lignite. The remaining 7% is generated by gas and RES (renewable energy sources). The role of hard coal as a primary energy carrier in Poland's energy security policy is growing, due to substantial coal deposits, especially in view of the consistently high prices of other energy sources, crude oil and natural gas in particular.

Chart: The structure of fuels used to generate electrical energy in Poland in 2010

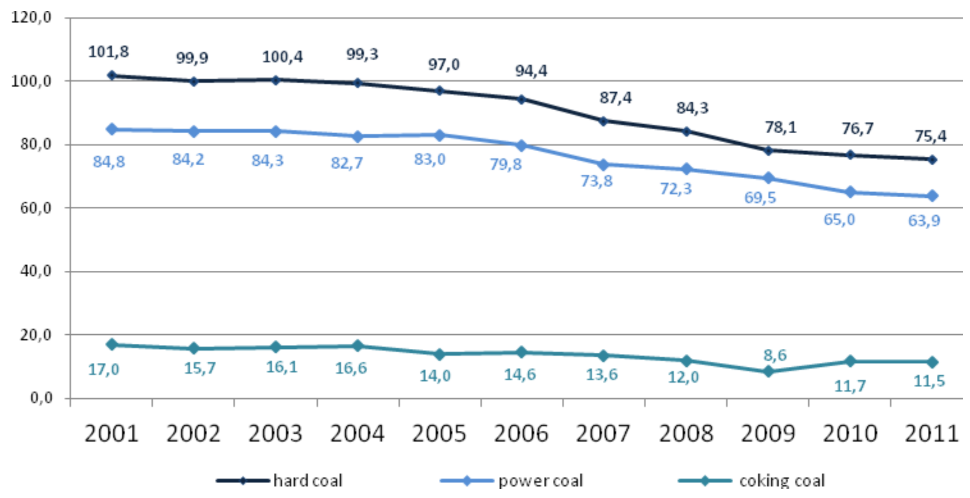


Source: The Energy Market Agency (ARE S.A.)

Poland's hard coal market as compared to the European market

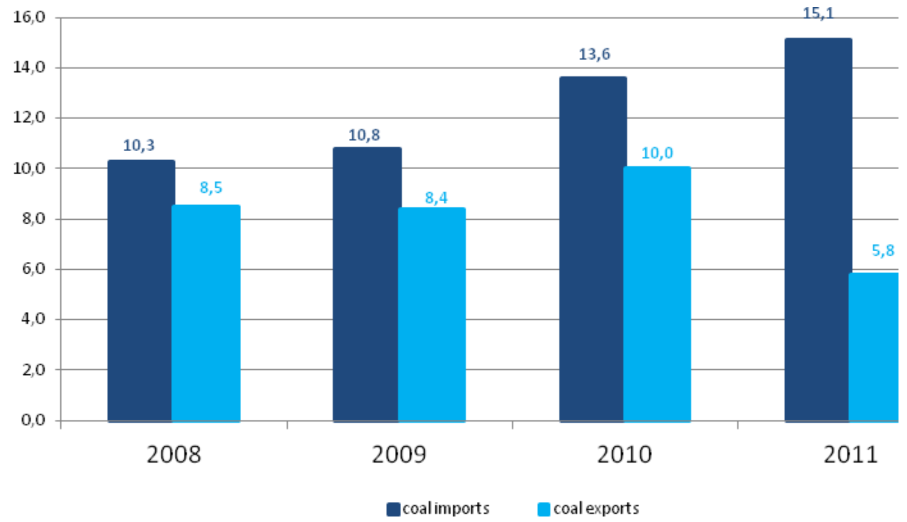
Poland is a major hard coal producer in the world (9th largest in 2010) and the biggest hard coal producer in the European Union. According to the data by the Ministry of Economy, Poland's hard coal output accounts for approx. 59% of EU output (data for 2010). In 2011 Poland produced approx. 76 million tonnes of hard coal, as compared to approx. 77 million tonnes in 2010. Power coal is the main type of hard coal mined in Poland, with the 2011 output amounting to 64 million tonnes (65 million tonnes in 2010).

Chart: Poland's hard coal output in 2000-2011 (million tonnes)



In 2011 5.8 million tonnes of hard coal were exported. Compared to 2010, when 10.0 million tonnes of coal were exported, this constitutes a drop by 4.2 million tonnes. In turn, 2011 brought about a rise in hard coal imports to 15.1 million tonnes, compared to 13.6 million tonnes in 2010.

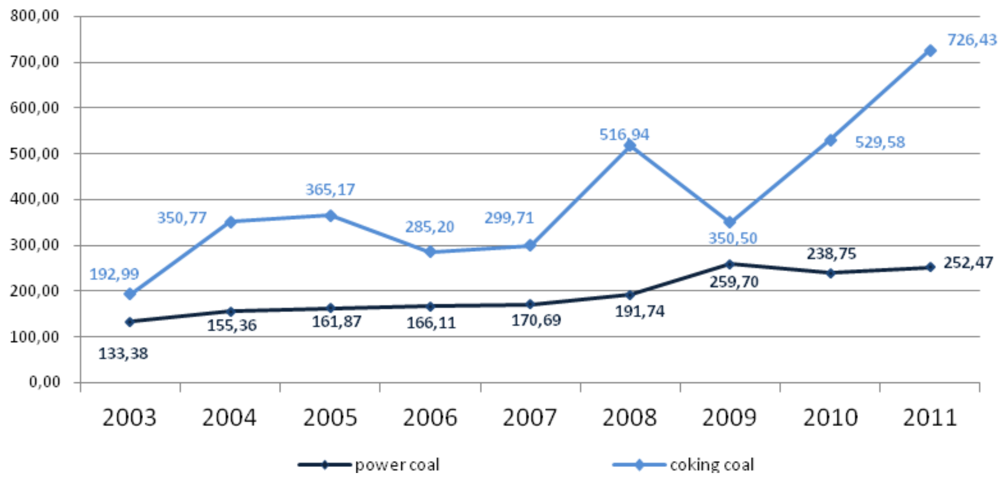
Chart: Poland's hard coal trade balance in 2008-2011 (million tonnes)



Hard coal prices

Despite the steady decline in Poland's hard coal output, from 2003 to 2011 the price per tonne of power coal rose by 89.0%. In 2011 the average price of power coal stood at PLN 252.47 per tonne and was 5.7% higher than in 2010 (PLN 238.75 per tonne).

Chart: Average price of hard coal in Poland in 2003-2011 (PLN per tonne)



2.2. Information on activities conducted by the Company

The scope of the LW BOGDANKA'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);
o) education (Section P).

<u>The Company's supplementary activities</u>

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 Building Ceramics Plant. In September 2007, its building materials production business was discontinued as a result of a fire at ZCB EKOKLINKIER. In 2009, intensive works were continued in the Building Ceramics Plant connected with reconstruction of its manufacturing buildings and process line that had been commenced in 2008. These reconstruction works were completed and the production was restarted in September 2009.

In 2010, ZCB EkoKLINKIER manufactured ceramic façade bricks in full production capacity from January through July. Given a persistent crisis on the market of construction materials, on 1 August the production was limited to about 70% of maximum production capacity, and on 1 September - to 35% of the maximum level.

The test production of the Max type ceramic hollow wall bricks was launched on 15 November 2010.

The production of ceramic hollow wall bricks was completed on 31 March 2011.

As a result of an increased demand on the market of construction materials, the production of façade bricks has been relaunched on 7 April 2011, and established at the level of 70% of the maximum production capacity.

2.3. Compliance with technical regulations and standards

The Mining Plant Lubelski Węgiel BOGDANKA S.A. is operated in line with requirements of Geological and Mining Law (4 February 1994, Dz.U. 27 item, 96 of 1 March 1994, as amended) and in line with requirements of executive regulations as issued pursuant to Article 78 of the Geological and Mining Law, and using applicable standards.

Works in the operation of the mining plant are carried out with the observance of principles of mining technology, occupational health and safety rules, fire safety rules, rationalised deposit management, environmental protection and securing and repairing mining damage. The basic ground for the Lubelski Węgiel BOGDANKA S.A. mining plant to conduct its operations is its Operational Plan. In 2009, a new edition was compiled of the Operational Plan's detailed part, which covered the period 2010-2012, approved by the Director of the District Mining Authority in Lublin on 14 December 2009.

The mine holds the technical designs required to extract its seams 382 and 385/2, technical designs for its extraction and heading workings, technical documentations for its transport systems, as well as the necessary technologies and work safety instructions. Operation of the mine's basic buildings and facilities (e.g. shafts, fan stations, personnel transport systems) takes place based upon permits issued by the Director of the District Mining Authority in Lublin, whereas operation of its remaining machinery based upon permits issued by the Mining Plant's maintenance manager. Its machines, facilities and materials, as well as its blasting means, have their relative permits obtained from the Head of the State Mining Authority to be used underground, voluntary certificates, or conformance statements issued by their manufacturers. Works in the operation of the Mining Plant are managed by its engineering staff who have qualifications as required by law and have been confirmed by the State Mining Authority in Katowice or the District Mining Authority in Lublin.

2.4. Quality Control

I. Coal Quality Control in Lubelski Węgiel BOGDANKA S.A. includes:

1. Sampling and analysis at the bottom of the mine of the coal excavated by the particular Departments, as well as taking and analysing channel samples.
2. Control of operation, calibrating and adjusting the RODOS system that covers monitoring quantitative and qualitative analysis of the material being excavated from the panels.
3. Sampling and testing the raw coal being excavated from the bottom of the mine and conveyed to its mechanical processing plant.
4. Sampling and tests of the commercial coal, i.e. fine coal, nut coal and pea coal produced by Lubelski Węgiel BOGDANKA S.A.
5. Controlling the processes that are going on in the Mechanical Coal Processing Plant (Zakład Przeróbki Mechanicznej Węgla) in the area of:
   a. jig drilling fluid:
      - analysing the material treated mechanically with the drilling fluid for crushing and drilling purposes, analysis of screenings and drilling fluid products, i.e. waste, concentrate, slurry, and washing water;
   b. heavy drilling fluid:
      - analysing the material treated mechanically with the drilling fluid for crushing and drilling purposes, analysis of drilling fluid products, i.e. waste, concentrate, interlayer, washing water, and slurry.
6. Control of processes going on at the EKOKLINKIER Building Ceramics Plant in the area of sampling and testing coal shale and the ceramic mass.
7. Commercial coal quality claims.

Within the structure of the Quality Control Department, the mine's laboratory conducts:

- mine air and mine gas analyses;
- dust levels and silica content analyses;
- analyses of parameters of coal, coal shale and ceramic body;

- measurements of noise intensity;
- measurements of mechanical vibrations.

In line with the requirements of PN – EN ISO/IEC 17025:2005/Apl:2007, the Company's laboratory holds its accreditation no. AB 895 issued by the Polish Accreditation Centre in Warsaw to make measurements and analyses, i.e.:

- noise intensity and mechanical vibrations;
- air dust and free crystalline silica content;
- sampling and chemical analysis of coal shale and the ceramic mass;
- sampling of the commercial coal and chemical analyses.

II. The EKOKLINKIER Building Ceramics Plant has in place its "Plant Building Ceramics Production Control System" that is compliant with PN-EN 771-1: 2006 (EN 771-1 : 2003; EN 771-1 : 2003/A1 : 2005) - PCBC S.A. Certificate no. 1434-CPD-0002. The following items are inspected are: raw material (coal shale), additives (sand, pigment, clay), parameters of manufacturing processes, and the finished products themselves. The finished products are tested for their dimensions, strength, water absorption, and frost resistance. The instruments that are used to make the above-mentioned tests are calibrated.

2.5. Description and assessment of technical equipment and the technologies used

In 2011 Lubelski Węgiel BOGDANKA S.A. excavated its coal using the panel "from the field" system with fall of roof, by means of the coal-cutting machine mining technique. Since 2010, when the first panel using a plough was launched, the plough mining technique has also been dynamically developed.

Longwall galleries are drilled in appropriate advance and built in full prior to starting up the panel. Both longwall galleries are liquidated on a regular time basis downstream the front of the panel and two new galleries are built for each successive panel. In 2010 the first test was performed of maintaining a bottom gallery behind the front of the panel, with designation for the next panel. In 2011 this gallery was adapted to serve as a top gallery with designation for the next panel.

The panels are from 250 m up to 320 m long, and panel lengths, depending upon the exploitation field size, are even over 5,000 m (panel 7/VII/385 in Stefanów, launched in October 2011).

The longwall galleries are built in an open arch lining arrangement with section V-36 and typical frame spacing of 0.75-0.9 m. A very limited number of (5-piece) sets of the ŁPS/C series of types was used, largely replaced by the widely used (6- or 7-piece) sets of the new ŁPSC series of types. A typical size of sets for longwall galleries in the case of coal-cutting panels was 10/K and 11/S, whereas in the case of coal-ploughing panels the sizes used were 11/S and 12/S. In the longwall galleries for coal-ploughing panels, due to the large cross-section of headings and the commonly used span size of 0.9 m, the standard procedure is to anchor the rock mass, strengthening the support lining.

Currently, four-piece sets are usually used in corridor workings that have been in existence for longer periods of time, and in the longwall galleries only in case of intensive horizontal clamping and strong floor uplift, whereas the lining is then closed with a certain delay, as soon as the floor uptake has been completed. In case of four-piece sets in the longwall galleries, within the distance of several dozen metres before the panel, foot pieces are being dismantled.

In 2011 practically in all longwall galleries a new series of types of ŁPSC sets was used, in which element quantities and lengths were selected taking into account the fact that the gallery had to cross with the panel. The new series of types includes sets for the longwall galleries of 6-element coal-cutting and coal ploughing panels for thicker seams, and 7-element ones for thinner seams (ranging from 1.2 to 1.5 m).

In 2011, the whole of the new gallery lining used was built of increased endurance steel (with increased strength and better corrosion resistance parameters). In November a support lining was tested in one of the longwall galleries using a new type of steel developed as part of a specified targeted research project implemented jointly by the Central Mining Institute in Katowice and Huta Łabędy steelworks.

Crossings of the longwall galleries with the panel are maintained in a non-standing manner by anchoring roof-bar arches using anchoring horseheads, i.e. simple elements made of sections V-32 or V-36 with a hole, anchored using a string anchor with its total length of 6.0 m (the so called high anchoring).

In 2011, wall panels were exploited using heavy-duty mining and lay-by coal-cutting machine complexes and the first coal-ploughing complex purchased in 2010.

Each powered complex consists of:

a) panel and under-panel conveyor with performance up to 1 600 tonnes/h and high reliability and durability;
b) in the case of coal-cutting machine complexes, a panel coal-cutting machine with web depth from 0.8 m up to 1.0 m, working and manoeuvring speeds up to 20 m/min, equipped with automatic travelling speed adjustment systems and operation mode signalising systems;
c) in the case of coal-ploughing complexes, a slide plough fully integrated with a wall conveyor and a wall support system, which can be controlled automatically;
d) powered panel roof support with support capacity of 0.8 – 1.0 MPa, which provides for appropriate roof maintenance, equipped with the latest generation control systems that makes it possible to build the roof with speed adjusted to the coal-cutting machine's mining speed or the operation of the plough.

For a number of years now, LW BOGDANKA has been achieving the highest panel excavation concentration levels and the highest efficiency of work in the entire industry. This is provided by heavy-duty panel complexes and using lay-by cycles in the form of belt conveyors with belts 1200 mm long, high belt travelling speeds and peak performance levels as high as 1600 tonnes/h.

In 2011, LW BOGDANKA S.A. owned 4 powered panel complexes, including 3 coal-cutting machine complexes and 1 coal-ploughing complex purchased in 2010. The machinery that these complexes consist of and their main parameters are listed in Table 2.

Table 2 Basic equipment of panels as used in 2011.

Equipment element	**Complex no.**			
	I of 1997	**II of 2001**	**III of 2005**	**IV of 2010**
Panel roof support				
- type	Glinik 10/23 POz	Glinik 15/32 POz after modernisation Glinik 17/33,5 Poz	Glinik 12/27 POz	Bucyrus 9.5/20
- section's support capacity	0.8 MPa	1.0 MPa	0.9 MPa	0.9 MPa
Panel conveyor				
- type	PF-4/932	JOY AFC	JOY AFC	PF 4/1032
- driving power	3×400 kW	3×500 kW	3×500 kW	2×800 kW
Panel winning machine				
- type (swath)	Longwall coal-cutting machine JOY 4LS3 (0.8 m) since June 2011 FAMUR FS-400/1.0 (0.8 m)	Longwall coal-cutting machine JOY 4LS8 (1.0 m)	Longwall coal-cutting machine JOY 4LS8 (1.0 m)	Block plane GH 1600-1 (-)
In 2011, the complex was operated in panels, fields:	4/IV/385, Bogdanka	2/II/382, Nadrybie	7/I/382, Bogdanka	7/VII/385, Stefanów

In 2011 **Complex I** operated in panel 4/IV/385. Before that, from 1997 to June 2009 it had emptied 7 panels located in field V of seam 385/2. It has worked in field IV of seam 385/2 since December 2009. By the end of 2011 the total length of the panels excavated by that complex in fields V and IV stood at 21 km, while the total gross output amounted to approximately 22 million tonnes.

In 2011 **Complex II** operated in panel 2/II in seam 382 in Nadrybie. In May 2010 it had completed its work in the sixth panel - 12/II/382 in Bogdanka. Following its renovation and modernisation (by the manufacturer) it was moved to the Nadrybie Field to excavate the last 3 panels there. From 2002 until the reporting year this complex excavated panels with the total length of nearly 17.9 km, with the output of excavated material reaching 24 million tonnes.

Complex III (purchased in 2005) continued its work in 2011 in panel 7/I seam 382, whose excavation began in May 2010. In the second half of the year, having completed the panel length, the complex was retooled and moved to panel 13/II in the same seam, whose excavation began in 2012. At the end of 2011 the total gross output of Complex III stood at 15.2 million tonnes in the panels with an aggregate length of approximately 12.3 km.

In the reporting year 2011 **Complex IV (coal-ploughing)** was retooled and moved from (exploratory) panel 1/VI in seam 385/2 in Nadrybie to the Stefanów Field to panel 7/VII/385, started up at the beginning of October (following the commissioning of the 2.2 skip shaft). By the end of 2011 the total gross output of the Complex amounted to 2.2 million tonnes, at total panel length of 2.6 km.

The encouraging results of the introduction of the first coal-ploughing complex in 2010 led to further development of coal-ploughing technology at Lubelski Węgiel BOGDANKA S.A. In May 2011, following a tender procedure, a contract was awarded and signed for the supply of the second coal-ploughing complex to mine coal from thin seams. The complex is scheduled to begin excavating panel 2/VI in seam 385/2 at the end of 2012.

Preparatory workings are drilled mechanically using heading coal-cutting machines class AM-75. In 2011, the mine owned five heading coal-cutting machines: four AM-75s, and one coal-cutting machine MR-340X.

Within the system employed, the main gates are drilled by preparatory work teams, and panels are strengthened or liquidated by excavating teams. Some mining works are carried out by external specialised companies at the mine's request

In 2011, 24.2 km of roadway workings were made, including about 12.9 km by outsourced companies.

For the purposes of transporting materials in the mine's underground workings, a transport system of combustion slackline cableways is used. This system makes it also possible to transport the crew into the Mine's more remote areas.

2.6. Licences and permits

Mining activities in the area of economic scale hard coal mineral excavation must be compliant with Geological and Mining Law.

In connection with its requirements, the Company holds:

1. The right to use geological information concerning the BOGDANKA hard coal deposit, pursuant to Agreement No. 266/IG/2006 (982/G/2006) of 8 December 2006, signed with the State Treasury – Ministry of the Environment.
2. Geological documentation supplemented by the Attachment no. 3 for the BOGDANKA hard coal deposit in the new "Puchaczów V" mining area, which was approved with no reservations by the Ministry of the Environment (letter ref. no. DGkzk-479-57/7755/9743/07/EZD of 13 November 2007).
3. A project to manage the BOGDANKA hard coal deposit in the new extended "Puchaczów V" mining area, which enjoyed a favourable opinion issued by the Director of the District Mining Authority in Lublin (opinion no. L.dz. LUB-5350/41/07/08/JD of 11 February 2008).
4. License to excavate hard coal from the BOGDANKA deposit (seams 385, 385/2, 389, 391) covered by the "Puchaczów V" mining area, issued by the Minister of the Environment no. 5/2009 of 6 April 2009. The license has been granted until 31 December 2031.
5. Agreement upon establishing mining usage to excavate hard coal from the BOGDANKA deposit concluded on 6 April 2009 between the State Treasury – Ministry of the Environment and Lubelski Węgiel BOGDANKA S.A.

6. The Operational Plan approved by the Director of the District Mining Authority in Lublin for its basic part by force of his decision of 30 December 1994 (L.dz. 7/74/213/94/MM). Its basic part will be in force over the license's validity period. Its detailed part that covers years 2007 ÷ 2009 was approved by the Director of OUG [District Mining Authority] in Lublin by force of his Decision of 6 November 2006 (no. L.dz. LUB-0234/72/2006/MM), whereas for the period 2010-2012, it was approved on 14 December 2009.

Furthermore, Lubelski Węgiel BOGDANKA S.A. holds the following decisions and permits:

1. Aquatic legal survey - Decision taken by the Lublin Province Governor of 31 December 2007, ref. no.: ŚiR.III.6811/91/07, for special usage of water resources, which covers:
   a) drainage of the Mining Plant Lubelski Węgiel BOGDANKA S.A. in Bogdanka in volumes not exceeding:
      $Q_{dśr}$ = 20 000 m^3/d, Q_{max} = 22 000 m^3/d, Q_{hmax} = 917 m^3/h,
      with deadline until 31 December 2010, and
      $Q_{dśr}$ = 26 700 m^3/d, Q_{max} = 32 000 m^3/d, Q_{hmax} = 1 400 m^3/h,
      with deadline from 1 January 2011 until 31 December 2017.
   b) disposal of unused mining water from the pit water settling tank using the outflow ditch into the RE "Żelazny" stream, which is a tributary of the Świnka river.
   c) until 31 December 2011, in situations that result from technological and exploitation conditions, it is allowed to dispose pit waters through the tank situated at the waste rock heap.
2. Permit to generate, recover and neutralise waste, including a description of how to handle this waste – Decision taken by the Lublin Province Governor of 10 September 2004 - no. ŚiR VII. 6620/32/2004 – valid until 10 September 2014, as amended.
3. Integrated permit no. PZ 17/2006 for the Building Ceramics Plant installations and waste dump – Decision taken by the Lublin Province Governor of 29 December 2006, valid until 28 December 2016.
4. Integrated permit – Decision no. PZ 21/2009 for the Building Ceramics Plant installation and waste dump No. RŚ.V.MJ.7624/3/09 of 6 July 2009, which altered Decision no. PZ 17/2006 in the area of the waste dump installation, valid until 1 May 2012.
5. Integrated permit – Decision No. PZ 7/2011 of 4 May 2011, Ref. RŚ.V.MJ.7624/3/09 for the Building Ceramics Plant installations and waste disposal site, issued on behalf of the Lublin Province Governor by the Director of the Department of Agriculture and Environment, amending integrated permit No. 17/2006 of 29 December 2006 and permit No. 21/2009 of 6 July 2009. This permit remains effective:
   - in the part concerning the use of the mining waste disposal site – until 1 May 2012,
   - in the part concerning the use of building ceramics manufacturing installations – until 28 December 2016;
6. Permit received from OUG [District Mining Authority] in Lublin of 30 March 1993, no. L.dz.5/512/1/93/AG to conduct mining / building works connected with mining waste dump extension.
7. Permit to take part in the EU's CO_2 emissions trading scheme for ZCB EKOKLINKIER of 28 March 2006 (L.dz. ŚiR.V.66100/14/20060).
8. Telecommunications Permit No. 74/2004/Z of 27.07.2004 (DRT-WZZ-6080-31/03) to exploit stationary public telephone network – valid for 25 years.

At the end of 2011 LW BOGDANKA's recoverable reserves (i.e. deposits whose extraction is economically feasible while taking into account mining losses) stood at 243 million tonnes, with the mine's life expectancy until 2031. In Q3 2011 the Company launched a procedure to purchase the rights to geological data concerning K – 3 and K – 6, K – 7 deposits. The cost of geological data for these areas was estimated and an application was submitted to the Minister of the Environment to acquire the rights to geological data against payment.

3. INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF LW BOGDANKA S.A. CONCLUDED IN 2011 AND FOLLOWING THE BALANCE SHEET DATE INCLUDING AGREEMENTS BETWEEN SHAREHOLDERS, INSURANCE AGREEMENTS AND COOPERATION AGREEMENTS WHICH ARE KNOWN TO LW BOGDANKA S.A.

The Company has no information about significant agreements concluded in 2011 between the shareholders. All significant agreements concluded by LW BOGDANKA S.A. in 2011 and after the balance sheet date are described below.

3.1. Trade agreements

3.1.1. Significant agreement with Vattenfall Heat Poland S.A.

On 11 April 2011 the Company concluded an Agreement on Sale/Purchase of Power Coal (the Agreement) with Vattenfall Heat Polska S.A. with registered office in Warsaw, 03-216 Warsaw, ul. Modlińska 15.

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 owned by Vattenfall Heat Polska 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 volume of coal in the settlement periods shall pay the other Party liquidated damages to the amount of 10% of the value of the coal that has not been supplied or collected.

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

The Agreement was described in Current Report No. 7/2011 of 12 April 2011.

3.1.2. Significant agreement with PH-U Energokrak Sp. z o.o. with registered office in Krakow

As at 19 July 2011 the net value of agreements concluded within the preceding 12 months (i.e. until 19 July 2011) by and between the Company and Przedsiębiorstwo Handlowo – Usługowe Energokrak Sp. z o.o., amounted to PLN 431.38 million.

The agreement of the highest value is the Long-Term Agreement for the Sale of Power Coal (the Agreement) signed on 19 July 2011. The Agreement is effective from 19 July 2011 until 31 December 2015 and concerns the supply of coal for Elektrownia Rybnik S.A. with registered office in Rybnik. The net value of the Agreement, excluding any additional options, possible increases, deviations and tolerance, in accordance with the current prices amounts to PLN 393 million. The price of coal for each subsequent year during the term of the Agreement shall be agreed upon by the Parties by way of negotiation.

The Agreement provides for the following liquidated damages:

The Party to the Agreement which fails to collect or supply the contracted annual volume of coal, shall pay the other Party liquidated damages to the amount of 10% of the value of the coal that has not been supplied or collected.

The Agreement was described in Current Report No. 21/2011 of 19 July 2011.

3.1.3. Annex to a significant agreement with Zakłady Azotowe Puławy S.A.

On 5 December 2011 an Annex to the Long-Term Agreement on Sale of Power Coal of 8 January 2009, concluded between the Company and Zakłady Azotowe Puławy S.A. (ZA Puławy) with registered office in Puławy, was signed.

The subject matter of the Agreement is the supply-sale of power coal to ZA Puławy. The Annex extends the term of the Long-Term Agreement until 31 December 2017 (previously the Agreement was effective until 31 December 2013), specifies the volume of coal supplies to meet the needs of ZA Puławy for the period between 2012 and 2017, and also establishes the price for power coal supplies in 2012.

The Company announced the conclusion of the previous Annex to the Long-Term Agreement on Sale of Power Coal of 8 January 2009 with ZA Puławy in Current Report No. 29/2009 of 25 November 2009.

As a result of concluding the Annex, the net value of the Agreement increased by PLN 597.35 million in comparison with the value indicated in Current Report No. 29/2009 and amounted to the total of PLN 963.26 million net (without regard to possible increases, deviations and tolerance).

The increase in value results from the extension of the term of the Agreement and the establishment of new prices for the supplies.

The Agreement was described in Current Report No. 26/2011 of 5 December 2011.

3.1.4. Annex to a significant agreement with Elektrownia Połaniec S.A. - GDF SUEZ ENERGIA POLSKA Group

On 19 December 2011 the Company signed Annex No. 8 (the Annex) to the Long-Term Agreement on Sale of Power Coal No. 3/W/2007, concluded on 30 October 2007 between the Company and Elektrownia Połaniec Spółka Akcyjna - Grupa GDF SUEZ ENERGIA POLSKA (Elektrownia Połaniec) with registered office in Zawada 26, 28-230 Połaniec, and described in the Issue Prospectus of 14 May 2009 in section 8.6.3.2 (the Agreement), amended with Annex No. 5 (described in Current Report No. 2/2010 of 15 January 2010) and Annex No. 6 (described in Current Report No. 36/2010 of 20 September 2010).

Under the Annex, part of the supplies specified in Annex No. 6 with approximate value of PLN 40.8 million, which were scheduled for 2011, can be executed in 2012. The Annex also extends the term of the Agreement until 31 January 2013. Furthermore, the Annex specifies the volume of supplies of power coal, the price, as well as the schedule of quarterly supplies in 2012 and in January 2013.

Under the commercial terms defined in the Annex, the Company's net revenue from coal supplies to Elektrownia Połaniec in 2012 and in January 2013, to be executed following the end of supplies for 2011, will amount to PLN 328.8 million. The Annex is in effect from the conclusion thereof until 31 January 2013.

The Agreement provides for the following liquidated damages:

For failure to supply or collect the amount of coal indicated in the Agreement, liquidated damages shall be paid in the amount of 10% of the value of coal which has not been supplied or collected. Each Party has the right to claim supplementary damages on general terms, if the liquidated damages fail to cover the value of the damage incurred, except for lost profit.

The Agreement was described in Current Report No. 27/2011 of 19 December 2011.

3.1.5. Significant agreement for the supply of power coal with Elektrownia Północ sp. z o.o.

On 20 December 2011 the Company concluded a Long-Term Agreement on the Supply of Power Coal with Elektrownia Północ sp. z o.o. with registered office in Warsaw (the Buyer) for the purposes of projected power units of the Power Plant (Unit I, Unit II) in the municipality of Pelplin (the Power Plant), with the capacities ranging from 780 MW to 1050 MW, each having supercritical boilers and applying the pulverised coal (pc) combustion technology.

The total net value of the Agreement, estimated in accordance with the current year prices, amounts to PLN 10.352 billion, provided that the supplies are executed for the entire period of 21 calendar years from the date on which they commence.

The coal supplies will be executed for the maximum period of 21 calendar years from the date on which the operation of each of the two power units of the Power Plant commences (the date of commencing supplies) together with the start-up period of each power unit, with a proviso that in the first year of operation the volume of supplies will be proportionate to the entire calendar year and dependent on the actual date of commencing the supplies.

The Agreement will be automatically terminated in full or in part (i.e. as regards Unit I or Unit II, respectively) if the Buyer fails to reach financial closing, which is subject to a deadline.

The date of commencing the supplies to each power unit of the Power Plant is calculated from the date of financial closing (obtaining debt financing).

The Agreement may be terminated if:

a. the coal supplied by the Seller fails to comply with the border parameters provided for in the Agreement during the specified period of time;
b. the Seller supplies and/or the Buyer collects such an amount of coal which is lower than the specified minimum to be supplied/collected, excluding instances of failure to supply/collect due to a force majeure event occurring in that period;
c. the Buyer defaults on payments;
d. the Buyer fails to commence commercial operation of the power units of the Power Plant at the dates provided for in the Agreement; provided that the Party that is at fault for terminating the Agreement shall, in

such a case, pay the amount equal to the value of annual supplies calculated from the date of termination in 12 equal monthly instalments.

The Agreement provides for the following liquidated damages:

a. for exceeding the quality border parameters provided for in the Agreement, the liquidated damages shall account for 1 (one) % to 5 (five) % of the actual value of the supplies in question;
b. for failing to collect or supply the volume of coal resulting from the supply schedule, the liquidated damages shall account for 20 (twenty) % of the value of the volume of coal which has not been collected or supplied.

The Agreement does not provide for the possibility to claim damages in excess of the liquidated damages specified therein.

Coal prices are established depending on of the growth rate of coal prices on the domestic and the global market.

Other terms and conditions of the Agreement do not differ from the market standards applied in typical Project Finance agreements.

The Agreement was described in Current Report No. 28/2011 of 20 December 2011.

3.1.6. Significant agreement with Elektrownia Kozienice S.A.

On 27 December 2011, the Company concluded with Elektrownia Kozienice S.A. with registered office in Świerże Górne, 26-900 Kozienice 1, an annual agreement on the supply of power coal in 2012 (hereinafter the Annual Agreement), which forms Appendix No. 3 to Long-Term Agreement No. UW/LW/01/2010 presented in Current Report No. 5/2010 of 5 March 2010 and No. 44/2010 of 20 December 2010 (hereinafter the Long-Term Agreement).

The Annual Agreement binds the Parties from 1 January 2012 until 31 December 2012 and concerns basic deliveries of coal for the blocks of Elektrownia Kozienice S.A. in compliance with Long-Term Agreement No. UW/LW/01/2010. The net value of the Annual Agreement concerning basic deliveries in 2012 according to current prices amounts to PLN 764.20 million. As a result of concluding this agreement, the net value of the entire Long-Term Agreement goes up to the amount of PLN 11,524 million, i.e. by 8.29% as compared to the value presented in Current Report no. 44/2010 of 20 December 2010.

The Annual Agreement, which forms Appendix No. 3 to Long-Term Agreement No. UW/LW/01/2010, provides for the following liquidated damages: the Party to the Annual Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay to the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied. Other terms of the Annual Agreement do not differ from the market standards applied in agreements of that type.

The Agreement was described in Current Report No. 31/2011 of 27 December 2011.

3.1.7. Conclusion of a new long-term significant agreement with Elektrownia Kozienice S.A. for the purposes of Elektrownia Kozienice's power unit currently under development; conclusion of an annex to the existing long-term agreement

On 23 January 2012 the Company concluded a new Long-Term Agreement No. UW/LW/01/2012, which supplements the existing one, for the supply of power coal (the Agreement) with Elektrownia Kozienice S.A. with registered office in Świerże Górne, Kozienice, 26-900 Kozienice 1 (the Buyer), for the purposes of Elektrownia Kozienice S.A.'s new power unit currently under development.

The Agreement was concluded for a term from the conclusion thereof until 31 December 2036, with the actual power coal supplies to commence in the first calendar quarter of 2017. The Agreement provides for 20 calendar years of power coal supplies to satisfy the needs of Elektrownia Kozienice S.A.'s new power unit currently under development.

The estimated net value of the Agreement according to supply prices in the current year amounts to PLN 11.248 billion, disregarding the quantitative volume tolerance of +/- 5% as provided for in the Agreement.

The terms of the Agreement are as follows:

1. Power coal prices shall be set for a given calendar year of actual supplies by way of negotiation, taking into account the dynamics of price movements with respect to power coal supplies in Poland;

2. Annual agreements shall be signed to specify: volume, supply schedule, supply prices, declared quality parameters and other rules governing logistics and supply settlements during the term of the annual agreement;

3. The Parties to the Agreement have the right to terminate it in the event that they fail to successfully negotiate prices for the following calendar year during the term of the Agreement, upon a two-years' notice beginning on 1 January of the following year;

4. Additionally, the Buyer has the right to terminate the Agreement upon a six-months' notice if all the following conditions are not fulfilled jointly by 31 December 2012:

(a) an agreement for the construction of the power unit is signed,

(b) the financing of the unit is closed and the closing is confirmed by a resolution of the Management Board of Elektrownia Kozienice S.A.

The Agreement provides for the following liquidated damages:

1. For the failure to collect or supply the volume of coal resulting from the supply schedule, the liquidated damages shall account for 20% of the value of coal which has not been collected or supplied;

2. For the supply by the Seller of coal with quality parameters below the border parameters specified in the Agreement, the liquidated damages shall account for 1% to 5% of the net value of a given batch of power coal;

3. Each of the Parties to the Agreement may seek supplementary damages on general terms if the liquidated damages are insufficient to cover the value of the loss incurred.

Other terms and conditions of the Agreement do not differ from the market standards applied in such agreements.

Furthermore, on 23 January 2012 the Company concluded with Elektrownia Kozienice S.A. with registered office in Świerże Górne, Kozienice, 26-900 Kozienice 1, Annex 1 to the existing Long-Term Agreement No. UW/LW/01/2010 for the supply of power coal, referred to in Current Reports published by the Company – No. 5/2010 dated 5 March 2010, No. 44/2010 dated 20 December 2010 and No. 31/2011 dated 27 December 2011, which remains in force and effect until 31 December 2025.

Under Annex 1 the existing manner of setting prices in annual agreements will be changed and the solution adopted in the new additional Agreement will be applied as follows: power coal prices will be set for a given calendar year of supplies by way of negotiation, taking into account the dynamics of price movements with respect to power coal supplies in Poland.

As a consequence of concluding the new additional Agreement No. UW/LW/01/2012 and Annex 1 to the existing Long-Term Agreement No. UW/LW/01/2010, the Parties are now bound by two long-term agreements whose total value for the period 2011-2036 at current prices as at the day the Annex was signed stood at approximately PLN 22.772 billion.

The Agreement and Annex were described in Current Report No. 3/2012 of 23 January 2012.

3.1.8. Annex to a significant agreement with ENERGA Elektrownie Ostrołęka S.A.

On 28 December 2011 the Company signed Annex No. 2 to the Long-Term Agreement on the Sale of Power Coal No. 1456/W/2010 (the Agreement) with ENERGA Elektrownie Ostrołęka S.A. with registered office in Ostrołęka, ul. Elektryczna 5, as announced in Current Report No. 43/2010 of 14 December 2010.

The Annex provides for shifting a portion of coal supplies to Elektrownia Ostrołęka's power units from 2011 to 2012 and sets new sale prices for power coal in 2012.

In view of the above:

- the aggregate value of supplies in 2012 shall amount to approximately PLN 217 million;
- the value of the entire Agreement effective from 1 January 2011 to 31 December 2015 has been changed and shall amount to approximately PLN 871 million, i.e. approximately 9.0% more than the value specified in Current Report No. 43/2010.

The Agreement provides for the following liquidated damages:

The Party to the Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay the other Party liquidated damages in the amount of 10% of the value of coal which has not been collected or supplied.

The Agreement provides for the following terms of its termination:

the Parties can terminate the Agreement with a 12-month notice.

This Agreement was described in Current Report No. 32/2011 of 28 December 2011.

3.2. Significant agreement with Korporacja Gwarecka S.A.

On 5 February 2011 the net value of agreements concluded between the Company and Korporacja Gwarecka S.A. with registered office in Bogdanka ("Korporacja Gwarecka", "Contractor") over the last 12 months (together with the agreement described below) amounted to PLN 322 million and therefore exceeded 10% of the value of the Company's equity.

The agreement of the highest value is the agreement signed on 4 February 2011 (the "Agreement") between LW BOGDANKA S.A. and Korporacja Gwarecka, the subject of which is performing works at the Company connected with production, excavation, mechanical processing, quality control and transport of hard coal, conducting preparatory works, repair and maintenance works and other works specified in the subject of the order necessary in order to execute the works specified above at Lubelski Węgiel BOGDANKA S.A. (together with the Stefanów Field) on Saturdays, Sundays and statutory holidays over the period of 24 months from 1 February 2011 to 31 January 2013.

The maximum net value of the agreement amounts to ca. PLN 319 million and will depend on the scope of services contracted and performed.

The Agreement substitutes the agreement effective in the period from 3 February 2009 to 3 February 2011, described in section 8.6.5 of the Issue Prospectus of LW BOGDANKA S.A. published on 21 December 2011.

The agreement provides for the following liquidated damages:

1. In the event that in any monthly settlement period the Contractor fails to achieve the monthly minimum output of excavated coal, for reasons attributable to the Contractor, the Contractor shall pay the Client liquidated damages in the amount of PLN 20 per each tonne of excavated coal below the level of monthly minimum output.
2. In the event that in any monthly settlement period the Contractor fails to achieve the monthly minimum progress of preparatory works, for reasons attributable to the Contractor, the Contractor shall pay the Client liquidated damages in the amount of PLN 5,000 per each running metre below the monthly minimum progress of preparatory works.
3. In the event of non-performance or undue performance by the Contractor of services other than mentioned in sections 1 and 2, for reasons attributable to the Contractor, the Contractor shall pay the Client liquidated damages in the amount equivalent to 200 % of the net value of man-shifts, according to the rates set out in the agreement, estimated by representatives of both parties as necessary in order to duly perform uncompleted part of the task in question.
4. Payment of liquidated damages does not exclude the possibility of the Client claiming damages from the Contractor on general terms if the incurred damage exceeds the value of liquidated damages.

The Agreement was described in Current Report No. 3/2011 of 5 February 2011.

3.3. Transactions with Bucyrus Europe GmbH - value of a significant agreement

On 31 May 2011 the value of agreements concluded between the Company and Bucyrus Europe GmbH, with registered office at Industriestrasse 1, 44534 Lünen, Germany, (the "Supplier") and its subsidiaries over the last 12 months (i.e. since 31 May 2011) amounted to approx. PLN 248 million.

The Agreement of the highest value was concluded on 31 May 2011 between the Company and Bucyrus Europe GmbH, with registered office at Industriestrasse 1, 44534 Lünen, Germany, for the supply of a longwall plough system (the "Agreement") to the mine in Bogdanka. The total value of the Agreement (the price of the longwall coal plough system) amounts to PLN 162,981,000. The time limit for the performance of the Agreement is 14 months from the date of signing it.

The Agreement provides for the following liquidated damages:

1. The Client may charge the Supplier with liquidated damages in the following situations:

a) if the Supplier is in default with the delivery of the subject matter of the Agreement along with the complete documentation and equipment, with respect to the deadline specified in the Agreement [i.e. 14 months from signing the Agreement] - liquidated damages accounting for 0.1% of the Price (in the amount of PLN 162,981,000, hereinafter referred to as the "Price") for each commenced day of delay, however in aggregate not exceeding 5% of the Price,

b) if the Supplier is in default with rectification of defects identified during the final hand–over of the subject matter of the Agreement in relation to the deadline specified under the Agreement [i.e. the deadline for rectification of defects shall be indicated by the Client], the liquidated damages shall account for 0.1% of the Price for each commenced day of delay, however in aggregate not exceeding 5% of the Price,

c) If the Supplier is in default with the commencement of rectification of defects and/or breakdowns of the subject matter of the Agreement, as well as rectification of defects and/or breakdowns during the guarantee of quality and warranty period - liquidated damages in the amount of PLN 1,000 for each commenced hour of delay with respect to the time limits specified in the Agreement [commencement of rectification of defects and/or breakdowns not later than within 12 hours from the notification; rectification - not later than within 24 hours from the commencement of rectification],

d) if the Client withdraws from the Agreement for reasons attributable to the Supplier, the liquidated damages shall account for 10% of the Price.

2. The Supplier may charge the Client with liquidated damages accounting for 10% of the Price in the event of withdrawal from the Agreement for reasons attributable to the Client.

The Agreement was described in Current Report No. 18/2011 of 31 May 2011.

3.4. Significant agreement with Bank Polska Kasa Opieki S.A.

On 23 December 2011 the Company concluded an agreement on granting the Borrower a working capital loan by Bank Polska Kasa Opieki Spółka Akcyjna, with registered office in Warsaw at ul. Grzybowska 53/57, 00-950 Warsaw.

The value of the loan amounts to PLN 200,000,000.00 (two hundred million zlotys). The time limit for the performance of the Agreement is determined from the first business day following the date of its conclusion to 31 December 2014.

Other key terms and conditions of the Loan Agreement:

- payment terms: bank margin – 0.80%, front-end fee 0.10%;
- total interest cost: bank margin plus current 3M WIBOR,
- loan repayment schedule: in accordance with the schedule included in the Terms of Reference,
- interest payment schedule: on a quarterly basis, at the end of each calendar quarter.

The expected, estimated costs that the Company shall incur on account on loan servicing, according to the offer submitted by the Bank, amount to PLN 27,073,330.

The Agreement was described in Current Report No. 30/2011 of 23 December 2011.

3.5. Agreements related to achieving share issue objectives

No agreements related to achieving share issue objectives were signed in 2011 or until the publication of the Directors' Report on Operations of LW BOGDANKA S.A.

3.6. Transactions with related entities

In 2011 the Company and its subsidiaries concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis.

In 2011 the following agreements concluded by LW BOGDANKA S.A. and Łęczyńska Energetyka were in effect:

- for heat energy supplies,
- for water supplies and sewage disposal, maintenance services and other,
- for sale of power coal and electrical energy,
- lease, rental and lending for use agreements,
- for heating of inlet air on shaft 2.2,
- for the construction of heat pipeline.

For more information please refer to the Company's Financial Statements, note 32.

4. ANALYSIS AND INFORMATION ABOUT BASIC ECONOMIC AND FINANCIAL DATA DISCLOSED IN THE ANNUAL SEPARATE FINANCIAL STATEMENTS OF LW BOGDANKA FOR FOUR QUARTERS OF 2011, I.E. FROM 1 JANUARY 2011 TO 31 DECEMBER 2011.

4.1. Basis of preparation of the Annual Separate Financial Statements

The Company draws up its financial statements on the basis of the International Financial Reporting Standards endorsed by the European Union. Those standards, referred to jointly as the International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The annual separate financial statements were prepared according to the historical cost principle, including the valuation at fair value of certain components of tangible fixed assets in connection with assuming fair value as a presumed cost, which was carried out as at the day of the Company's transition to the IFRS, i.e. 1 January 2005.

This chapter presents selected ratios characterising the financial position of the Company for the period from 1 January 2011 to 31 December 2011, calculated on the basis of financial data included in the Annual Separate Financial Statements of Lubelski Węgiel BOGDANKA S.A., which were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (the Financial Statements).

4.2. Selected financial information

Table 3 Selected financial information of LW BOGDANKA SA [PLN '000]

Item	Q4 2011	Q4 2010	Change [%]	4 Qs 2011	4 Qs 2010	Change [%]
Revenue on sales	434,039	292,088	48.60%	1,289,670	1,221,540	5.58%
Gross profit	199,468	91,361	118.33%	380,027	406,161	-6.43%
EBITDA	228,513	73,870	209.34%	445,943	409,560	8.88%
EBIT (Operating profit)	163,186	42,686	282.29%	264,504	274,746	-3.73%
Profit before taxation	161,559	45,039	258.71%	269,255	284,772	-5.45%
Net profit for the financial year	132,067	36,106	265.78%	218,978	227,362	-3.69%
Operating cash flow	70,837	85,497	-17.15%	306,652	367,327	-16.52%
Investing cash flow	-168,742	-124,887	35.12%	-718,950	-568,445	26.48%
Financing cash flow	100,000		-	43,381		-

Table 4 Selected financial information of LW BOGDANKA SA continued [PLN '000]

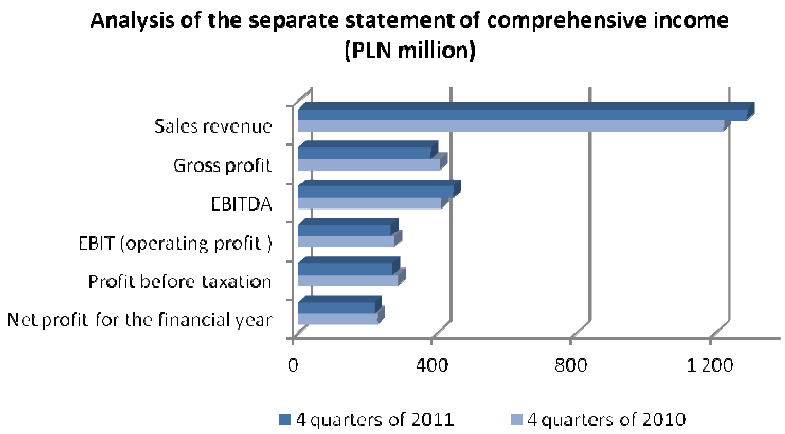
Item	31 Dec. 2011	31 Dec. 2010	Change [%]
Total assets	3,060,843	2,812,176	8.84%

Fixed assets	2,696,269	2,189,579	23.14%
Current assets	364,574	622,597	-41.44%
Shareholders' equity	2,129,238	1,957,879	8.75%
Provisions and liabilities	931,605	854,297	9.05%

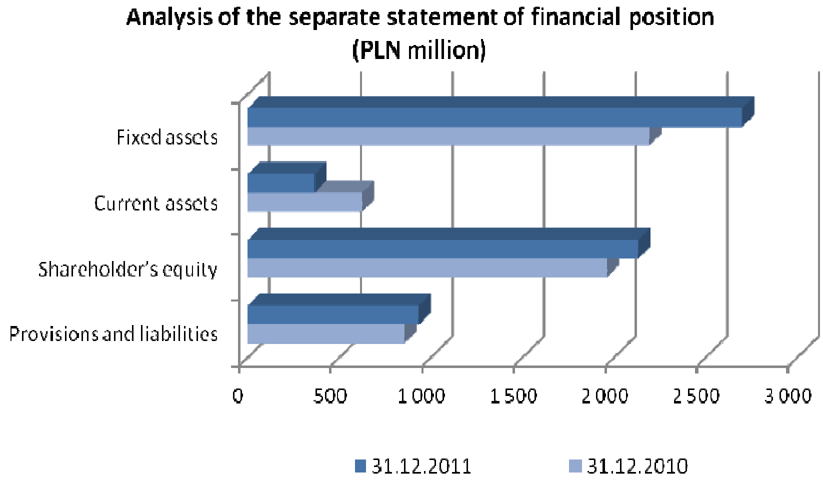
The financial statements prepared for the period from 1 January 2011 to 31 December 2011 show that the Lubelski Węgiel BOGDANKA S.A.'s revenue on sales was PLN 1,289,670,000, which is an increase of 5.58%, i.e. by PLN 68,130,000 as compared to same period of the previous year. In the very fourth quarter of 2011 the Company generated revenue of PLN 434,039,000, i.e. higher by 48.60% than in the same period of the previous year.

For 12 months of 2011, the Company noted a decrease in the operating profit from PLN 274,746,000 to PLN 264,504,000 (-3.73% on a year-to-year basis). EBITDA (operating profit before depreciation/amortisation) was PLN 445,943,000 for the period from 1 January 2011 to 31 December 2011 as compared to PLN 409,560,000 for the same period of 2010. A decrease in the operating profit is a consequence of higher costs of products, goods and materials sold (by almost 12%), comprising among others the following:

- increased costs of external services (predominantly drilling and mining services),
- increased costs of materials and energy (in connection with preparing and starting mining operations in the Stefanów Field),
- increased costs of depreciation (in 2011 the Company made available for use some assets connected with starting mining operations in the Stefanów Field; also the first panel in the Stefanów Field was started up – it translated into increased natural depreciation),
- increased payroll costs (the average employment in the Company went up).



The net profit for four quarters of 2011 was PLN 218,978,000 compared to PLN 227,362,000 for the same period of 2010, which means a decrease of 3.69%, i.e. by PLN 8,384,000. The net result for the fourth quarter was PLN 132,067,000 compared to PLN 36,106,000 for the fourth quarter of 2010 (increase of 265.78%).



The Company's separate statement of financial position as at 31 December 2011 shows an increase in the balance-sheet total to PLN 3,060,843,000, i.e. by PLN 248,667,000, compared to the figure as at 31 December 2010. The value of fixed assets went up from PLN 2,189,579,000 (31 December 2010) to PLN 2,696,269,000 (31 December 2011). This increase (+23.14%) is the result of the Company's implementing an investment programme involving the development of the Stefanów Field. In the analysed period, the value of current assets went down from PLN 622,597,000 to PLN 364,574,000 (PLN -258,023,000,-41.44%) – mostly as a consequence of a decrease in cash held by the Company (resulting from expenditure on the implemented investment programme).

On the shareholders' equity & liabilities side, shareholders' equity went up to PLN 2,129,238,000 (i.e. by 8.75%). It was attributable to adding the net result for 12 months of 2011 to the shareholders' equity and accounting for the financial result for 2010 (a dividend was paid out). In the analysed period, the aggregate provisions and liabilities of the Company went up to PLN 77,308,000, and the change consisted in:

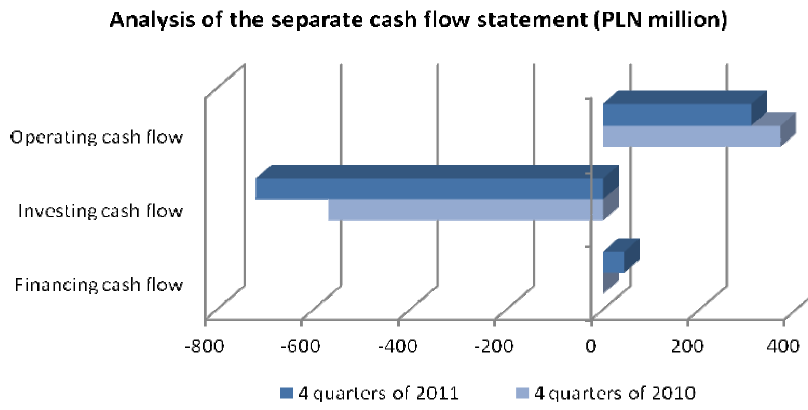
- an increase in long-term liabilities by PLN 170,766,000 (to PLN 627,515,000),
- a decrease in short-term liabilities by PLN 93,458,000 (to PLN 304,090,000).

Under short-term liabilities, the value of loans and borrowings went down by PLN 50,000,000 – the change resulted from reclassifying (pursuant to a signed annex) a portion of a loan taken out by the Company (PLN 41,000,000) from short-term into long-term category (with maturity over 12 months). During 2011 the Company also repaid PLN 9,000,000 of the above loan.

Under long-term liabilities, loans and borrowings went up by PLN 141,000,00 – in connection with the above reclassification of a portion of the loan received from PKO BP from short-term into long-term category, as well as increasing the debt by PLN 100,000,000 (2 tranches of short-term working loan advanced in the aggregate amount of PLN 200,000,000 by PEKAO SA). LW BOGDANKA intends to draw the outstanding amount (PLN 100 million) by 30 June 2012.

The share of shareholders' equity in the total value of shareholders' equity & liabilities as at 31 December 2011 and 31 December 2010 was, respectively, 69.56% and 69.62%.

During four quarters of 2011 the Company financed its operations with operating cash flows and cash funds accumulated in the previous years. The value of net cash flows from operating activities fell from PLN 367,327,000 (4 quarters of 2010) to PLN 306,652,000 (4 quarters of 2011).



Between 1 January 2011 and 31 December 2011 net cash flows from investing activities amounted to PLN -718,950,000 and were higher by PLN 150,505,000 than in the same period of 2010 – the increase was caused by continuing works of the investment process under implementation.

In the period from January to December 2011 the Company generated net cash inflows from financing activities amounting to PLN 43,381,000 (taking two tranches of a short-term working loan, paying out a dividend and repaying three tranches of a working loan), whereas a year ago the Company did not generate financing cash flow.

The value of cash in hand and on bank accounts as at 31 December 2011 amounted to PLN 70,397,000 and was lower by PLN 368,917,00 than the same data for the previous year.

4.3. Information on current and forecast economic and financial position of LW BOGDANKA S.A. with assessment of financial resources management

The Company's financial and economic position is stable. The financial performance, the value of generated cash flows and cash funds held show that the Company's financial position is very good. LW BOGDANKA has no problems with settling contracted liabilities. Financial resources management must be considered good, taking into account the sector in which the Company is involved as well as processes going underway in the Company (implementation of the development strategy).

As at the date of drawing the information, the Company sees no threats as to its ability to settle contracted liabilities in future. LW BOGDANKA is continuously conducting an on-going analysis of financial resources held and planned to be held in order to minimise a risk of losing liquidity even for a short moment.

4.3.1. Coal production and sales

During 12 months of 2011 (similarly as in the previous periods) the revenue on sales generated by LW BOGDANKA was determined mostly by production (extraction) capacity, presented in the table below.

Table 5 Production capacity of LW BOGDANKA for 4 quarters of 2011 and 4 quarters of 2010 (in '000 tonnes)

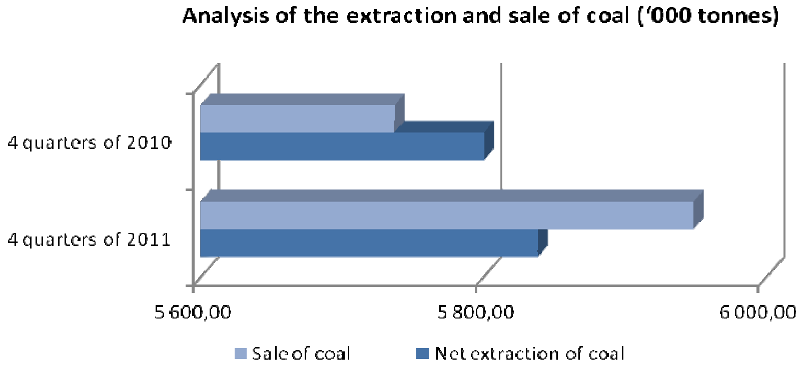
4 Qs 2011	4 Qs 2010	Change 2011/2010 [%]
5,838.40	5,800.03	0.66%

In the period from 1 January 2011 to 31 December 2011 the extraction of commercial coal, compared to the same period of 2010, went up by 0.66% and was 5,838,400 tonnes (previous year: 5,800,030 tonnes). The increase in the commercial coal production with the gross production going up by 12% resulted from more intensified preparatory works – in the analysed period of 2011 the number of galleries completed was higher by over 8% than in the same period of 2010, which resulted in a necessity to hoist by skip to the surface relatively more waste rock. In addition, the deposits exploited currently were characterised by variable geological properties, which also had an impact on the recorded yield ratio. However, it should be noted that commencement of extraction operations is preceded by geological research allowing the extraction process to be best adjusted to the current geological properties of extraction workings.

Table 6 Sale of coal of LW BOGDANKA for 4 quarters of 2011 and 4 quarters of 2010 (in '000 tonnes)

4 Qs 2011	**4 Qs 2010**	**Change 2011/2010 [%]**
5,948.21	5,736.84	3.68%

Between 1 January 2011 and 30 December 2011 the volume of coal sold was higher by 3.68% (211,370 tonnes) than in the same period of the previous year. In 2011 the sale of commercial coal was higher than the net coal production as the Company sold a portion of its stocks. The diagram below shows the extraction and sale of commercial coal in the individual periods under analysis.



4.3.1.1. Production potential

<u>Deposit reserves</u>

The mining area exploited by Lubelski Węgiel BOGDANKA S.A. is divided into three fields: the Bogdanka, Nadrybie and Stefanów Fields. Shafts of the mine are located in the Bogdanka Field, the Nadrybie Field and the Stefanów Field, while the lifting shafts are located in the Bogdanka Field and the Stefanów Field.

On 6 April 2009, LW BOGDANKA S.A. obtained a concession to mine hard coal from the Bogdanka deposits being part of the Puchaczów V mining area (seams 382, 385/2, 389 and 391), with an area of 73.3 km^2, located in the districts of Cyców, Ludwin and Puchaczów in the Lublin Province.

Table 7 Deposit reserves of hard coal in BOGDANKA updated as at 31 December 2011

Reserves [mln tonnes]	**Year**			**Difference**
	2009	**2010**	**2011**	**2011-2010**
Total balance	816.1	811.1	805.9	-5.2
Balance*	456.4	451.2	446.0	-6.2
Industrial	330.7	325.7	320.5	-5.2
Recoverable	251.0	247.0	242.9	-4.1

*Balance reserves

4.3.1.2. Production capacity

Table 1 Shaft 1.3

No.	Item	Code	Unit	Day
1	Working time of the shaft (average/day in a year)	T_p	hours/day	21 h 5 min
2	Max lifts per hour	L_w	number	35
4	Nominal weight of the excavated material in 1 skip	q_i	Mg/skip	35
5	Max daily excavation capacity of the shaft	W_b	Mg/d	26,313
6	Use of shaft production capacity ratio	W_p	-	0.9831
7	Gross excavation	W_b	Mg/d	25,868

Table 2 Shaft 2.1

No.	Item	Code	Unit	Day
1	Working time of the shaft (average/day in a year)	T_p	hours/day	19 h 49 min
2	Max lifts per hours	L_w	number	26
3	Max average daily number of skips excavated in a year	L_s	skip	272.3
4	Nominal weight of the excavated material in 1 skip	q_i	Mg/skip	40*
5	Max average daily excavation capacity of the shaft	W_b	Mg/d	10,892
6	Use of shaft production capacity ratio	W_p	-	1.0454
7	Gross excavation	W_b	Mg/d	11,387

* skip capacity to 10 Nov. 2011 – 35 Mg; from 12 Nov. 2011 – 40 Mg

4.3.2. Stocks

The balance of stock of commercial coal held by the Company as at 31 December 2011 was 27,850.84 tonnes – it means that the stock went down by 108,879.84 tonnes (-79.63%) compared to the level as at 31 December 2010.

Table 10 Stock of coal [tonnes]

Item	31 Dec. 2011	31 Dec. 2010	Change (31 Dec. 2011/31 Dec. 2010 – 1) [%]
Stock of coal	27,850.84	136,730.68	-79.63%

4.3.3. The LW BOGDANKA Group's suppliers

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. At LW BOGDANKA S.A. all procurement orders above the EU thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the abovementioned Act. Other orders are made based on procedures applied at the Company.

In 2011, the supplies for the Company from any of the Company's suppliers, did not achieve the level exceeding 10% of the total revenue on sales.

Main supplier of the material for the Company's basic production in 2011 was HUTA ŁABĘDY S.A. - whose supplies included gallery casings and construction elements for gallery casings (crossings, shackles, special gates).

4.3.4. Revenue on sales and key customers

During four quarters of 2011, LW BOGDANKA's revenue on sales was at a level of PLN 1,289,670,000 – it was higher by PLN 68,130,000 than revenue obtained in the same period of 2010.

Lubelski Węgiel BOGDANKA S.A. has 4 sources of revenue: sales of coal, sales of ceramics, other activities, and sales of goods and materials.

The main source of revenue on sales for LW BOGDANKA during four quarters of 2011 (as well as 2010) was the production and sale of power coal. Between 1 January 2011 and 31 December 2011 this activity generated 94.96% of the Company's revenue on sales (97.50% in the same period of the previous year). The increase in the revenue on sales of coal is a consequence of higher volumes of coal sold (+3.68%), with only slightly higher unit sales price. In the financial statements published by the Company, for presentation purposes data in the profit and loss account concerning revenue on sales of coal and costs of products, goods and materials sold are adjusted (*in minus*) by the value of sold coal that was obtained during drilling of excavations. Having regard to the foregoing, the values disclosed in the separate profit and loss account for the period from 1 January 2011 to 31 December 2011 were adjusted by PLN 99,122,010, whereas in the same period of the previous year by PLN 78,437,700.

Over 80% of the sales of coal (in terms of value) realised in the period from 1 January 2011 to 31 December 2011 (similarly as in the same period of the previous year) was effected pursuant to long-term commercial agreements concluded between Lubelski Węgiel BOGDANKA S.A. and Elektrownia Kozienice S.A., GDF Suez Energia S.A., Elektrownia Ostrołęka S.A. and the Ożarów Group.

Revenue on other activities accounted for 2.51% of the total revenue in the period from 1 January 2011 to 31 December 2011, whereas in the previous year this ratio was 1.17% - significant items in that group included revenue connected with coal transport services provided for one of the customers and revenue on lease of fixed assets.

Revenue on sales of goods and materials increased in the analysed period by 186.18%, i.e. by PLN 15,622,000. This amount includes power coal bought by the Company for resale to one of the customers and revenue on sales of scrap.

The share of revenue on sales of ceramics in the total revenue on sales went up from 0.64% to 0.67% of the Company's total revenue.

Table 11 Dynamics of changes in product range with respect to revenue on sales of LW BOGDANKA (in PLN '000)

Item	4 Qs 2011	4 Qs 2010	Change 2011/2010 [%]
Sales of coal	1,224,690	1,191,016	2.83
Sales of ceramics	8,678	7,868	10.29
Other activities	32,289	14,265	126.35
Sales of goods and materials	24,013	8,391	186.18
Total revenue on sales	**1,289,670**	**1,221,540**	**5.58**

Table 12 Structure by type of revenue on sales of LW BOGDANKA (in PLN '000)

Item	4 Qs 2011	Share [%]	4 Qs 2010	Share [%]
Sales of coal	1,224,690	94.96%	1,191,016	97.50
Sales of ceramics	8,678	0.67%	7,868	0.64
Other activities	32,289	2.51%	14,265	1.17
Sales of goods and materials	24,013	1.86%	8,391	0.69
Total revenue on sales	**1,289,670**	**100.00%**	**1,221,540**	**100.00**

LW BOGDANKA operates primarily in Poland. In 2011 as well as in 2010 export sales were marginal for generated revenue and entailed sales of ceramics. The share of export in the total revenue on sales did not exceed 0.1%.

The Company's customers purchasing its coal whose share in the Company's sales in 2011 exceeded 10% of the total revenue on sales were the following:

- Elektrownia Kozienice SA – the ENEA SA Group – approx. 53% share in the revenue;
- Elektrownia Połaniec SA – GDF Suez Energia Polska – the GDF Suez Energia Polska Group– approx. 20% share in the revenue;
- ENERGA Elektrownie Ostrołęka SA – approx. 11% share in the revenue.

Table 13 Geographical structure of revenue on sales of LW BOGDANKA (in PLN '000)

Item	4 Qs 2011	Share [%]	4 Qs 2010	Share [%]
Domestic sales	1,289,191	99.96%	1,220,712	99.93
Export sales	479	0.04%	828	0.07

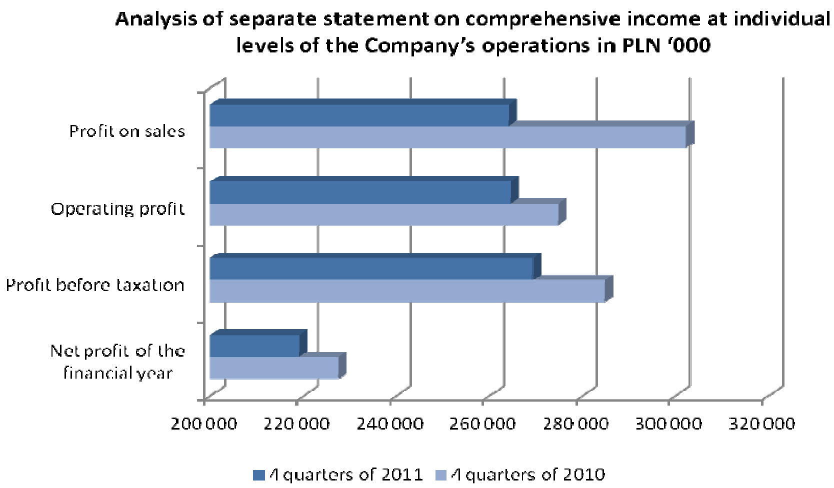
Total revenue on sales	**1,289,670**	**100.00%**	**1,221,540**	**100.00**

4.3.5. Statement of the Company's comprehensive income

In the period from 1 January 2011 to 31 December 2011, the revenue on sales of LW BOGDANKA went up compared to the same period of the previous year by 5.58% (to a level of PLN 1,289,670,000). In the same period, costs of the Company (costs of products, goods and materials sold together with selling and administrative costs) increased by 11.56% to a level of PLN 1,025,599,000. Such changes in revenue and costs resulted in the profit on sales being lower by 12.62%, i.e. 264,071,000 for 12 months of 2011 as compared to PLN 302,204,000 for the same period of 2010.

Table 14 Selected items of the statement of comprehensive income of LW BOGDANKA

Item	4 Qs 2011	4 Qs 2010	Change (2011/2010) [%]
Revenue on sales	1,289,670	1,221,540	5.58%
Cost of products, goods and materials sold, cost of sales, administrative expenses	1,025,599	919,336	11.56%
Profit on sales	**264,071**	**302,204**	**-12.62%**
Other income	5,083	3,535	43.79%
Other expenses	2,434	3,343	-27.19%
Net operating profit/loss	**266,720**	**302,396**	**-11.80%**
Other net profit/loss	-2,216	-27,650	-91.99%
Operating profit	**264,504**	**274,746**	**-3.73%**
Financial income	11,012	23,569	-53.28%
Financial expenses	6,261	13,543	-53.77%
Profit before taxation	**269,255**	**284,772**	**-5.45%**
Income tax	50,277	57,410	-12.42%
Net profit for the financial year	**218,978**	**227,362**	**-3.69%**



<u>Other income</u>

For 12 months of 2011, other operating income amounted to PLN 5,083,000 compared to PLN 3,535,000 for the same period of the previous year – this means an increase of 43.79%. The amount of PLN 5,083,000 includes recorded revenue arising from non-recurring events (primarily released special purpose provisions and calculated liquidated damages).

Other expenses and other net profits/losses

For 12 months of 2011, other expenses amounted to PLN 2,434,000 compared to PLN 3,343,000 incurred in the same period in 2010 – this means a decrease of 27.19%. In the analysed period of 2011, other net profits/losses amounted to PLN -2,216,000 compared to PLN -27,650,000 for the same period in 2010.

2011 noted a slightly lower level of created special purpose provisions and much lower level of foreign exchange losses (arose in 2010 among others in connection with accounting for the purchase of a ploughing system for low seam mining).

After having taken into account profit on sales, other income, expenses and other net profits/losses, we arrive at operating profit (EBIT) for four quarters of 2011 at a level of PLN 264,504,000, which is lower than that for the previous year by 3.73%, i.e. by PLN 10,242,000.

Financial income

Financial income for 12 months of 2011 amounted to PLN 11,012,000 compared to PLN 23,569,000 a year ago (decrease of 53.28%). The change in financial income is a consequence of lower annual-average level of cash in the Company.

Financial expenses

In the analysed period of 2011, financial expenses amounted to PLN 6,261,000 compared to PLN 13,543,00 a year ago (decrease by PLN 7,282,000, i.e. of 53.77%). Such decrease in value was caused by the fact that some interest calculated in 2011 increased the value of outlays for tangible fixed assets under construction and did not represent tax deductible expenses in the period concerned.

The result before taxation for 12 months of 2011 is lower than a year ago by 5.45% – profit before taxation for four quarters of 2011 amounted to PLN 269,255,000 compared to PLN 284,772,00 for four quarters of 2010.

Obligatory appropriations of the result by Lubelski Węgiel BOGDANKA S.A. in form of corporate income tax resulted in generating net profit for the financial year from 1 January 2011 to 31 December 2011 in the amount of PLN 218,978,000 as compared to PLN 227,362,00 for the same period in 2010 – year-to-year net profit of the Company went down by 3.69%.

4.3.6. Profitability

Table 15 Profitability ratios of LW BOGDANKA

Item	4 Qs 2011	4 Qs 2010	Change [p.p.] 2011-2010	Change (2011/2010) [%]
Gross margin on sales	29.47%	33.25%	-3.78	-11.37%
EBITDA	34.58%	33.53%	1.05	3.13%
EBIT	20.51%	22.49%	-1.98	-8.80%
Gross margin	20.88%	23.31%	-2.43	-10.42%
Net margin	16.98%	18.61%	-1.63	-8.76%
Return on Assets (ROA)	7.46%	8.63%	-1.17	-13.56%
Return on Equity (ROE)	10.72%	12.33%	-1.61	-13.06%

During four quarters of 2011 all profitability ratios (except for EBITDA) were lower than in the same period of the previous year.

Gross margin on sales of LW BOGDANKA went down from 33.25% (4 quarters 2010) to 29.47% (4 quarters 2011). The change in value of that ratio was affected by lower (in nominal terms) increase in the generated revenue in relation to the incurred costs of products, goods and materials sold – this also translated into a decreased profit on sales on an annual basis.

In the analysed period EBIT (operating profit) amounted to 20.51%, which means a decrease by 1.98 p.p. compared to the same period of the previous year. The change in value of that ratio was caused by a decreased profit on sales with favourable relation of "other net profits/losses" for 2011 as compared to the value for 2010.

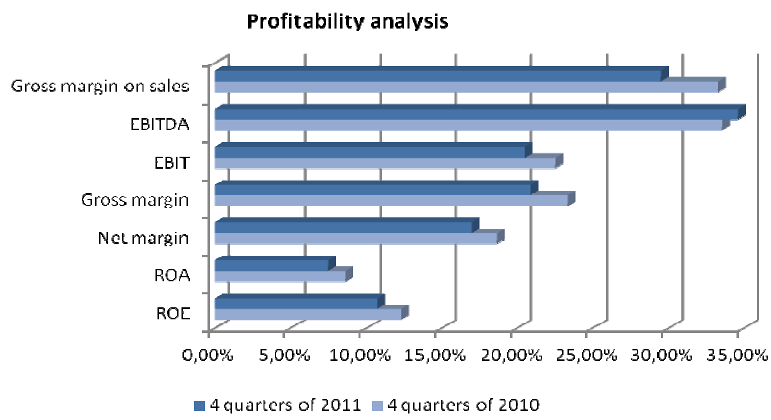
EBITDA went up from 33.53% (4 quarters 2010) to 34.58% (4 quarters 2011). The change in value of the ratio was caused by depreciation going up from PLN 134,814,000 (2010) to PLN 181,439,000 (2011).

Gross margin for four quarters of 2011 amounted to 20.88% and was lower by 2.43 p.p. than margin for four quarters of 2010.

Net margin on operations conducted by Lubelski Węgiel BOGDANKA S.A. for four quarters of 2011 amounted to 16.98% as compared to 18.61% for four quarters of 2010.

A decrease in return on assets (from 8.63% to 7.46%) resulted from lower net profit and higher average assets disclosed by the Company in its annual separate financial statements. The Company manufactures assets which will bring economic benefits in the subsequent periods.

Similarly as in the case of return on assets, a decrease in return on equity resulted from lower net profit (by 3.69%) with equity going up (by 8.75%) at the same time. The effects of using equity for financing the Company's operations will be visible in the subsequent reporting periods.



4.4. Assessment of factors and untypical events affecting the operating profit for the financial year including specification of the extent to which they may affect the results

In 2011 no untypical factors and events occurred that may have influenced the Company's operations. Events that affected operations and financial results of LW BOGDANKA S.A. in the financial year 2011 or which may have influence thereon in the following years have been described in other sections of the Report.

4.5. Differences between financial results disclosed in the annual report and the published 2011 result forecasts

LW BOGDANKA S.A. did not publish forecasts of the separate or consolidated financial results of the Company for 2011.

4.6. Capitals, funds and sources of capital of LW BOGDANKA S.A.

As at 31 December 2011, the Company's shareholders' equity amounted to PLN 2,129,238,000.

The shareholders' equity is comprised of:

-	Ordinary shares		PLN 301,158,070
-	Other capitals		PLN 1,266,331,630
	including:		
		- Supplementary capital	PLN 548,654,950
		- Reserve capitals	PLN 717,676,690
-	Retained profits		PLN 561,748,400
	including:		
		- Revaluation capital reserve	PLN 66,023,410
		- Other capitals – retained profits brought forward	PLN 276,747,260
		- Net profit	PLN 218,977,740

The value of the basic capital as at the end of 2011 amounted to PLN 301,158,070.

Supplementary capital:

In the course of transformation of the state-stock company, the supplementary capital was calculated at the level representing a difference between the sum of: founding and corporate funds and the share capital.
As at 31 December 2011, the Company's supplementary capital amounted to PLN 548,654,950. As at 31 December 2011, the supplementary capital represented 25.77% of the share capital.

Revaluation capital reserve:

As at 31 December 2011, the revaluation capital reserve amounted to PLN 66,023,410. In relation to 2010 the revaluation capital reserve did not change.

Other capital reserves:

As at 31 December 2011, the Company's other capitals amounted to PLN 717,676,690. In 2011 they increased by 33.4%.

Social Benefits Fund:

Company Social Benefits Fund is made annually from the basic write-off charged to the Company's operating expenses. In 2011 the social fund increased by PLN 5,000,000 as a result of an additional write-off with a proviso that in the event of selling a summer holiday centre in Łazy, in the year in which the net amount on account of its sale is contributed to the social benefit fund or in the next year, the basic write-off will decrease by the amount equal to the amount by which the fund increased as a result of the sale of the summer centre. However, the amount by which the basic write-off will decrease shall not be higher than PLN 5,000,000. The fund also increased by other income from partial payments from the employees for social activity and interests on funds on a bank account for loans granted from the Social Benefit Fund for housing purposes. This is a special purpose account, used in accordance with the Act on the Company Social Benefits Fund of 4 March 1994 (Dz.U. No. 70, item 335 of 1996, as amended) and the rules adopted by the Management Board. In relation to 2011, the fund increased by PLN 982,940 and as at 31 December 2011 it amounted to PLN 6,447.76.

Mine Closure Fund

In compliance with Article 26c of the Geological and Mining Law of 4 February 1994 (uniform text Dz.U. of 2005 No. 228, item 1947, as amended), and the Ordinance of the Minister of Economy of 24 June 2002 on detailed rules of creating and functioning the mine closure fund (Dz. U. No. 108 item 951), Lubelski Węgiel BOGDANKA S.A. gathers funds for covering the costs of a liquidation of a mining plant, in a separate bank account. As at 31 December 2011 the value of those funds amounted to PLN 58,288,490. Increase in funds at the bank account results from a payment made from mandatory annual write–offs of PLN 4,176,150 and bank interest on funds deposited in the account of PLN 3,203,430.
Future deposits related to the liquidation of the mining plant are covered with a provision disclosed in the statement of comprehensive income. The amounts of provisions are recognised in the present value of expenditures which are expected to be needed to discharge a given obligation.

4.7. Partial release of the provisions for real property tax on the value of underground workings

By virtue of Current Report No. 4/2012 of 2 February 2012, the Company announced that on 2 February 2012, in connection with a judgement of the Constitutional Tribunal with regard to imposing real property tax on the value of underground workings announced on 13 September 2011, it adopted a resolution on partial release of the provisions for real property tax on the value of underground workings (the "Property Tax") and established the following balance of provisions and amounts due from municipalities on account of property tax as at 31 December 2011:

- the provisions released amount to PLN 53.6 million (the principal amount plus interest). In connection with overall risk associated with pending disputes with communes and municipalities, the balance of provisions and liabilities on account of the property tax in dispute has been retained in the amount of PLN 16.6 million (the principal amount plus interest).

- Amounts due from communes and municipalities on account of the disputed property tax already paid in the amount of PLN 16.3 million will be disclosed in the financial statements for 2011.

The effect of the said transaction on the financial result will amount to the following:

- before taxation: PLN 69.9 million;

- reduced by the deferred income tax: PLN 58.8 million.

The provision for the real property tax is described in detail in note 19 of the Financial Statements of LW BOGDANKA.

4.8. Debt and financing structure of LW BOGDANKA, including information about agreements on loans and borrowings concluded and terminated in the given financial year, with stating at least the amount, type, interest rate, currency and maturity of such loans and borrowings.

Table 16 Debt ratios of LW BOGDANKA

Item	31 Dec. 2011	31 Dec. 2010	Change (2011/2010)[%]
Overall debt ratio	30.44%	30.38%	0.20%
Debt to equity ratio	43.75%	43.63%	0.28%
Fixed capital to fixed assets ratio	99.39%	107.20%	-7.29%
Short-term debt ratio	9.93%	14.14%	-29.77%
Long-term debt ratio	20.50%	16.24%	26.23%

As at 31 December 2011, the share of liabilities in financing the operations of LW BOGDANKA, measured with the overall debt ratio, was 30.44% and respectively 30.38% as at 31 December 2010. In the period covered by the separate financial statements for four quarters of 2011 the debts of LW BOGDANKA did not pose any threat for its operations and ability to settle its liabilities on a timely basis.

In the analysed period the debt to equity ratio went down from 43.63% (as at 31 December 2010) to 43.75% (as at 31 December 2011) – which is a consequence of shareholders' equity being higher by PLN 171,359,000, with the Company's total liabilities going up by PLN 77,308,000 at the same time.

The fixed capital to fixed assets ratio is below 100%. This is caused first of all by an increased value of fixed assets (by PLN 506,690,000 in connection with implementation of the investment programme). The ratio should be expected to return to the level of ≥100% after completion of the investment programme, when the Company will start to use commercially the assets manufactured hitherto.

Table 3 Liquidity ratios of LW BOGDANKA (days)

Item	31 Dec. 2011	31 Dec. 2010	Change (2011/2010) [%]
Current liquidity ratio	1.36	1.98	-31.31%
Quick liquidity ratio	1.21	1.79	-32.40%

In the period covered by the Annual Separate Financial Statements the liquidity ratios of LW BOGDANKA remained at a safe level – the Company does not disclose any problems with settlement of its liabilities. The level of liquidity ratios (both as at 31 December 2011 and 31 December 2010) is a reflection of the balance of cash funds originated from loans and the balance of funds from conducted operating activities.

Table 4 Turnover rates of LW BOGDANKA (days)

Item	31 Dec. 2011	31 Dec. 2010	Change (2011/2010) [%]
Stock turnover	20.1	24.1	-16.60%
Trade debtors collection rate*	52.8	35.0	50.86%
Trade creditors payment rate**	93.6	88.5	5.76%
Operating cycle (1+2)	72.9	59.1	23.35%
Cash conversion cycle (4-3)	-20.7	-29.4	-29.59%

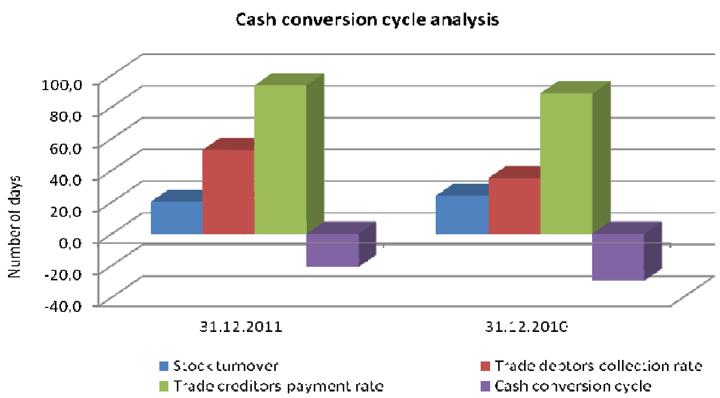
*Trade and other debtors
** Trade and other creditors

Compared to the rate as at 31 December 2010, the stock turnover rate for 2011 fell from 24.1 days to 20.1 days – with the average level of inventories going down (compared to the balance as at 31 December 2010) the cost of products, goods and materials sold went up.

The trade debtors collection rate (calculated on the basis of the balance sheet item "Trade and other debtors") was 52.8 days (as at 31 December 2011) and 35.0 days (as at 31 December 2010). The increase of the rate was caused by a higher level of average trade debtors with simultaneous increase in revenue on sales.

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) equalled in the analysed period 72.9 days compared to 59.1 days as at 31 December 2010 – it means that the current assets are converted into cash on the average by 13.8 days slower.

The trade creditors payment rate (calculated on the basis of the balance sheet item "Trade and other creditors") in the period covered by financial information got longer from 88.5 days (as at 31 December 2010) to 93.6 days (as at 31 December 2011).



The trends described above resulted in the cash conversion cycle of -20.7 days as at 31 December 2011 compared to -29.4 days as at 31 December 2010. The negative value of the cash conversion cycle means that Lubelski Węgiel BOGDANKA S.A. makes use of non-interest bearing debt.

<u>Banks providing services to the Company</u>

The main current account of BOGDANKA S.A. is maintained by Bank PEKAO S.A. Grupa PEKAO S.A. III O/ Lublin, No. 88 1240 2382 1111 0000 3893 3280.

Auxiliary accounts and deposit accounts are maintained by:

- BRE Bank S.A. Lublin Branch,
- Powszechna Kasa Oszczędności Bank Polski S.A. Regional Corporate Branch, Corporate Centre in Lublin,

- Kredyt Bank S.A. Regional Branch in Lublin,
- Bank Ochrony Środowiska S.A. Lublin Branch,
- Bank Millennium S.A. Regional Branch in Lublin.

Agreements concerning the Company's loans and borrowings

In 2011 the Company had three signed loan agreements.

Agreement on working capital non-revolving loan in the Polish currency, concluded with Powszechna Kasa Oszczędności Bank Polski S.A. on 27 May 2008 until 31 December 2009, extended with Annex No. 3 of 29 December 2009 until 31 December 2014 for the amount of PLN 250,000,000. In 2008 and 2009 the tranches were paid on the following dates: On 28 May 2008 in the amount of PLN 50,000,000; on 31 December 2008 in the amount of PLN 20,000,000; on 31 March 2009 in the amount of PLN 50,000,000 and on 30 June 2009 in the amount of PLN 130,000,000. As at the end of 2011 liabilities under the loan in PKO BP S.A. amounted to PLN 241,000,000.

Interest on the loan was: 3M WIBOR + 0.60 pp, the interest on past due debt is 29%, commission for granting the loan 0.40% of the loan amount, payable on used tranches, commission for changing loan maturity date introduced with Annex No. 3 of 29 December 2009, constituting 0.40% of the loan amount. The loan is used for financing current business activities of the Company specified in the Articles of Association, and namely partial financing of investment tasks carried out in 2008-2009, and potential repayment of existing debt. However, the borrower stipulated that it had the right to change the factual purpose of the loan during the agreement term.

Collateral for the granted loan is:

- a blank promissory note along with a promissory note declaration,
- clause on deduction from an account in PKO BP S.A.,
- transfer of receivables under agreements on coal sale in the amount of PLN 250,000,000, to which the Company is entitled from Elektrownia Kozienice S.A. with registered office in Świerże Górne.

Annex No. 3 of 29 December 2009 introduces the Company's obligation to additionally secure the loan if, in the PKO BP S.A. assessment, financial standing of the Borrower and/or Capital Group deteriorates, resulting in a necessity of making write-downs (according to the IAS) and specific provisions by PKO BP S.A., in a form and value agreed with PKO BP S.A., allowing for not creating the above mentioned write-downs and provisions.

Repayment of the loan changed with Annex No. 3 of 29 December 2009 was to be carried out on the following dates and in the following amounts:

1. 2011 – PLN 50,000,000
2. 2012 – PLN 65,000,000
3. 2013 – PLN 70,000,000
4. 2014 – PLN 65,000,000

And according to Annex No. 4 of 5 December 2011 was changed to stipulate the following dates and amounts:

1) 2011 – PLN 9,000,000,
2) 2014 – PLN 241,000,000.

As at 31 December 2011, the indebtedness of the Company on account of the loan taken in PKO BP S.A. amounted to PLN 241,000,000.

Agreement for "a working loan in PLN" concluded with **Bank Polska Kasa Opieki S.A.** on 23 December 2011; lending term until 31 December 2014.

The purpose of the loan is to finance current operations.

Loan tranches granted for the following dates and in the following amounts:

1) PLN 50,000,000 on 27 December 2011,
2) PLN 50,000,000 on 30 December 2011,
3) PLN 50,000,000 on 30 March 2012,
4) PLN 50,000,000 on 29 June 2012.

Interest on the loan: WIBOR 3M increased by Bank's margin of 0.8 p.p. on an annual basis on the loan drawn. Front-end-fee in the amount of 0.1 p.p. on the loan tranches drawn. Interest rate on past due loan is variable and equals 13% p.a. on the date of agreement execution.

Collateral for the granted loan is:

- confirmed assignment of receivables in the minimum amount of PLN 250,000,000 during a year,
- a blank promissory note with a promissory note declaration,
- a power of attorney to bank accounts kept with the Bank,
- a statement on submission to execution.

As at 31 December 2011, the indebtedness with Bank Polska Kasa Opieki S.A. amounted to PLN 100,000,000.

Agreement concluded with Bank Millennium S.A. No. 1333/F/2011 of 8 November 2011 for the amount of PLN 30,000,000. Lending term according to the agreement until 7 May 2012, provided that lending term could not be longer than 14 days after the date of the Borrower's signing the Agreement in the amount of PLN 200,000,000, constituting the subject matter of the public tender no. 5509/2011 announced by the Borrower.

The purpose of the loan was to finance current operations.

Interest on the loan: WIBOR 1M increased by Bank's margin of 0.60 p.p., front-end-fee of 0.20%. The loan was repaid in full on 28 December 2011.

The loan was activated under the following condition: undertaking to deliver to the Bank up-to-date certificates from the Tax Office and the Social Insurance Institution on no arrears in payments due to those institutions.

In 2011 the loans were not contracted:

a) against pledge, mortgage or transfer of ownership to tangible fixed assets as collateral of a credit line with equivalent exceeding EUR 50,000,

b) against pledge, mortgage or transfer of ownership to an organised part of the enterprise as collateral of a credit line.

4.9. Information on loans granted in the current financial year, with special regard for loans granted to the issuer's related undertakings, with stating at least the amounts, types, interest rate, currency and maturity of such loans

In 2011 Lubelski Węgiel BOGDANKA S.A. did not grant any loans.

In 2011 Lubelski Węgiel BOGDANKA S.A. made no releases from debt.

In 2011 Lubelski Węgiel BOGDANKA S.A. did not contract or grant any loans or terminate any agreements concerning borrowings.

4.10. Information on sureties and guarantees provided and received in a given financial year, in particular sureties and guarantees provided to LW BOGDANKA S.A.'s related entities

In 2011 Lubelski Węgiel BOGDANKA S.A. did not provide any sureties or guarantees.

As of 30 August 2011, Lubelski Węgiel BOGDANKA S.A. received from BRE Bank S.A. a guarantee of payment in the amount of PLN 40,745,250. Its purpose is to guarantee timely payment to BUCYRUS EUROPE GmbH, Industriestrasse 1, 44534 Lunen, Germany for the supply of a factory-new ploughing complex intended for underground mining plants extracting hard coal, in accordance with an agreement concluded between LW BOGDANKA S.A. and Bucyrus Europe GmbH on 31 May 2011. The guarantee is valid until 30 November 2012.

Collateral for the granted guarantee is:

- a blank promissory note with a promissory note declaration,
- assignment onto the Bank of the receivables from ENERGA Elektrownie Ostrołęka S.A. under the Long-Term Agreement No. 1456/W/2010 on the supply of power coal of 14 December 2010, as amended (if applicable), pursuant to an agreement for the assignment of contractual receivables no. 04/014/11 of 30 August 2011.
- a statement on voluntary submission to execution.

Guarantee costs:

- Front-end-fee in the amount of PLN 75,000.00,

4.11. Information on financial instruments

In 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. Financial instruments held by the Company are disclosed and described in the Annual Separate Financial Statements.

4.12. Costs 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.

4.12.1. Costs by type

In 2011, LW BOGDANKA S.A.'s costs amounted to PLN 1,395,075,000 compared to PLN 1,197,006,000 in the same period of the previous year, which means that the costs increased by 16.55% (PLN 198,069,000). The above nominal increase in costs was largely the result of higher depreciation/amortisation costs, external services costs as well as costs of materials and energy consumption. The result of an adjustment of costs by type by change in stocks and the value of own work capitalised yields the costs of products, goods and materials sold, which in 2011 increased by 11.56% as compared to the previous year (PLN 106,263,000) and amounted to PLN 1,025,599,000.

Table 19 Costs by type of LW BOGDANKA S.A. [PLN '000]

Item	2011	2010	Change [%]	Change
Depreciation and amortisation	181,439	134,814	34.58%	46,625
Materials and energy consumption	397,856	351,009	13.35%	46,847
External services	348,692	269,010	29.62%	79,682
Employee benefits	416,671	390,927	6.59%	25,744
Entertainment and advertising expenses	9,493	11,846	-19.86%	-2,353
Taxes, fees and charges	22,828	21,389	6.73%	1,439
Other expenses	18,096	18,011	0.47%	85
TOTAL COSTS BY TYPE	**1,395,075**	**1,197,006**	**16.55%**	**198,069**
Change in inventory of products	15,443	-10,352	-249.18%	25,795
Cost of operating activities	**1,410,518**	**1,186,654**	**18.87%**	**223,864**
Activities for the Company's own needs	360,677	275,464	30.93%	85,213
Release of the provisions for real property tax	*46,552*		-	*46,552*
Value of goods and materials sold	22,310	8,146	173.88%	14,164
The cost of sales	**1,025,599**	**919,336**	**11.56%**	**106,263**

Analysing the increase in costs of depreciation and amortisation (increase of 34.58%) it must be indicated that it is consistent with the implemented development strategy for the Company and results both from the increase in the value of assets which are successively made available for use and from the significant increase in natural depreciation which occurred in October 2011 in connection with start-up of the next extraction panel (the first panel in the Stefanów Field).

The increase in the costs of external services (29.62%) was the result of the implemented development strategy for the Company, with the scope of work commissioned to external companies (work on weekends, drilling, transport of excavated material, maintenance of workings) growing between the analysed periods. Within preparatory and deposit-opening work in 2011 the Company completed over 1,895 running metres of galleries more (increase by approx. 8.5%) than in 2010.

Analysing the increase in the costs of materials and energy consumption (of 13.35%), it must be indicated that the increase consisted in:

- materials consumption (increase by 14.0%) – attributable mostly to higher demand for steel, conveyor belts, fuel and power engineering products used in the construction of underground workings,
- energy (increase by 11.0%), attributable mostly to the increase in the number of energy carriers used in connection with start-up of mining operations and to a small extent the increase in the cost of purchasing energy.

The recorded increase in the employee benefits costs resulted from the growing number of employees in 2011 (by 216 persons December to December) and the increase by approx. 2.6% of the average remuneration in the Company.

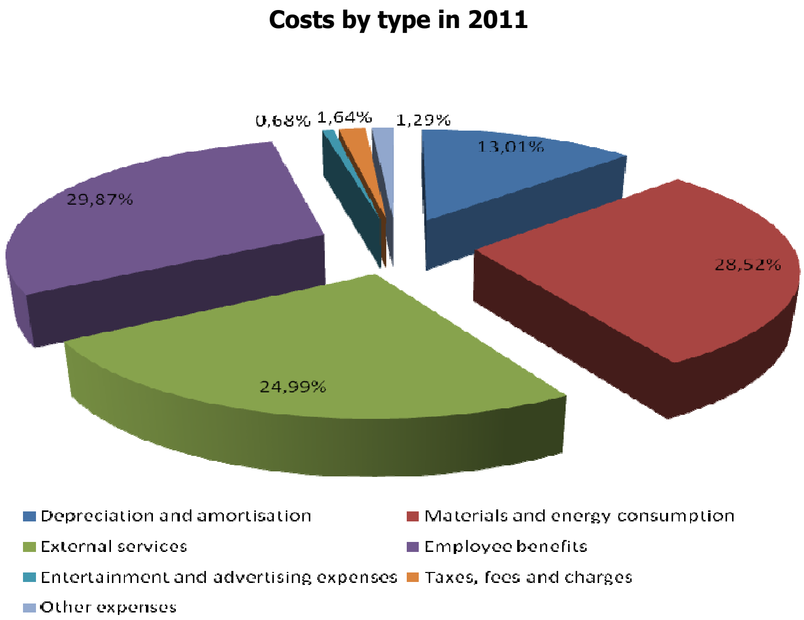
In the analysed period the value of activities for the Company's own needs went up from PLN 275,464,000 in 2010 to PLN 360,677,000 in 2011, which means an increase of nearly 31%. In addition, in 2011 the Company released provisions for real property tax amounting to PLN 46,552,000, which decreased the adjustment of costs.

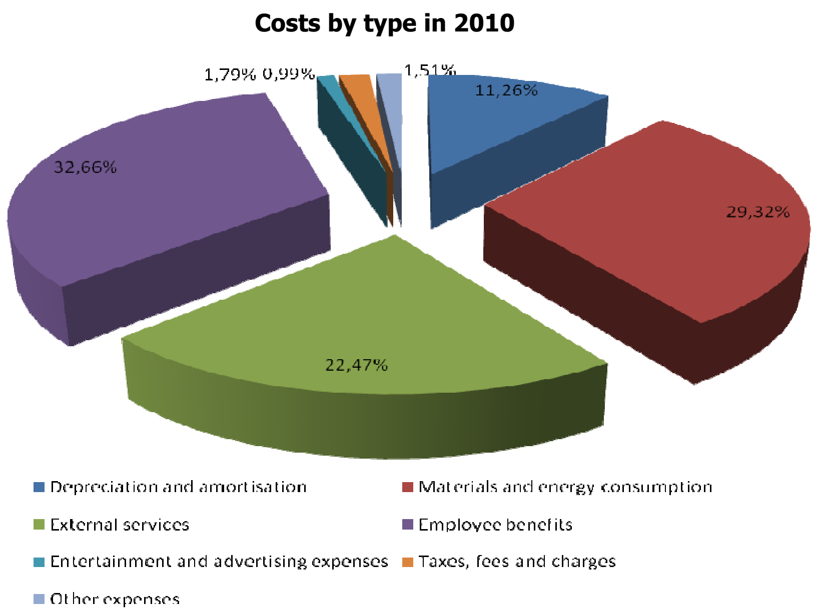
The presented changes in costs by type were reflected in a change of the structure of costs by type. In 2011 the most significant position, as was the case in 2010, was the employee benefits costs, even though their share decreased by 2.79 p.p. to the level of 29.87%. The share of materials and energy consumption costs also decreased and it currently accounts for 28.52% of the total costs by type (decrease by 0.80 p.p.).

Because of a strong growth of the costs of depreciation and amortisation, their share increased in the most dynamic way (by approx. 15.5%), i.e. from 11.26% to 13.01% at present. Also the share of external services went up from 22.47% to 24.99% at present.

Table 5 Structure of costs by type at LW BOGDANKA S.A.

Item	**2011**	**2010**	**Change [%]**
Depreciation and amortisation	13.01%	11.26%	15.5%
Materials and energy consumption	28.52%	29.32%	-2.7%
External services	24.99%	22.47%	11.2%
Employee benefits	29.87%	32.66%	-8.5%
Entertainment and advertising expenses	0.68%	0.99%	-31.3%
Taxes, fees and charges	1.64%	1.79%	-8.4%
Other expenses	1.29%	1.51%	-14.6%
TOTAL	**100.00%**	**100.00%**	





4.12.2. Costs by function

In 2011 Lubelski Węgiel BOGDANKA S.A.'s cost of sales amounted to PLN 1,025.599,000 and was higher than in 2010 by PLN 106,263,000, i.e. by 11.56%. An analysis of the individual components of the cost of sales shows the increase of all three cost groups. The largest increase was noted in the group of administrative costs (+13.33%), which most predominantly influenced by higher costs of remunerations, and costs related to maintenance and protection of the Company's assets.

The increase in the costs of products, goods and materials sold (+11,56%) was a result of general increase in the costs of production (analysis of costs by type) noted in 2011. An analysis regarding dynamic of the increase in costs is similar to dynamic of the increase in raw coal extraction, where the gross production went up by 12.0% on a year-to-year basis over the analysed years. An increase in the selling costs resulted mostly from growing costs of the railway department (fuel, depreciation, renovation of the rolling stock and the infrastructure).

Table 6 Cost of sales

Item	2011	2010	Change [%]	Change [PLN '000]

Cost of products, goods and materials sold	909,643	815,379	11.56%	94,264
Selling costs	39,017	36,069	8.17%	2,948
Administrative costs	76,939	67,888	13.33%	9,051
Cost of sales	**1,025,599**	**919,336**	**11.56%**	**106,263**

As dynamic of the increase in the cost of sales and in the cost of products, goods and materials sold was equivalent in percentage terms, their share did not change and was the same as a year ago, i.e. 88.69%. The share of selling costs decreased to 3.80% from 3.92% at the end of 2010. Because of the highest growth, the share of administrative costs increased from 7.38% to 7.50% at present.

Table 22 Structure of cost of sales

Item	2011	2010	Change [%]
Cost of products, goods and materials sold	88.69%	88.69%	
Selling costs	3.80%	3.92%	-3.06%
Administrative costs	7.50%	7.38%	1.63%
Cost of sales	**100.00%**	**100.00%**	**x**

4.13. Assessment of the possibilities of investment plans' execution

The Company plans that the structure of financing its property investment expenses will not change significantly, i.e. they will mainly be financed from own funds, although in the current year the Company anticipates to increase the interest-bearing debt by the next PLN 100 million, in accordance with a tender procedure decided in December 2011 (see Current Report No. 30/2011 of December 23, 2011). At the same time, the Management Board does not preclude the possibility to increase further the share of debt in financing the planned investments, which will be dependent upon the owner's policy as regards the division of profit for the financial year 2011 (dividend policy) as well as the pace of completion of the property investments.

As at the date of providing this Report, the Company sees no threat as to the possibility to acquire additional financing in the form of debt. As at 31 December 2011 the Company's current loan in the amount of PLN 341 million accounted for approx. 16.0% of the shareholders' equity (PLN 2,129.2 million) and approx. 11.2% of the balance-sheet total.

4.14. Lease and rental agreements in 2011

In 2011 total revenue of LW BOGDANKA S.A. under lease and rental agreements for land, premises, machines and devices amounted to PLN 8,039,000 net.

5. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR LW BOGDANKA S.A.'S OPERATIONS IN 2011

5.1 Development strategy

LW BOGDANKA S.A. currently implements the "LW BOGDANKA S.A. development strategy for 2007-2015 based on the enlargement of the Stefanów Field". The strategy was updated in April 2011.

A strategic goal for the development of LW BOGDANKA S.A. is to build and enhance the Company's value for the shareholders by means of:

a) gaining access to new reserves and increasing the level of coal extraction based on the enlargement of the Stefanów Field;

b) maintaining a stable position as the main supplier of coal in eastern Poland, in particular for the commercial power industry;

c) strengthening its competitive position by cutting unit costs of extraction and production.

The main strategic development objectives defined by the Company are:

a) doubling the level of extraction of raw materials and thereby doubling the share in the market for hard coal producers in Poland;

b) improving the efficiency of hard coal extraction and production;

c) ensuring that LW BOGDANKA is self-sufficient regarding the supply of electricity by developing its activities as regards the production of electricity;

d) environmental protection measures.

Strategic development objectives defined by the Company along with activities planned for 2010-2015 are presented below:

1) Doubling the level of extraction of hard coal:

a) <u>increasing production capacity of the Company by enlarging the Stefanów Field</u>

The major component of the LW BOGDANKA's development strategy is the enlargement of the Stefanów Field, which will make it possible to double the production capacity from 5.8 million tonnes in 2010 to the target level of 11.5 million tonnes per annum in 2014.

The main investments related to the enlargement of the Stefanów Field include:

- extension of the mining area:
  - extension of the "Puchaczów IV" mining area by a part of the "K-3" area of approx. 17 sq. km will enable further mining operations of seam 385/2 and will make new, lower seams 389 and 391 available and ready for mining operations. Total recoverable coal reserves after the enlargement will amount to approx. 260 million tonnes;
  - coal extraction from the above mentioned seams in the Stefanów Field will be carried out through lifting and ventilation shaft 2.1, the start-up of which is scheduled for 2011.
- Extension of the Mechanical Coal Processing Plant:
  - The aim of the planned extension of the Mechanical Coal Processing Plant is to double the capacity of the Plant from the current level of 1,200 t/h to 2,400 t/h, which will make it possible to increase hard coal production, assuming that the extraction level will double;
  - implementation of the above-mentioned tasks will make it possible to meet market requirements through adjustment of production capacity of the Company and the structure of the coal sold.

b) <u>Increase in employment and human resources management</u>

The strategy of the Company with regard to human resources is consistent with the production and investment strategy carried out by LW BOGDANKA. Its priority is to ensure an appropriate (in relation to its production capacity) level of human resources for the Company in the context of the mine enlargement (Stefanów Field) and extension of the Mechanical Coal Processing Plant, as well as the process of acquiring pension rights by the present employees. As a result of pension regulations applicable at the end of 2011, by 2015 about 30% of the Company staff (including mainly employees directly engaged in coal extraction) will have acquired pension rights. Additionally, mining regulations require that employees involved in mining plant operations should possess certain qualifications, the acquisition of which requires, among other things, a few years of experience. Consequently, since 2007 the Company has been systematically recruiting new employees in order to acquire the necessary human resources in the context of expected increase in the level of extraction. As a result of these activities, the Company intends to employ such a number of employees holding special qualifications to conduct mining works that would be adequate to the planned level of production capacity resulting from the enlargement of the Stefanów Field.

In order to implement the strategy of human resource management, the Company also intends to establish and continue cooperation with schools educating persons with particular qualifications in mining, mechanical and electrical industries.

Additionally, the human resource strategy of the Company provides for undertaking activities aimed at improvement of the occupational health and safety, through:

- improvement of the occupational health and safety management system;

– providing the employees with training and professional development;
– introducing new solutions as regards monitoring of risks in technological processes and work environment parameters;
– introducing new solutions as regards comprehensive development of work environment;
– introducing new technologies, machines and equipment in production processes.

c) Marketing operations

An increase in the value of LW BOGDANKA will be also favoured by implementation of the Company marketing strategy, aiming at promotion of LW BOGDANKA and its products: hard coal (the BOGDANKA brand) and ceramics (the EkoKLINKIER brand), leading to the expected sales results.

The Company plans to conduct systematic marketing operations related to search for new consumers for hard coal in order to diversify the structure of business partners, and thus decrease the level of the Company dependency on customers.

2) Improving the efficiency of hard coal extraction:

a) Implementing a plough technique of coal getting in mining longwalls (gaining access to new industrial reserves)

In the first half of 2008, the Company undertook measures aimed at implementing the plough technique of mining longwalls in thin deposits — under 1.6 m. The implementation of the said technique under mining and geological conditions of LW BOGDANKA's mine will enable mining operations in deposits of thickness lower than at present (from 1.2 m), and thus, it will increase industrial resources of coal which the Company's currently has at its disposal. A coal getting technique applied so far (shearer technique) allowed the Company to reach the extraction of coal at the level of approx. 65-70% (ratio of commercial coal extraction from total excavated material). Implementation of the plough technique will make it possible to increase the said ratio to approx. 75-80%. The first wall excavated with the use of the plough technique was launched in 2010.

b) Improving the efficiency of hard coal production

Increase in the production capacities in the Company related to the investment in the Stefanów Field and utilisation of the existing mine infrastructure, including shafts in Stefanów, will enable the Company to improve economic efficiency of hard coal production. In addition, the project will bring the following benefits:

– as a result of launching the second mining shaft 2.1 in the region in which deposit reserves in seams 385/2, 389 and 391 occur, the need to construct and maintain dog headings for transporting excavated material from the Stefanów area to the Mechanical Coal Processing Plant in Bogdanka will be eliminated,
– mine operations safety will be improved, given the fact that in case of malfunction or when one of the shafts stops, it will be possible to extract coal through another shaft.

c) Restructuring and management of non-productive assets

Development strategy of the LW BOGDANKA Group provides for continuation of restructuring operations started in the 1990s, the aim of which is to improve organisational efficiency of managing resources, including assets and human resources. Implementation of restructuring activities should also contribute to improvement of financial liquidity of the Company and reduction of non-production activity costs.

d) Management of by-products

Development strategy of the Company, assuming the growth of production capacities of the mining plant, will lead to the increase in the amount of mining waste and other industrial waste produced by the Company.

According to the estimates of the Company, about 20% (up to 650,000 tonnes) of mining waste will be stored on the storage yard in Bogdanka, where reclamation works will be conducted on an ongoing basis. Other mining waste will be utilised, e.g. to:

- reclaim post-exploitation excavations, wastelands and other post-industrial land;
- modernise local roads, construct road foundation, harden the ground;
- construct of watertight structures, including flood banks;
- construct sport and recreation facilities, such as playgrounds, motocross tracks, sledge hills;

- manufacture construction materials at ZCB EkoKLINKIER.

Strategy of the Company as regards by-product management assumes transferring of post-industrial waste suitable for reuse or for recycling to specialised companies or natural persons, and other waste - to specialist companies for neutralisation.

3) Developing electricity production activities

a) Conversion of a heat-generating plant of Łęczyńska Energetyka into a heat and power station

One of the strategic aims of LW BOGDANKA is to ensure self-sufficiency of the mine as regards heat energy supply as a result of constructing a fluidised bed combustion boiler with a turbine-generator unit in the subsidiary, Łęczyńska Energetyka. Implementation of the investment programme of Łęczyńska Energetyka "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production" has been planned for 2008-2014, in two stages.

The first stage (2008-2010) included preparation investments (conversion of water heaters, construction of sulphur removal system, equipping the heat-generating plant with high-performance dust collectors, construction of water treatment station).

The second stage, scheduled for 2011-2014, will consists in constructing a fluidised bed combustion boiler and a pass-out and condensing turbine-generator unit, which are key elements of machinery stock of the heat and power station.

Coal slime (now waste) created during the coal cleaning process in the coal processing plant will be used as fuel in the heat and power station. This project also provides for ensuring agricultural-type biomass for the heat and power station in Bogdanka, in the amount necessary to obtain "green energy" certificates through implementation of the programme as regards organisation of procurement contracts for agricultural biomass.

4) Environmental protection measures

In the hard coal mining industry, in which the Company conducts its operating activities, environmental protection measures are particularly important. LW BOGDANKA S.A. holds all necessary permits as regards air protection and water/wastewater management.

In the context of doubling the level of coal extraction starting from 2014, planned by LW BOGDANKA, a systematic growth in mining damage will occur, both in construction objects and in the area of agricultural lands (occurrences of local ground inundation as a result of mining area settlement accompanying the progress of underground works). The Company is planning to conduct complex activities to eliminate the effect of mining operations on the surface area through:

- performing preventive measures to protect buildings against mining damage;
- performing repair works in buildings during and after completing operations;
- reimbursing investors for the costs of adapting new buildings constructed in the mining area to the mining area conditions;
- performing ground drainage works.

One of the main investment projects in this area will be the construction of multifunctional "Szczecin" reservoir. This investment will eliminate effects of ground settlement and will restore a degraded area for use, thus in a significant manner reducing a negative environmental impact of operations conducted by the Company.

5.2 The Company's investments in fixed assets

5.2.1 Investments in fixed assets – implementation of share issue objectives

The purpose of the issue of series C shares was for the Company to obtain funds to finance the completion of selected key investment tasks being implemented as part of an investment programme commenced in previous years (starting from 1999) associated with increasing the production capacities of LW BOGDANKA S.A. with regard to the production of power coal by extension the Stefanów Field, which was previously financed from the Company's own funds.

In connection with the issue of series C shares, in 2009 the Company obtained proceeds of PLN 528,000,000 (after deducting the costs of issue, BOGDANKA S.A.'s proceeds amounted to PLN 521,051,000). The proceeds from the issue of the Company's shares allowed it to finance, in addition to the investment tasks specified in the Issue Prospectus (objectives of the issue), also other tasks, i.e. performance of mining excavations in the

Stefanów Field, construction of storage reservoirs in the Stefanów Field as well as the purchase of a coal mine face complex.

As at the date of preparing this Report, the Company has spent all the funds acquired through the issue of shares. The funds were allocated for the following investment projects:

- building excavation and ventilation shaft 2.1 in the Stefanów Field;
- building a system for transporting excavated material from the Stefanów Field to the Mechanical Coal Processing Plant (MCPP);
- constructing the buildings of the Stefanów Field (lifting machine and switch room building of shaft 2.1 and main fans station at shaft 2.1);
- air-conditioning system in the underground part of the Mine.

5.2.2 Investments in 2011 and the plan for 2012

Table 23 Implementation of investment projects in 2011 and the plan for 2012, as divided into projects [PLN '000]

Investment projects		Plan 2011	2011 implementation	Plan 2012
Gr. 1	**Development investments (development of the Stefanów Field)**	**437,369**	**384,308**	**235,666**
A	Technical infrastructure (shaft 2.1, development of MCPP, other)	303,682	246,439	136,719
B	Making coal seams available in the Stefanów Field	133,687	137,869	98,947
Gr. 2	**Other development investments**	**1,000**	**0**	**7,220**
Gr. 3	**Replacement investments**	**105,988**	**101,637**	**48,944**
A	Modernisations and repair of machines and devices	34,631	33,595	26,810
B	Building and modernisation of structure and installations	71,357	68,042	22,134
Gr. 4	**Environmental protection**	**2,125**	**1,527**	**8,425**
Gr. 5	**Building and modernisation of workings in the Bogdanka, Nadrybie and Stefanów Fields**	**121,206**	**116,389**	**137,683**
Gr. 6	**Purchase of machines and devices**	**121,715**	**86,668**	**281,388**
	TOTAL:	**789,403**	**690,529**	**719,326**

The main objective of the investment plan for 2011 was to continue commenced tasks, aiming at doubling the output in 2014. Execution of the plan made it possible to start mining with the use of shaft 2.1 in the Stefanów Field.

Investment expenditure for 2011 was planned in the amount of **PLN 789,403,000.**

Implementation of investment expenditure for 2011 amounted to **PLN 690,529,000.**

Plan for 2011 included:

1. Development investments comprising the construction of the Stefanów Field
    - continuation of the construction of excavation and ventilation shaft 2.1 in the Stefanów Field including associated facilities;
    - construction of the central air-conditioning system in the Stefanów Field,
    - extension of the Mechanical Coal Processing Plant, including construction of 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;
    - making coal deposits available.
2. Other development investments,
3. Replacement investments,
4. Environmental protection investments,
5. Building and modernisation of workings,

6. Purchase of machines and equipment.

Gr.1. Development investments

A. Investments in technical infrastructure

B.

Construction of excavation and ventilation shaft 2.1 in the Stefanów Field

The following works were performed in 2011:

1. **Lifting tower along with the lifting machinery lifting of shaft 2.1:**

   Construction works and installation of devices were completed. In September 2011 the performed works were accepted by the investor, the facilities and devices were reported for acceptance by the Mining Office for Inspection of Powered Mechanical Equipment (*Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych, UGBKUE*).

   On 12 October 2011 the Company obtained legally binding Decision of the Mining Office for Inspection of Powered Mechanical Equipment about a permit to use the lifting tower and the shaft 2.1 top building and thus it was possible to start mining of the excavated material through shaft 2.1.

2. **Shaft 2.1 lifting equipment:**

   a) In August 2011 works related to optimisation process of the mining shaft hoist in shaft 2.1 were started to check operational correctness of devices and shaft signalling system.

   b) On 27 August 2011, pursuant to the permit and conditions defined by the Head of Mining Supervision in Mining Facility, further optimisation works within the scope of complete tests of the mining shaft hoist were started (along with loading and mining the excavated material). Tests at the device target maintenance parameters were completed on 24 September 2011.

   c) In September 2011 the Mining Office for Inspection of Powered Mechanical Equipment performed an inspection and acceptance of the mining shaft hoist. The Company was given a permit to continue operation of the shaft in so-called "test run" at target operational parameters, thus it was possible to start mining the excavated material through shaft 2.1.

3. **Shaft and loading equipment**:

   Installation of devices was completed. In September 2011 the performed works were accepted by the investor and devices related to operation of the mining shaft hoist were reported as ready for acceptance by the mining authority. Along with acceptance of the mining shaft hoist the Mining Office for Inspection of Powered Mechanical Equipment performed an inspection and acceptance of devices. The company was given a permit to operate the devices within the frameworks of the permit to operate the shaft 2.1 mining shaft hoist.

4. **Building storage reservoirs in the Stefanów Field** – the building of storage reservoir 2fS and 1fS was completed and 5 thousand tonnes retention was obtained. Shafting of the 3fS storage reservoir was started and 24m depth was achieved. Building of the reservoir was completed in 2012.

The planned outlays for building the 2.1 excavation-ventilation shaft in Stefanów Field were **PLN 40,920,000,** and the realised amount was **PLN 61,761,800.** The difference between the plan and the actual use, amounting to approx. **PLN 20,841,800** was due to a shift in the construction completion by PEMUG S.A. from 2010 to 2011.

Building construction facilities for Stefanów Field

The following works were performed in 2011:

1. **Main fans station at shaft 2.1**

   a. In August 2011 acceptance of the construction facility housing the main fans station was performed by the Mining Office for Inspection of Powered Mechanical Equipment. The mine was given a permit to use the facility and thus it was possible to perform test runs of the station devices.

   b. In October 2011, after acceptance of the shaft top building was conducted by Mining Office for Inspection of Powered Mechanical Equipment, the last, 5th stage of test runs of the shaft 2.1 main fans station was started using the mine ventilation system, i.e. venting the mine workings.

   c. The final technical acceptance of the fans station devices was conducted by Mining Office for Inspection of Powered Mechanical Equipment in November 2011, after completing the test runs required by applicable regulations.

d. Permit for operation of the fans station devices, so-called "test run" was obtained for a period from 22 November 2011 to 29 February 2012.

2. **Transformer and switching station STRM-2** – the building was completed and a permit was obtained for the station, which is meant to supply the lifting machine of shaft 2.1.

3. **OSH complex** – the third and fourth floor were developed thus providing new office spaces and approx. 850 places in the bath.

Management of Stefanów Field- works pertaining to construction of roads and greenery were completed. In 2012 fencing will also be built.

Central air conditioning system for the Stefanów Field

In the 3rd quarter of 2011 development of face networks and air-conditioning devices was completed.

Central air-conditioning installations were started at the target parameters.

Development of the Mechanical Coal Processing Plant

The following works were performed in 2011:

1. Task 1 - Development of MCPP processing capacity from the current level being 1,200 to 2,400 t/h. In 2011 the works were continued pursuant to a contract. The scope of works was divided into two groups: "fast" (dry) line" group of facilities and "wet line" facilities.

A. The group of "fast (dry) line" facilities: Facility 101.1- preliminary classification (new facility), facility 101.5- Conveyor belt (new facility), facility 101.6- Conveyor belt (new facility), facility 102.1- Raw coal tank (existing facility), Facility 104.1- Transformer station (new facility), Facility 104.3- Conveyor belt (new facility), facility 107.1- Transformer station (new facility), Facility 107.4- Conveyor belt (new facility), facility 108.2- Conveyor belt (new facility), facility 108.1-Mixtures components tanks (new facility), Facility 109.2- Conveyor belt (new facility), facility 109.1- Transformer station (new facility), Facility 14.2- Conveyor belt (existing facility), Facility 14.1- Transformer station (existing facility), Facility 14.4- Conveyor belt (new facility), facility 16.2- conveyor belt (existing facility, disassembled and new one being designed), Facility 16.1- Mixers station (existing facility), Facility 16.3/16.4- Transformer station / Electrical rooms (new facilities), Facility 16.5- Conveyor belt (new facility), facility 110.1-Mixtures loading tanks (new facility), Facility 111.2- Charging car (new facility), facility 111.1- End station of the charging car (new facility).

Except for Facility 101.1- Preliminary classification and Facility 101.5 and 101.6- the conveyor belts supported on the unfinished facility 101.1, construction works on other facilities from the group - including foundation, steel structure, floors, reinforced concrete ceilings, lining of the panels and roofs with a layer board, as well as existing sanitary installation works in the groups are already completed. Currently works concerning electrical installations and installation of machines/devices are almost over. From that group, in October 2011, Facility 14.4- Conveyor belt - was handed over for operation.

B. The group of "wet line" facilities: Facility 103.1-Heavy drilling fluid (new facility), Facility 103.2- Conveyor belt (new facility), facility 103.3- Conveyor belt (new facility), facility 106.1- Jig drilling fluid (new facility), Facility 106.2- Conveyor belt (new facility), facility 106.3- Belt for the pipelines (new facility), Facility 101.2- Transformer station (new facility), Facility 101.3- Conveyor belt (new facility), facility 101.4- Conveyor belt (new facility), facility 104.2- Conveyor belt (new facility), facility 107.2- Conveyor belt (new facility), facility 108.3- Conveyor belt (new facility), facility 47.1- Complex facility (existing facility), Facility 49.1- Radial thickener (existing facility), Facility 49.2- Pumping station (existing facility), Facility 55/57-Fire-fighting water station (existing facility), and *stone placement* facilities: Facility 45.1- Transformer station (existing facility), Facility 1.1- Transformer station (existing facility), Facility 1.3- Conveyor belt (new facility), facility 3K - Conveyor belt (existing facility), Facility 1.1K.1 - Stone reservoir (existing facility), Facility 2K.2- Conveyor belt (new facility), Facility 2K.1 - Stone reservoir (new facility), Facility 2K.3- Conveyor belt (new facility).

In this group of facilities, the least advanced works take place on Facility 103.1-Heavy drilling fluid and 106.1- Jig drilling fluid, where only foundations have been made and this is the biggest facility of the entire investment. Conveyor belts for Facility 103.2 and 103.3, 106.2 and 106.3 and 101.3 and 101.4 have not been yet made due to lack of Facility 103.1/106.1, on which the belts are to be supported. From that group, on Facility 104.2, 107.2, 108.3, 49.1, 49.2 and 55/57 construction works and sanitary installation works have been completed. Currently works concerning electrical installations and installation of machines/devices on the facilities are almost over. Since October works concerning re-building of the existing Facility 47.1 - Complex facility are pending. Progress of woks in the group of facilities pertaining to stone placement facilities is varied. Construction works on facility 3K, 1.1K.1, 2K.2, 2K.1, 2K.3 are almost over while works pertaining to fixing the electrical and sanitary installations, installation of machines and devices are pending. Works pertaining to rebuilding of the existing 45.1, 1.1 and 1.3 facility have not been started as yet.

2. Task 1 - Building the excavated material transport system from Stefanów Field to MCPP. - on 29 December 2011 the works final acceptance report was signed. The task was completed and settled.

As far as the task execution is concerned the following facilities were built and handed over for operation:

- Transformer stations,
- Electromagnetic separators station,
- Coal preparation station,
- Raw coal tanks,
- Lacing,
- Conveyor belts,
- Communication bridge,
- Roads and places for facility 209 were listed on 29 December 2011.
- Heat distribution network from Bogdanka to Stefanów,
- Excavated material haulage process line (machines devices).

Along with starting the first panel in Stefanów Field (7/VII), on 1 October, transport of excavated material to the process plant in Bogdanka started. Since the beginning of the test run, i.e. from 31 October 2011 until the end of 2011 about 663.510 Mg of excavated aerial was transported to Bogdanka.

3. Extension of the coal storage area - conceptual design for extension of the coal storage area was prepared. Preliminary geotechnical tests for location of the dumping conveyor's track were conducted. In 2012 it is planned to carry out tender procedures for executing and starting construction works.

<u>B. Making coal seams available</u>

The following works were performed in 2011:

1. **Workings at pos. 990 in the Stefanów Field** – drilling if all workings for 990 level, as planned for making available field VII and VIII, was completed. W by-pass and load heading were rebuilt; floor and suspended cableways transport systems were developed. During the first half of 2011 building of the main haulage to the storage reservoirs was completed. In the third quarter the load heading to shaft 2.1 was sprayed with concrete.
2. **Ventilation and transport workings in seam 385/2** – in the first half it is planned to drill the haulage heading 1/VIII/385 and ventilation heading 1/VIII/385 to start drilling of the longway gallery for panel. 1/VIII/385. Drilling of this group of workings planned for 2011 was completed.
3. **Workings in seam 385/2 to start the first 7/VII panel in the Stefanów Field** – drilling of longway galleries and panel cut were completed. This enabled reinforcement and beginning of 7/VII panel exploitation.
4. **Workings in seam 385/2, field VII** – drilling of the under-panel heading 5/VII – 2,421.0 m was completed; 6/VII under-panel heading is being drilled – 4,298 m. Process cross-heading 5/VII was performed between the headings.
5. **Workings in seam 385/2, field VIII** – drilling of under-panel heading 1/VIII/385 – 4,060.0 m is underway for the second panel in the Stefanów Field; drilling of 2/VIII – 2,560 m under-panel heading was completed; technological cross-heading between the headings was completed - 313 m.

The planned outlays for making the coal seams available amounted to PLN 133,687,000. They were realised in the amount of PLN 137,869,200.

Gr.2 Other development investments

In 2011 preliminary conceptual works meant to start stone mining through shaft 1.5 in the Nadrybie Field and the integrated production management system were started. Execution of the works is planned for the next years. Additionally works pertaining to obtaining a license for an extra excavation field are planned. Also, conceptual and design works will be performed. In 2012 it is planned to start design works pertaining to building the central air-conditioning system in the underground part of the mine, within the Bogdanka Field area.

Gr. 3 Replacement investments

The following works were performed in 2011:

1. Railway investments - development of tachographs on S-200 locomotives and axle counters in Łysołaje location was realised. Documentation works related to performing an auxiliary coal storage area were started.
2. Building construction facilities for Nadrybie and Bogdanka Fields.

a. Development of the administration building (Management Board's offices) - the facility was completed and handed over for use.

b. Rebuilding of the shaft umbrella roof - the facility was completed and handed over for use.

c. Providing supply to the shaft umbrella roof and the Management's building - the task is completed.

3. Modernisation of the existing construction facilities.

   a. OHS complex in Nadrybie - the bath building was modernised within the scope of rebuilding the second, third and fourth floor, new facade was made.

   b. Area of TMA department under the crane in Bogdanka, development of the parking lot in Bogdanka, ventilation ducts of shaft 1.4 in Nadrybie - modernisation completed,

   c. Roads and yards around the main storage house - task completed,

   d. Roads and yards in the vicinity of shaft 1.2 - in relation to a collision in MCPP development the execution has been postponed until 2012,

   e. Stary Tartak training centre - new roofing was made, the wooden facade was replaced - task completed.

4. Switch room facilities for lifting machines and other power systems.

   a. Modernisation of the lifting machine's drive control and braking systems and shaft 1.2 signalling - the entire system was activated,

   b. Modernisation of the B 1100A emergency-inspection hoist - task completed,

   c. Modernisation of 110 kV GSTR station in Bogdanka – a rebuilding concept was prepared.

5. Telecommunication systems and devices.

   a. Development of SMP and SAT system by the module removed from Stefanów - task completed.

   b. Wireless shaft communication device - PENDI DUO wireless communication system was incorporated in shafts 1.3 and 1.2.

6. Alarm and monitoring systems – under preparation.

   a. Pressure monitoring system in supports of mechanised housings - task completed.

7. Power supply and telecommunication networks - implementation takes place in accordance with progress of new heading and panel facings,

8. Modernisation of mining machines, main tasks:
   - panel lining Glinik 15/32 – task completed,
   - WARAN station – task completed,
   - under-panel conveyor PF 4/1132 for 7/VII/385 panel – task completed,
   - PF4/1032 coal ploughing conveyor route – task completed,
   - modernisation of longway scraper conveyor JOY-type AFC – task completed,
   - modernisation of JOY 4S22 coal-cutting machine – task completed,
   - modernisation of combustion suspended locomotives Scharf - one locomotive was modernised,
   - modernisation of railway locomotives S-200 - four locomotives were modernised.

9. Repair of machines and devices, main tasks:
   - repairs of coal cars – 93 bogies were repaired,
   - repair of S-200 locomotives – 4 locomotives,
   - repair of JOY 4LS8 coal-cutting machine – task completed.

Gr. 5 Building and modernisation of workings in the Bogdanka, Nadrybie and Stefanów Fields

The following works were performed in 2011:

1. The longway workings in Bogdanka Field - drilling of the over-panel heading for 13/II/382 panel for 13/II panel in seam 382 and the following headings: under-panel 6/IV for panel 6/IV in seam 385 in field IV and under-panel heading 6/I (second stage); drilling of over-panel heading 6/IV/385 is in progress; drilling of over-panel heading 2 for panel 6/I and under-panel heading for panel 9/IV/385 has been started. In the Nadrybie Field drilling of under-panel heading for panel 3/II was completed, drilling of over-panel heading for panel 3/II has been started, and drilling of under-panel heading for panel 4/II is in progress.
2. Other workings - drilling of the 2fN belt heading and R-27 heading was completed, drilling of 6fB ramp and eastern 4a/385 heading was started.
3. Modernisations and rebuildings of mining workings - the tasks are successively performed, in line with the schedules.

4. Modernisations of storage reservoirs - the contractor was selected and modernisations were started.

Gr. 6 Purchase of machines and devices

1. Reinforcement of 7/VII panel in seam 385 in the Stefanów Field – the panel 7/VII/385 was started on the 1st of October. The coal-ploughing system for the panel as delivered by Bucyrus pursuant to contract No. 359/IZ/2009 of 2009.
2. Significant purchase positions that were performed in 2011:
   - sets for transporting people by means of suspended cableways - 4 pcs.
   - suspended combustion locomotives - 7 pcs.
   - containers for transporting Euro palettes - 40 pcs.
   - road heading machines - 3 pcs.
   - belt conveyors - 8 pcs.
   - face pumps - 90 pcs.
   - cementing sets - 5 pcs.
   - air compressors - 2 pcs.
   - transformer stations and switch-off facilities - 18 pcs.
   - ventube fans - 22 pcs.
   - air cooler for 2/II panel.
   - small mechanisation tools.

The planned outlays were **PLN 121,715,000**. They were realised in the amount of **PLN 86,207,900.** The difference between the plan and the actual use of approx. **PLN 35,507,100** was mainly due to postponement of purchases to 2012.

As far as purchase of machines and devices in 2013-2015 is concerned, the Company plans to buy three panel complexes - one for coal-ploughing and two for coal-cutting.

Plans for 2012

Gr.1 Development investments - planned outlays of PLN 235,665,700:

A. Investments in technical infrastructure

- completion of storage reservoirs at shaft 2.1 in Stefanów Field,
- completion of the construction facilities for Stefanów Field area, i.e. the manoeuvre place and field fencing.
- central air conditioning system for Stefanów Field - development,
- completion of the Mechanical Coal Processing Plant to obtain processing capacity at a level 2400 t/d and to develop the coal storage area,

B. Making coal seams available

Continuation of drilling of longway workings to start the second panel in Stefanów Field, seam 385/2.

Gr.2 Other development investments - planned outlays of PLN 7,220,000:

- starting stone mining through shaft 1.5 - concept preparation,
- investments in building the central air-conditioning system in the underground part of the mine, within the Bogdanka Field area - preparing the documentation,
- integrated production management system – underground wireless communication, GPS supervision system for facilities in the mining damage area.

Gr. 3 Replacement investments: - planned outlays of PLN 48,944,000.

A. Modernisation and repairs of machines and devices

Modernisations of suspended combustion locomotives, S-200 track locomotives will take place and Joy AFC panel conveyor will also be modernised.

As far as repairs are concerned, it is planned to repair the Joy 4LS8 longwall coal-cutting machine, repairs of heading coal-cutting machines and repairs of S-200 locomotives and railway bogies.

B. Building and modernisation of structure and installations

Investments related to building new and modernising the existing construction facilities will take place.

- railway investments - documentation concerning reinforcement of the railway embankment in the mining damage area, purchase and installation of bogies mileage meters, building a sequence of headings,

- building construction facilities in the Nadrybie and Bogdanka Fields - providing a storage yard in the Nadrybie Field, along with development of the gantry crane, making water softening installation in Nadrybie bath,
- modernisation of existing construction facilities - modernisation of the lamp room in Nadrybie, development of the parking lot in Nadrybie, development of parking lots in Bogdanka, making a thermal insulation for the MW storage yard in Albertów, modernisation of the mine rescue work station, providing rooms for the rescue teams in Bogdanka lamp room,
- 110 kV switching station facilities, lifting machines and other power supply systems - 110 kV station facilities and other power supply systems, telecommunication systems and devices, alarm and monitoring systems will be modernised,
- low-voltage supply and control systems and workshops - development of installation and devices in the new battery locomotives depot and battery charging rooms at R-27, extension of electrical workshop installations and devices in the heading to 1fN turmag in Nadrybie,
- telecommunication systems and devices - extension of the module removed from the telecommunication centre in Stefanów, extension of the SD-2000 alarm system,
- power supply and telecommunication networks - new power supply and telecommunication networks will be built at the bottom of the mine,
- alarm and monitoring systems - extension of fire signalling system and modernisation of the buildings' desmoking systems,
- computer management system - modernisation of the server room, updating the network operation system, purchase of software and replacement of RRCP readers,
- installation of new machines and devices - purchase and incorporation of a device for inspecting storage reservoirs,
- MCPP replacement investments - incorporation of 2 conveyor scales in facility 46.1, making the bogies sprinkler systems, documentation of the buildings' facade replacement, monitoring the belt with steel lines, incorporation of water curtains at the coal haulage.

Gr. 4 Environmental protection: planned outlays of PLN 8,425,000.

Proenvironmental undertakings include works related to development of the mine waste storage yard and designing of the "Szczecin" water reservoir in the area of the basin formed as a result of mining.

Gr. 5 Building and modernisation of workings in the Bogdanka, Nadrybie and Stefanów Fields: planned outlays of PLN 137,682,900;

Longwall workings will be drilled within the scope necessary for new panels that should be started to maintain production and drilling of workings to make available seam 385/2 in field II. Modernisation of 3fB storage reservoir will take place and rebuilding of mining workings will also be performed.

Gr. 6 Purchase of machines and devices: - planned outlays of PLN 281,387,9000:

- Purchase of panel complexes - the group includes purchase of coal ploughing system for the second coal ploughing panel and starting the purchase procedure of the third coal ploughing system.

- Purchase and installation of machines and devices - it is planned to purchase a face complex for drilling longwall headings in the Stefanów Field, as well as other machines and devices that require installation at the work station, such as: suspended locomotives, belt and scraper conveyors, roadheading machines, self-driven anchoring trolleys and a drill rig for long openings.

The ready products purchase plan was approved by the Management on 28 July 2010.

5.3 Company's capital expenditure, including those made outside the Group, plus description of their financing methods.

Lubelski Węgiel BOGDANKA did not make any capital expenditure in 2011.

In 2012, the Company does not preclude participation in its subsidiary company's project, subject to obtaining corporate approvals, and pursuance, by Łęczyńska Energetyka, of its own development strategy involving construction of a heat and power plant. A final decision will depend on selection of the investment variant.

5.4 Development, research and implementation works

In 2011 the following important research, development and implementation works took place:

1. The coal ploughing technique for coal mining in mining panels of thin seams 1.2 - 1.7 was successfully introduced. In 2011 the second panel was started and the first coal ploughing system, purchased in 2010, was used. This is 7/VII/385 panel of increased length - if compared to the research panel (from 250 m to 305 m) and the largest in so-far industry panel length of more than 5 km. The panel, started in the beginning of October 2011, until the end of the year achieved 870 m panel length, while only in December it was 370 m. The panel is characterised with good exploitation results realising average production at a level of 15,000 tonnes a day. Positive results obtained for the 1/VI panel in 2010, as well as for 7/VII panel, constitute positive bases for continuation of the coal ploughing technique in LW BOGDANKA.In 2011 a tender procedure tool place - it ended by signing a contract for purchase of the second coal ploughing system, for the panel planned to be started at the end of 2012.

   Implementation of the coal ploughing technique, apart from giving possibilities to excavate thin seams, should improve quality of the excavated coal by more clear excavation of the deposit, decreasing the quantity of waste rock excavated along with coal.

2. In 2011 works concerning improvement of the process system and mechanical equipment of the coal ploughing systems were performed. New solutions for self-loading of coal "discharged" through the coal plough to the longwall headings were prepared (in the current process system roadheading machines are used to load the coal on the crossing of both longwall headings with the panel) and to mechanise development of the longwall cavities. Prototype devices were created - the self-loading coal device is still operating in 7/VII/385 panel at the side of the under-panel heading and the second device (mechanised casing) is being prepared for tests in the Mining Technique Institute for compliance evaluation purposes. Works are being performed in coordination with SIGMA S.A. company specialising in implementation of new solutions for the mining industry.

3. In 2011 the special purpose research project No. 6 ZR8 2007 C/06998 named „Designing a comprehensive model and information software to conduct continuous measurements of GNSS, locations of points at the surface of Lubelski Węgiel BOGDANKA's mining areas and excavating facilities in order to determine deformation changes caused by both current and prospective underground mining exploitation processes" was continued. A tripartite agreement to execute the project was concluded with the Ministry of Science and Higher Education in Warsaw and the University of Science and Technology in Kraków in June 2009, for 3 years period.

4. Experimental and implementation works were continued - they were meant to provide an alternative for currently used exploitation system in which both longway headings are liquidated along with the panels' progress. In 2010 the longway heading left behind the panel 1/VI in seam 385/2 was maintained - it was protected by means of a special protecting strip along the entire panel's length, i.e. approx. 1,750 m. In 2011 works meant to make the heading passable and its adjusting for the needs of performing functions of an over-panel heading for the next panel 2/VI/385 were performed. The said works meant dinting the bottom along the entire heading's length, replacement of side panel elements from the side of unexcavated seam along most of its length and rebuilding t approx. 25% of its length. The heading's condition at this stage is positive. Analyses of gained experiences are being conducted to work out further actions concerning possibilities of maintaining the longwall headings behind the panel in geological and mining conditions of the "Bogdanka" mine.

5. In 2011 works meant to implement an innovative technology were continued. The technology will enable coal exploitation by means of short-font system and, at the same time, filling the space with stone obtained from preparatory works. Basing on headings prepared with the standard arch yielding – support casings, exploitation with use of the heading system will be continued. These workings will be introduced in anchor casings with rectangular cross-sections. The post-exploitation area will be filled with rock. After gaining appropriate experience, the expansion is planned for the scope of activities, by filling the workings with dangerous waste, admissible by law to be stored in the mine pit. The first stage is planned to include the launch of one excavation complex. In the case of positive results, it is assumed that more exploitation complexes will be launched. The aim is to develop a system to the capacity which will allow all the rock from preparation works to be placed there.

6. In 2011 works over new technology and mechanisation complex for drilling the corridor workings with the use of a high-powered heading coal-cutting machine were continued. AM-75 cutting machines are used in the present technology of drilling. In 2011 basic solutions for this complex were prepared. Apart from the coal-cutting machine the complex will be provided with an extra anchoring device (self-driven two-hoist anchoring machine) and a mobile platform for preliminary installation of the lining behind the coal-cutting machine and its translocation into the centre. This will enable performing some activities during the heading's drilling cycle. The new complex and prepared technology will make it possible to increase drilling of the corridor workings. Works meant to order the first face complex are pending - its first application is planned in Stefanów Field for 2013.

7. In 2011, within the scope of works meant to improve the headings lining system, as a test, in one of the longway headings in field IV of seam 385/2 at the excavated panel's cavities, gates lining made form new type high-strength parameters steel were used. The steel is a result of the special-purpose research project realised by the Main Mining Institute in Katowice and "Łabędy" Steelworks in Gliwice. In 2012 the next test will be performed within this scope by using yet different type of steel, of very high strength parameters, obtained by way of thermal treatment.

5.5 Description of risks, threats and factors which, in the assessment of LW BOGDANKA S.A., will affect the results achieved by the Company

5.5.1 Risk associated with the Company's social, economic and market environment

5.5.1.1 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 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, and the demand for electricity and heat energy, etc. The impact of state fiscal policy, especially recently, should not be underestimated. This concerns in particular the possibility of further burdens (taxes, fees etc.) being introduced with regard to mineral extraction.

In case of significant deterioration in the economic situation of recipients of power coal, or in relation to deterioration in the economic situation in Poland, which would result in decreased demand for electrical and thermal energy, the financial results achieved by the Company may deteriorate. However, due to the fact of having long-term trading agreements, which oblige the recipients to meet certain levels of purchase of power coal, the risk of significant deterioration of the Company results is minimal. This thesis can be confirmed by the fact that regardless of the changes in the macro-economic situation in Poland and in the world, LW BOGDANKA S.A. has been consistently achieving positive financial results since 1994.

LW BOGDANKA S.A.'s financial performance may also deteriorate if the existing taxes or charges (including the mining royalties) are raised or new taxes or charges on hard coal mining are introduced.

5.5.1.2 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 two 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.

5.5.1.3 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 difficult situation on global financial markets, Euro zone crisis, crisis in the Middle

East (Iran) may also exert an influence on the change in the demand for fuel, and consequently, the change in prices of energy source materials on the world markets, including coal, which may affect the financial results of the Group. The Company mitigates the risk associated with prices of raw materials for energy production by undertaking measures aimed at lowering the internal costs of mining, and thereby increasing its competitiveness. Another measure consists in signing long-term commercial contracts with key customers purchasing power coal.

Information on the material trade agreements signed by the Company in 2011 and after the balance-sheet date is presented in section 3.1 of the Report.

5.5.1.4 Risk associated with the introduction of the excise tax in relation to coal

In accordance with the regulations of the European law, Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, and Council Directive 2004/74/EC of 29 April 2004 amending directive 2003/96/EC as regards the possibility for certain Member States to apply, in respect of energy products and electricity, temporary exemptions and reductions in the levels of taxation, an obligation to cover coal, natural gas and electricity with the excise tax was imposed on the Member States. Council Directive 2003/96/EC introduced minimum levels of excise tax rates, which apply, among other things, to coal and coke. In compliance with the latter directive, the Republic of Poland could apply a transitional period until 1 January 2012 in order to adjust the national tax levels applicable to coal and coke to the relevant minimum tax level. During the transitional period, the excise tax applicable to coal and coke was not charged. The regulations which became effective after the lapse of the transitional period referred to above, i.e. from 1 January 2012 on, may result in higher prices of coal for heating purposes for end users, a greater number of burdensome formal requirements as regards documenting the sale of excise tax-exempt coal, and a diminished coal competitiveness with respect to other energy carriers, which in turn may have an adverse effect on future financial results of all entities operating in the hard coal mining industry in Poland, including the LW BOGDANKA S.A. Group. The risk to the Company's operations is, however, limited, owing to the fact that the Company sells most of its coal volumes for electrical power generation purposes and the new domestic excise tax regulations provide for an extensive range of excise tax exemptions, including both electrical power generation, co-generated electrical power and heat and other selected industry sectors, as well as individual coal buyers. Moreover, it is important to emphasise that due to its relatively low costs of hard coal extraction, the Company can respond to the changing market circumstances more flexibly as far as the introduction of excise tax (and new taxes: coal tax or other taxes related to the use of coal as fuel, including a possible tax on mineral deposits) is concerned.

Excise tax risk is also related to ambiguous interpretation of the new tax law and the possibility of formal errors being made that may lead to the excise tax-exempt status of a sale being revoked. The Company mitigates that risk by providing excise tax training and co-operating with reputable tax advisors, as well as by requesting tax authorities to issue individual tax rulings and by introducing in trade contracts a provision that transfers the potential excise tax burden to the buyer in case excise tax is imposed on the transaction.

5.5.1.5 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 LW BOGDANKA S.A. and hence have an adverse effect on the Company's financial results. 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 assessment of LW BOGDANKA S.A. the interest rate risk has a limited bearing on its financial standing given a relatively low degree of financing the Company's assets with third party capital. This risk may increase significantly in the case of a considerable growth in debt financing which is related to the development strategy currently implemented, and the owners' decision as regards the division of net profit.

LW BOGDANKA S.A. does not use any hedging instruments against the risk of fluctuations in interest rates.

5.5.1.6 Risk associated with changes in exchange rates

Analysis of historical data of the Company shows that about 0.04% of the value of its total revenue on sales comes 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 day of submitting the Report, the operating activity of LW BOGDANKA was not exposed to the foreign exchange risk.

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

Currently LW BOGDANKA 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 (proceedings for the issued C shares, income on current operating activity) and debt financing, currently totalling PLN 341 million. In December 2011, LW BOGDANKA announced the results of the public tender concerning additional foreign financing in the amount of PLN 200 (according to Current Report No. 30/2011 of 23 December 2011), of which the Company has, to the date of preparing this information, used the amount of PLN 100 million. The Company intends to collect the remaining PLN 100 million until 30 June 2012. In compliance with the previous opinions, the Company did not have any problems as regards the debt financing availability (5 offers participated in the tender), and the final price was lower than forecast by the Company.

The financing obtained fully meets LW BOGDANKA'S borrowing needs in terms of the plans adopted for the current year. However, it might happen that the ongoing extension of the Mine or the owners' decision regarding the allocation of net profit for 2011, coupled with the limited operating income, may result in the necessity to continue using external sources of finance (debt). In LW BOGDANKA's assessment, the Company is presently in very good condition and the risk of not obtaining additional financing or a sudden surge in interest rates (debt financing costs) is negligible. The current loan in the amount of PLN 341 million accounts for approx. 16.0% of equity (PLN 2,129.2 million) and approx. 11.2% of the balance-sheet total.

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

5.5.1.8 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 hazards occurring in the mine include:

- coal dust explosion hazard - class "b";
- fire hazard – IV self-combustion group (on a five-grade scale),
- methane hazard – methane category I (on a four-grade scale),
- water hazard – 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, e.g. Geological and Mining Law, 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 has a mandatory obligation to create a mining damage fund to finance costs related to this sphere of the Company's activity.

The safety level of the operating conditions in LW BOGDANKA S.A.'s 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 relatively low risk of a methane explosion (category 1 methane threat 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's operations include:

- the Company's use of advanced and reliable mining machines and equipment, which reduces the risk of industrial malfunctions occurring;
- no geological disruptions occurring and the fact that the mining seams 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 S.A. extracts hard coal;
- high qualifications of the personnel.

5.5.1.9 Risk of restrictive EU climate policy also with respect to the CO2 emissions

The EU climate policy resulting from the Framework Convention of the United Nation on Climate Changes (Kyoto Protocol) stipulates limiting the emission of greenhouse gases to the atmosphere. The regulations adopted in Poland are compliant with the EU laws.
The European Commission declares limiting the CO2 emissions by 20% until 2020. Moreover, it suggests introducing a system of auctions for emission permits from 2013.
The system will mean that instead of receiving free emission rights (as in the period 2008-2012), the companies will be forced to purchase emission permits in open tenders. In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. Limitation of the CO2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties in the scope of competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the Company, and in consequence may have a negative impact on its financial results. This risk is difficult to assess and it is hard to take any activities to mitigate it due to the fact that despite the suggested restrictive EU climate policy the works on the final form of the obligations to decrease to CO2 emissions for particular sectors of the economy are still pending and no binding decisions have been made. Consequently, the level of actual future limitations applicable to CO2 emissions is not known yet. At the same time, in the world (the USA, China, Australia) new technologies - i.e. the "clean carbon technologies" have already appeared, which are continuously enhanced technologies and which, when applied, will decrease the problem of CO2 emissions.

5.5.1.10 Risk of a decrease in demand for hard coal from the Polish power industry

There is a limited risk that the Polish power industry may be able to switch to a raw material other than hard coal within the next 10 years. However, it is expected that the probability of a decrease in demand for coal will increase in subsequent years.

The Company currently has long-term contracts which secure it from the risk of a change during the next few years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained.

The Company is taking measures aimed at further long–term securing of its provision of coal for commercial power production, relating to existing and prospective power units within the area of its operations. The Company with other entities is also taking action to explore the possibilities to increase the use of hard coal in Poland, which involves the future introduction of a coal gasification installation.

5.5.1.11 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. In 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 (staring 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.

The Management Board undertakes actions the aim of which is to increase 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.

5.5.2 Risks directly associated with the Company's operations

5.5.2.1 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 seams 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 relatively 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 mining preparatory and exploitation works carried out so far confirmed the accuracy of deposit size estimates previously.

5.5.2.2 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 LW BOGDANKA 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 development programme is relatively low, as the investment is based on, among other things, the development of the existing historical infrastructure.

5.5.2.3 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. uses the longwall system and currently extracts coal from three mining faces which operate simultaneously. At the target production capacity, however, coal is obtained from four mining faces operating simultaneously. Technical and technological mining conditions the planned level of extraction can be maintained if a periodic stoppage occurs at one of the faces by intensifying work on the other. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.2 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down.

Irrespective of the factors described above, the mine has a system of underground coal storage reservoirs. Two new reservoirs have recently been constructed in Stefanów (the third one is under construction). Raw coal reservoirs are also located on the surface.

It should also be pointed 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 and increasing the safety of the work environment. These measures will significantly reduce the Company's technical and technological risk.

5.5.2.4 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 described in section 8.4 of the Prospectus and referring to the Stefanów Field extension, 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.

However, given the advancement of the investments achieved until the end of 2011, the risk described above will be increasingly associated with replacement investments.

5.5.2.5 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 IT environment protection. 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 procedures for maintaining the continuity of key systems' operation have been designed and implemented.

The servers supporting the systems are a high-class equipment. In 2010, the Company implemented a server cluster for main ORACLE databases and a centralised data backup, and in 2011 a virtual cluster system for other servers. An integrated supporting Internet security system has also been implemented.

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.

5.5.2.6 Key customer risk

Vast majority of the power coal produced by LW BOGDANKA 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.

As at the day of submitting the Report, the Company has signed contracts for the entire sales of coal for 2012, and entered into an agreement with Enea Elektrownia Kozienice S.A. which ensures a safe market for coal in the long-term perspective until 2025. Furthermore, the Company has concluded conditional agreements with Enea Elektrownia Kozienice S.A., Energia Elektrownie Ostrołęka and Elektrownia Północ Sp. z o.o. for the purposes of new power units which, once the conditions precedent are met, will guarantee sales of coal at least until 2036. The conditional nature of those agreements means that they are contingent upon the successful closing of financing for the new power units, therefore there is a risk that some of those contracts may fall through and the Company might be forced to enter into talks with other coal buyers that will guarantee the sale of coal in the long-term perspective. The Company mitigates the risk of long-term contracts by analysing the situation on the coal supplies and energy market and the forecasts related thereto, as well as by co-operating with renowned institutions dealing with energy sources market analysis and by co-operating with first-rate law firms.

Information concerning significant trade agreements signed by the Company in 2011 and after the balance sheet date is provided in section 3.1 of the Report.

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 energy investments in new capacities will not be implemented, or that energy 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 sale options: using the Company's coal to mix it with imported coal for the needs of the recipients who require lower-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 is assumed in the investment, mining and coal sales plans. This brings about a problem of performing under sales contracts for the needs of the key recipients, which are concluded well in advance, and a risk of incurring liquidated damages (if any) by LW BOGDANKA. The Company mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

5.5.2.7 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) as well as supplies by other global producers delivered by sea (from the ports of Amsterdam, Rotterdam and Antwerp).

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

- consolidation processes in the mining and power 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 S.A. to industry and power production and forces the Company's customers to invest in fume desulphurisation installations. 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 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 S.A. is very limited.

5.5.2.8 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 of the end of 2011, trade debtors and other short-term receivables of the Company accounted for 8.13% of the carrying value and 19.26% of the Company's revenue on sales. The share of trade debtors in trade debtors and other total short-term receivables accounted for 89.44%.
In order to protect against the risk of potential insolvency of its customers, the Company continuously monitors customers' arrears associated with making payments for the products sold (including for the main product - power coal), by analysing the credit risk for the main customers individually, or by the respective classes of assets. Moreover, as part of the credit risk management, the Company makes transactions solely with those customers whose creditworthiness has been confirmed. For many years the Company has cooperated on the basis of long-term commercial contracts, as regards the delivery of power coal, with the main Polish energy-related groups, heat and power plants, heating plants and industrial enterprises.

5.5.2.9 Risk of delays in planned investments due to the obligation to comply with the Public Procurement Law

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 those tasks were awarded through public procurements.

In September 2011, lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were launched.

The extension of the Mechanical Coal Processing Plant, scheduled for the end of 2011, was not executed due to reasons attributable to the contractor.

The Company exercises due diligence in the actions taken to ensure that the extension of the Mechanical Coal Processing Plant is completed as soon as reasonably possible. This investment should be completed by the end of 2013, which will allow full coal beneficiation as of 2014 when the extension of the Mine is scheduled for completion. Before the investment in question is formally completed, the Company will continue to exploit coal deposits from the individual extraction fields (Bogdanka, Stefanów) in such a way so as to fully correlate the quality of the excavated output with the deadline for achieving full coal processing capacity by the Mechanical Coal Processing Plant. These actions are of great significance in terms of guaranteeing that the Company will meet its production and sales targets, as well as the quality parameters expected by the buyers and specified in the one-year and long-term contracts concluded with key energy sector customers.

5.5.2.10 Risk of proper accounting for the budget subsidy for supporting initial investments in the mining industry

Due to the implementation of investment plans which assume doubling of the production potential, the Company applied for funds for investments related to the implementation of the strategic aims of LW BOGDANKA S.A. Two applications have been submitted for budget subsidy: No. 1, i.e. "Construction of mining lift of shaft 2.1 in the Stefanów Field in the Lubelski Węgiel BOGDANKA S.A. mining plant", and No. 2, i.e. "Modernisation of the Mechanical Coal Processing Plant, including transporting and loading equipment in Lubelski Węgiel BOGDANKA S.A."

Pursuant to the provisions of the Polish Act on the functioning of the hard coal industry in 2008-2015 of 7 September 2007 (Dz. U. of 19 October 2007), the Company was granted a budget subsidy for financial support in respect of application No. 1. The value of the subsidy was PLN 19,451,437.

Pursuant to the agreement with the Minister of Economy, the Company is obliged to use the means it obtained as the subsidy only for the implementation of tasks for which the subsidy was granted. Additionally, the Company is obliged to maintain full documentation concerning the granting and accounting of the subsidy for five years.

The Minister of Economy can withdraw the subsidy in case it is used contrary to its purpose, or can temporarily suspend the subsidy in case the reports are not submitted by the established deadlines.

The Company used the entire financial scope of the subsidy within the contractual period, by 31 December 2010. The financial report for the Ministry of Economy was submitted by the established deadline.

By the end of 2011, the Company managed to implement the tasks for which the subsidy was granted (i.e. the construction of the mining lift for shaft 2.1). The Company is now obliged to submit, for the period of 5 years, reports on business results achieved in the execution of initial investments.

5.5.2.11 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 63.94% of the Company's employees. It concerns also possible protests connected with a risk of the Company's hostile takeover.

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 in the Company could affect the operating activities conducted by LW BOGDANKA. This also refers to possible protests related to the risk of 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.

5.5.2.12 Risk associated with retaining and attracting human resources

Within the last 3 years, the Company significantly increased the employment level. The Company's demand for human resources results from its development strategy which involves increasing the extraction capacity in connection with the extension of the Stefanów Field, as well as the age structure of the Company's staff and the effective retirement laws under which until 2015 approx. 30% of the Company's employees, including mostly the employees working underground, will acquire pension rights. The employment increase in consecutive years will take place gradually, in line with the Company's demand for human resources in connection with the extension of the mine and the Coal Mechanic Processing Plant, as well as the increasing production capacity; new employees will be recruited mostly from mining schools graduates.

This goal has been largely achieved. 2012 will be the last year in which the Company, apart from filling positions left vacant through natural wastage, will increase employment for the reasons listed above. The planned increase in employment is estimated at 250 workers. In the subsequent years employment is expected to remain at a constant level, i.e. the recruitment process will focus mainly on filling vacancies.

The mining law requires that the persons employed in the mine operation had certain qualifications awarded to persons which have, inter alia, several years of work experience.

There is a risk that potential difficulties in obtaining appropriate employees may have an adverse effect on the operating activity of LW BOGDANKA, including the extraction volume and production costs, and thereby also on the Company's financial result.

The Company runs active human resources policy which aims to limit the human resources related risks. Since 2007, the Company has been gradually hiring young employees who will have gained the necessary mining experience and the required qualifications by 2011 (the planned completion of the Stefanów Field extension). To eliminate the potential generation and competence gap with respect to staff, the Company is cooperating with specialist universities, secondary and vocational schools educating persons with special qualifications for the mining, mechanic and electric sectors.

To satisfy the above mentioned needs, vocational education has been reactivated and extended. Since 2005, the Secondary Technical School, and since 2008, the Post-Secondary Mining School have been operating in Łęczna. Those schools provide graduates with proved professional qualifications required in the mining industry and make it possible to supplement and increase the qualifications of persons employed by the Company.

So far the Company has experienced no major difficulties in attracting young and well-qualified personnel. The reactivated vocational training schemes discussed above fully meet the Company's needs; therefore no risks have been identified in that area. Some concerns may be raised with regard to the planned legislative amendments concerning the organisation of vocational education, especially at the post-secondary level. On the other hand, the search for potential risks would be premature, as no schedule for those changes, nor any direction in which those changes might be heading have been specified as yet.

5.5.2.13 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, whereby it provides 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 entities referred to above 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 third-party 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.

5.5.2.14 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.

5.5.2.15 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.

5.5.2.16 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.

5.5.2.17 Risk associated with the mine closure

The Company establishes the mine closure fund in compliance with the Geological and Mining Law. The fund value may, but does not have to, turn sufficient to cover the future costs of mine liquidation. If the mine closure fund turns to be insufficient, the Company will be obliged to pay the missing portion of funds. What is more, there is a risk that additional costs of mine closure will increase in the future. This may have an adverse effect on the Company's financial results.

5.5.3 Financial risk

5.5.3.1 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 prospectus specified that funds from the increase of the capital would be used for financing the investment plan under implementation (e.g. extension of the Stefanów Field).

Important factors in the assessment of a company's insolvency risk include the level of operating cash flows generated by the company, the amount of cash, and liquidity ratios. In the case of Lubelski Węgiel BOGDANKA S.A., cash as at 31 December 2011 amounted to PLN 70,397,000 current liquidity ratio – 1.20, and quick liquidity ratio – 1.06. In the period between 1 January 2011 and 31 December 2011, flows from operating activities amounted to PLN 309,491,000. Therefore, as at the day of submitting the Report, there is no risk of the Company's insolvency. To avoid any potential risks in future and to mitigate the risk related to liquidity, long- and short-term analyses and forecasts are prepared, allowing cash needs of LW BOGDANKA to be determined. Those activities make it possible to plan revenues and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses.

5.5.3.2 Insurance risk

The Company insures its business. As is the case with other mining enterprises in the world, the threats most significant in terms of risk assessment are those related to the possibility of damage to the property used for mining operations. In this respect the Company holds insurance policies covering such risks of loss and damage to underground property as: underground fire, explosion, rock burst, rock and gas outburst, underground flooding, with the highest compensation limit among Polish mining enterprises. The remaining Company operations are covered by other insurance policies, such as third party liability insurance against damage caused in connection with business activity or property in the Company's possession, above-ground property insurance and all-risks insurance of rail vehicles.

Given the very nature of insurance agreements which cover widest-available and at the same time specified scopes of insurance, it is not possible to fully transfer the risk faced by the Company on insurance companies. Therefore, it cannot be guaranteed that insurance policies taken out by the Company will prove sufficient for covering each and every loss or liability, which may exert an influence on the Company's financial standing, results of its operations and the generated cash flow.

5.5.4 Risks associated with environmental protection

5.5.4.1 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 more strict. 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.

5.5.4.2 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 - Best Available Techniques), 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 (EkoKLINKIER Construction Ceramics Plant, mining waste dump). Both the Company and Łęczyńska Energetyka were granted the CO2 emission allowance for the settlement period 2008-2012.

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 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.

In order to lower the risk related to the provisions of the amended Mining Waste Act, in 2011 the Company developed a mining waste management programme and received the approval of Lublin Marshal's Office (decision). Further to the decision the Company applied to Lublin Marshal's Office for a permit to operate a waste utilisation facility. The Company's operations in this respect shall comply with the new requirements by 1 May 2012.

5.5.4.3 Risk associated with management of waste generated after extension of the mining area

In connection with the extension of the mining area and increased extraction of coal, the Company will significantly increase the amount of generated extraction waste (in 2009 at a level of 3.8 t per year; the forecast for the period after 2010 in connection with the launch of the shaft in Stefanów – increase from 4.0 million in 2011 to approx. 4.7 million in 2014). As of 31 December 2011, approx. 50% of extraction waste is recycled, whereas the remaining part is kept or stored at the waste yard on the Company's premises (the waste is recycled by the Company or passed on to the entities authorised to deal with waste management for the purpose of recycling). Since – according to the Company's estimates – the storage capacity of the waste yard is sufficient for the next 3-5 years of storing, the Company plans to extend the existing storage yard by the adjacent areas (increasing the area by approx. 144 ha to approx. 230 ha). The investment requires amendment of the local spatial development plan of the commune (conversion of farmland and forest area into land for waste storage purposes), while the investment process itself will require endorsements (especially with respect to environmental impact), as well as decisions and permits for construction and exploitation of the environment. What is more, as approx. 90% of land is owned by individual farmers, the Company will be forced to purchase those plots. The Company has submitted applications for relevant amendments to the local spatial development plan and the works in this respect are quite advanced. Following the social consultations, the Company obtained the local community's approval for the investment. Moreover, the Company has already carried out talks with the plot owners and obtained preliminary consent for the purchase of plots. Nevertheless, taking into account the factors connected with the investment process referred to above, one cannot exclude the risk that the planned investment would not be implemented. Failure to implement this investment will mean the risk of disrupting the stability of the Company's extraction process and the necessity to search for alternative ways to manage the extraction waste. There is a risk that other solutions (in particular passing the waste to another entities for management, other waste yard location) may turn to be less cost effective which may affect the Company's financial result.

To limit the risk related to acquiring waste utilisation sites, the Company developed a project to extend the current waste disposal site by raising the existing structure and applied for a construction permit. Such course of action will make it possible, without undue haste, to continue the work on acquiring new land to extend the waste utilisation facility and to complete the formal and legal matters related to that project.

5.5.4.4 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 Nature 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.

5.5.5 Risk associated with proceedings and legal environment

5.5.5.1 Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken by the Company. Regular amendments to tax regulations and rigorous curative provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks, even for the Company which strictly abides by tax regulations. Any tax rulings issued following its stock exchange debut may tarnish the Company's image and goodwill. Tax statements 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 related entities, 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.

In order to limit this type of risk the Company applies various tax optimisation and tax planning methods, consequently limiting to a large extent the impact of such potential adverse events on the Company's operations and financial performance.

5.5.5.2 Risk of real estate tax on mining excavations

In accordance with the Company's strategy, the value of underground workings and the infrastructure located in these workings have not been included in the LW BOGDANKA's property tax returns for tax assessment purposes.

Fiscal procedures covering the period between 2003 and 2006 are currently pending in order to determine the amount of the Company's real property tax liabilities. The procedures have been instigated by the Heads of the communes of Puchaczów, Cyców and Ludwin. As regards administrative decisions already issued which specify the amount of property tax, the authorities of first instance determined that property tax also applies to underground workings and the infrastructure located in these workings.

Therefore, the Company faces the risk of its position on the scope of assets subject to property tax being questioned by tax authorities and administrative courts. However, as regards the possible negative financial consequences for the Company, it seems that the risk has been reduced significantly as a result of the Polish Constitutional Tribunal's opinion expressed in its judgment of 13 September 2011 in case No. P 33/09.

In its judgment, the Constitutional Tribunal found that under the applicable provisions of law, imposing real property tax on the value of underground workings is, from the constitutional perspective, unacceptable. Underground workings are not building facilities (building equipment) within the meaning of the Polish Building Law, but space created as a result of mining and, in consequence, may not be classified as structures within the meaning of the Polish Building Law. Therefore, underground workings are not subject to real property tax either separately (i.e. as workings in the physical sense), or in combination with the infrastructure located in them (i.e. as workings defined comprehensively).

However, the Constitutional Tribunal did not rule out the possibility of charging real property tax on structures and building equipment located in the underground workings, but the Tribunal reserved that real property tax on such structures or equipment could only be imposed if certain conditions were met, i.e. that in accordance with the Polish Building Law the structures could be considered:

1) only the structures listed explicitly in Article 3.3 of the Polish Building Law or any other provisions thereof or any schedule thereto, comprising, together with installations and equipment, a building structure referred to in Article 3.1.b of the Polish Building Law, i.e. provided that such structures constitute a complete technical and usable facility,

2) only the technical facilities specified in Article 3.9 of the Polish Building Law or any other provisions thereof or any schedule thereto, which, if the said facilities are not listed explicitly, requires a proof that owing to those facilities the building structure may be used in accordance with its designation, excluding, however: (1) building facilities related to building structures in the form of a structure within the meaning of the Polish Building Law, which cannot be classified as structures within the meaning of the Local Taxes and Fees Act, and (2) building facilities related to building structures in the form of small architectural structures, with a proviso that within the meaning of the Polish Building Law installations do not constitute building facilities;

bearing in mind that the classification of particular facilities and equipment may also be based on other statutory provisions supplementing the Polish Building Law, modifying it or making it precise.

In addition, the Constitutional Tribunal paid attention to the fact that in each tax case regarding infrastructure located in underground workings, it is necessary to precisely determine which of the facilities and equipment located in such workings can be classified as structures within the meaning of the Local Taxes and Charges Act, as this would eliminate the risk of the related decisions being made on the basis of questionable generalisations.

The Constitutional Tribunal explained that even if underground workings were classified, by way of analogy, as building facilities (more specifically, structures) within the meaning of the Polish Building Law (such building facilities would then fall within the scope of the definition, emphasised by the Constitutional Tribunal, of an underground working in the technical sense of the term), then because the term "underground working" had not been expressly listed in the Polish Building Law as the name of a structure, underground workings were not structures within the meaning of the Local Taxes and Charges Act.

Moreover, in its judgment, the Constitutional Tribunal argued that if the classification of the different facilities and equipment located in underground workings to the different names of structures specified in the Polish Building Law was not successful, it would be necessary to determine whether or not the facilities and equipment in question could be classified as building equipment within the meaning of the Polish Building Law, and which had been, at the same time, classified as structures within the meaning of the Local Taxes and Charges Act. In identifying the building facility to which a particular item of technical equipment is connected and in determining whether or not that item allows that facility to be used for the purpose for which it is intended, there are two circumstances to be taken into account. Firstly, if an underground working considered space (an underground working in the physical sense) is not a building facility within the meaning of the Polish Building Law, and if an underground working considered technical infrastructure (an underground working in the technical sense) is not a building facility at least within the meaning of the Local Taxes and Charges Act, any attempt to classify any equipment as building equipment by proving that the equipment is essential for the working to operate would be illegitimate. Secondly, at least in some cases, there may be doubts as to the legitimacy of attempts to identify a relationship between the technical equipment located in an underground working and surface buildings. The connection of an item of building equipment with a building facility in such a way that the item allows the facility to be used for the purpose for which it is intended should not be interpreted so broadly as to include the possibility for that facility to perform economic functions resulting from the facility belonging to an enterprise, which is a mining enterprise in the case in question. Note, for example, that equipment intended for supplying fresh air (ventubes), pipelines for supplying and removing water, or panel lining, are prerequisites for an underground working to operate and, therefore, economically justify the existence of surface building facilities as part of a given mining enterprise. This, however, does not mean that such equipment allows such surface buildings to be used in accordance with their intended purpose. However, the question whether or not such equipment can be considered building equipment connected with surface buildings remains open.

The above opinion expressed by the Constitutional Tribunal means that real property tax may be charged on the value of structures and building equipment that meet the conditions specified in the Constitutional Tribunal's judgment described above if, of course, such structures and building equipment are located in the Company's underground workings. It must be emphasised that following the Constitutional Tribunal's judgment, the Company has taken steps aimed at determining whether or not the underground workings operated by the Company contain structures and building equipment that meet the criteria, as specified by the Constitutional Tribunal, for such structures and building equipment to be subject to real property tax. Based on the identified facilities in workings, which may be subject to the real property tax, the Company estimated the amount of the provision as at 31 December 2011. The provision for the real property tax is described in detail in note 19 of the Financial Statements of LW BOGDANKA.

5.5.5.3 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 panel. 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 (panels and cross-cuts). Those pits are liquidated when the extraction in the field of the panel 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. http://www.lw.com.pl

5.5.5.4 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.

5.5.5.5 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 (uniform text, Dz. U. of 2009, No. 185, item 1439). For 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.

5.5.5.6 Summary – integrated system of enterprise risk management

In the reporting year, Lubelski Węgiel BOGDANKA S.A., following leading corporate benchmarks with respect to the fulfilment of the best international practices, the Company's obligations and activities supporting corporate governance, introduced in 2011 the Integrated System of Enterprise Risk Management (ERM).

The Company provided the Supervisory Board and the Audit Committee with an report on implementation and execution of the ERM for 2011 and a Report describing the system of managing material risks at Lubelski Węgiel BOGDANKA.

Consistent monitoring of the risks the Company faces and integrating the system of managing enterprise risk to managerial processes applied at the Company is key for creation and permanent protection of its value. This also applies to threats for the Company's operations triggering a possible drop in its value on one hand, as well as risks related to the pursuance of strategy, providing development opportunities and an increase in value for the shareholders, on the other.

6. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN 2011

6.1. Share capital

Since 10 June 2009 the LW BOGDANKA S.A.'s share capital has amounted to PLN 170,067,950 (one hundred seventy million sixty-seven thousand nine hundred and fifty zlotys) and was divided into 34,013,590 (thirty four million thirteen thousand five hundred and ninety) shares with a total value of PLN 5 (five zlotys) each. On 4 January 2012, Company's registered shares acquired by entitled employees were dematerialised and introduced to trading on the Warsaw Stock Exchange. As at the date of preparing this Report, the share capital consists of 34,013,590 shares, including:

a) 33,978,701 Company shares marked PLLWBGD00016 (shares traded on the Warsaw Stock Exchange);
b) 34,889 series B registered shares;

6.2. Holdings of shares in LW BOGDANKA S.A. as well as shares in related undertakings of the Company by the management and supervision personnel of LW BOGDANKA S.A.

The table below presents the total number and par value of shares of LW BOGDANKA S.A. as well as shares in related undertakings of LW BOGDANKA S.A. held by the management and supervision personnel of LW BOGDANKA S.A., as of the date of submitting the Report and as of the date of publishing the previous interim report:

Table 24 The number of the Company shares and shares in a subsidiary of the Company held by the members of the Management the Supervisory Boards of LW BOGDANKA S.A.

Name and surname	The number of the Company shares as of 20 March 2012	Par value of the shares (PLN)	The number of the Company shares as of 9 November 2011	Par value of the shares (PLN)	The number of shares in Łęczyńska Energetyka Sp. z o.o. as of 21 March 2012
Management Board					
Mirosław Taras	2,737	13,685	2,737	13,685	0
Krystyna Borkowska	1,299	6,495	1,299	6,495	0
Zbigniew Stopa	5,703	28,515	3,703	28,515	0
Waldemar Bernaciak	2,162	10,810	2,162	10,810	0
Lech Tor	1,124	5,620	1,124	5,620	0
Supervisory Board					
Eryk Karski	0	0	0	0	0
Stefan Kawalec	0	0	0	0	0
Andrzej Lulek	0	0	0	0	0
Ewa Pawluczuk	0	0	0	0	0
Jadwiga Kalinowska	1,024	5,120	1,024	5,120	0

Name and surname	The number of the Company shares as of 20 March 2012	Par value of the shares (PLN)	The number of the Company shares as of 9 November 2011	Par value of the shares (PLN)	The number of shares in Łęczyńska Energetyka Sp. z o.o. as of 21 March 2012
Adam Partyka	1,024	5,120	1,024	5,120	0
Total	**15,073**	**75,365**	**15,073**	**75,365**	**0**

6.3. Information on agreements known to LW BOGDANKA S.A. (including those concluded after the balance-sheet date), as a result of which changes may occur in the future in the proportion of shares held by the previous shareholders.

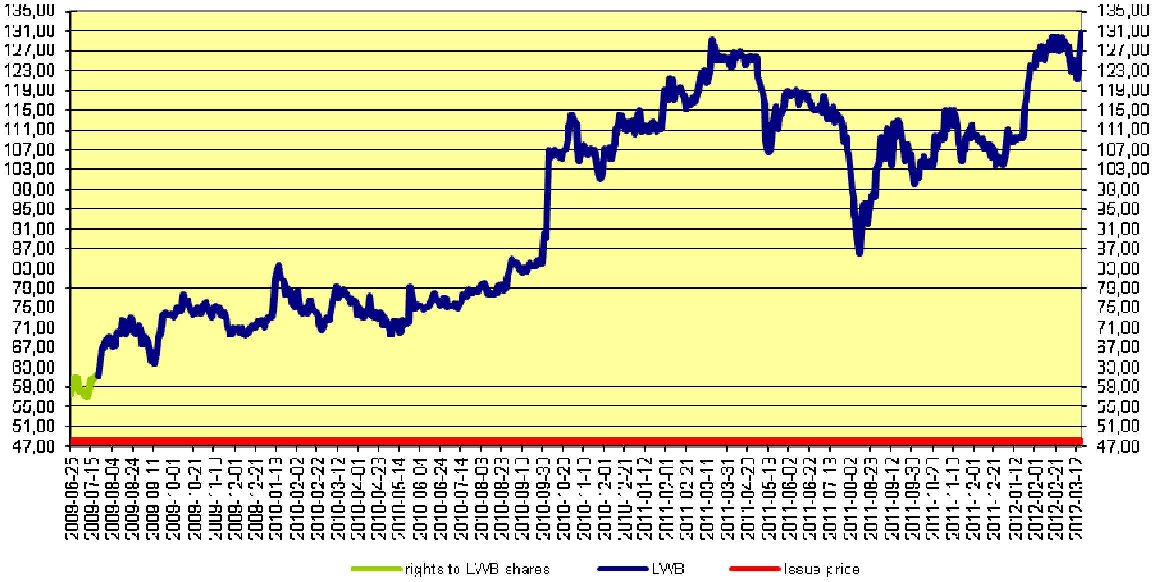
As of the date of submitting this Report, the Company has no information on agreements, as a result of which changes may occur in the future in the proportion of shares held by the existing shareholders.

6.4. Acquisition of the Company's own shares

In 2011 the Company did not acquire any of its own shares.

6.5. 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 16 March 2012



6.6. BOGDANKA in indices

6.6.1. BOGDANKA added to the WIG20 index

Lubelski Węgiel BOGDANKA S.A. qualified for the WIG20 index of the biggest companies listed on the Warsaw Stock Exchange. The news on introducing LW BOGDANKA do WIG20 was announced by WSE's Management Board in their press release of 10 February 2011.

The debut listing of LW BOGDANKA S.A. in the WIG20 index took place at the first trading session after 18 March 2011. The Company, together with KERNEL, replaced Cyfrowy Polsat and Polimex Mostostal in the index. Companies listed in the WIG20 index undergo a quarterly review. New adjustments to the index may be introduced at the first session after 18 June 2011. On 31 January 2012, another ranking of the WIG20 index, and BOGDANKA kept in place in the group of WIG20 companies.

6.6.2. Lubelski Węgiel BOGDANKA S.A. included in the RESPECT Index

In 2011 LW BOGDANKA S.A. qualified twice for the RESPECT Index Rating.

On 25 January 2011, for the first time that year, the Warsaw Stock Exchange nominated 16 WSE-listed companies to be included in the prestigious RESPECT Index Rating. Among them was Lubelski Węgiel BOGDANKA S.A. – the first Polish coal mining company listed on the WSE.

On 15 July 2011 Lubelski Węgiel BOGDANKA S.A. was included yet again in the RESPECT Index Rating.

6.6.3. New WIG-surowce raw materials index

In March 2011 a new WIG-surowce raw materials sub-index was introduced on the Warsaw Stock Exchange. The index groups companies operating in the area of raw materials extraction and processing.

7. PERSONNEL INFORMATION

7.1. Employment structure

Table 25 Employment status of the Company as at 31 December 2009, 2010 and 2011.

Employment	2009	2010	2011	Dynamics 2011/2010 [%]
Total staff	**3,885**	**3,968**	**4,184**	**105.44**
Underground workers	2,554	2,604	2,697	103.57
Surface workers	782	800	891	111.38
Full-time employees underground	284	291	313	107.56
Full-time employees on the surface	265	273	283	103.66
Total underground	2,838	2,895	3,010	103.97
Total workers	3,336	3,404	3,588	105.41

Employment in 2011 increased by 216 persons, i.e. by 5.44 % in relation to the employment at the end of 2010. The table below presents staff turnover in a three-year period:

Table 26 Staff fluctuations in 2009-2011

Item	2009	2010	2011
Beginning of year	**3,667**	**3,885**	**3,968**
Recruitments	354	240	425
Employees dismissed	136	157	209
End of year	**3,885**	**3,968**	**4,184**
Recruitment rate	9.65%	6.17%	10.71%
Dismissal rate	3.71%	4.04%	5.27%

In 2011, 425 employees were hired, including 25 secondary school graduates, 16 university graduates, 382 persons from outside of the mining industry, 2 persons from other mining companies.

At the same time 209 employees left the mine:

- 164 - on pension or disability benefits,
- 10 - died,
- 35 - other dismissals (termination by mutual consent of the parties, disciplinary dismissals, expiration of temporary employment contracts).

The employment structure of Lubelski Węgiel BOGDANKA S.A. by age, as at 31 December 2011, was as follows:

Table 27 Employment structure by age

Age	Number of employees			
	Women	Men	Total	%
Total staff	**237**	**3,947**	**4,148**	**100.00**
Below 30	28	1,168	1,196	28.59

Between 30 and 40	27	1,009	1,036	24.76
Between 40 and 50	98	1,246	1,344	32.12
Over 50	84	524	608	14.53

The employment structure by length of service of persons employed on the basis of employment contract at the end of 2011 was as follows:

Table 28 Employment structure by length of service at the end of 2011

Years of service	Number of employees in the year of service groups			
	Women	**Men**	**Total**	**%**
Total staff	**237**	**3,947**	**4,184**	**100.00**
Below 10	37	1,491	1,528	36.52
Between 10 and 15	9	339	348	8.32
Between 15 and 20	27	230	257	6.14
Between 20 and 25	22	473	495	11.83
Over 25	142	1,414	1,556	37.19

The above table shows that 2,308 employees (55.16%) working in the Company have over 15 years of service, which stands for a lot of experience and high qualifications

Professional background of employees

Analysing professional background of the employees, it should be stated that the largest group is made of persons with basic special and secondary education. Their share in total employment at the end of December 2011 was 76.82 %.

The table below presents employment structure by education as at 31 December 2011:

Table 29 Employment structure by education

Education	Number of employees			
	Women	**Men**	**Total**	**%**
Total staff	**237**	**3,947**	**4,184**	**100.00**
Higher	77	696	773	18.48
Secondary	130	1,809	1,939	46.34
Basic	28	1,247	1,275	30.47
Primary	2	195	197	4.71

Forms of performing work

The basic form of employment in the Company is an employment contract. Other forms of employment, such as a mandate contract or a performance contract, are used occasionally.
Employees are hired on the basis of an employment contract for an indefinite term. In case of newly hired employees, these contracts are preceded by contracts for a probationary period or for a definite term. The number of persons employed for an indefinite term as at 31 December 2011 was 679 persons.

7.2. Work productivity

Table 30 Total and underground productivity in LW BOGDANKA S.A. in 2008-2011

Productivity	**2009**	**2010**	**2011**	**Dynamics 2011/2010 [%]**
Total [kg/man-day]	7,587	8,368	8,289	-0.95
Underground [kg/man-day]	18,687	18,750	21,559	+14.98

In 2011 total productivity was slightly lower than in 2010. Year-on-year a decrease was noted from 8,368 kg/man- day (in 2010) to 8,289 kg/man-day (in 2011). The negative growth dynamics of this indicator are due to the relatively greater rise in the number of total working days than in the net excavated output.

Underground productivity (measured by the ratio of gross output to days worked underground) increased in 2011 by 14.98% in comparison to 2010. This is attributable to the start-up of excavation in the Stefanów

Field – year-on-year the gross coal output rose by 12% (with a slight drop in the number of days worked underground).

7.3. Average monthly remuneration

Principles of remuneration in the Company in 2011 were regulated by the Collective Bargaining Agreement of 31 October 2001, concluded between the Management Board of the Company and trade organisations operating within the Company: Independent and Self-Governing Trade Union "Solidarność", Trade Union of Miners in Poland, Trade Union "Kadra" and Trade Union of Employees of Mechanical Coal Processing Plants "Przeróbka".

The Collective Bargaining Agreement specifies a package of benefits due within the employment relationships and principles for granting individual components of remuneration, including bonuses for effective work hours, e.g. for working overtime, bonuses for rescuers and others.

In 2011, changes to applicable provisions were introduced on the basis of additional protocols:

- under additional Protocol No. 41, as of 1 January 2011, changes were introduced to the hierarchical classification of a few positions in the qualification scales of individual employee groups; the provisions allowing the payment of annual bonuses on instalments, i.e. the Miner's Day bonus and the additional annual bonus, the so-called "fourteenth salary", were deleted; the current organisational chart was also made more precise;
- under Protocol No. 42, as of 1 March 2011, the value of basic salaries, effective allowances for the work performed, money equivalent for coal allowance and coupon for supportive meals was increased;
- under Protocols No. 43 as of 1 April 2011, an amount of PLN 5,000,000 was transferred (like in the previous years) as an additional contribution to the Company Social Benefit Fund, intended for the financing of individual summer holidays of the employees.

The table below illustrates the level of effected average monthly remuneration for work, for individual employee groups:

Table 31 Level of effected average monthly remuneration for work in 2010 and 2011 [in PLN]

Item	2010*	2011	Dynamics 2011/2010 [%]
Total staff	**6,366,77**	**6,529,89**	**102.56**
Manual labourer	6,053.13	6,162.52	101.81
Underground workers	6,498.98	6,599.76	101.55
Surface workers	4,602.02	4,798.77	104.28
Full-time employees	8,257.03	8,727.75	105.70
Full-time employees underground	9,634.92	9,881.86	102.56
Full-time employees on the surface	6,781.82	7,430.43	109.56**

*the average value includes also employees employed for training workdays,

**dynamics of an average monthly remuneration results from the change in employment agreements of the Company's Management Board (payment of annual bonuses).

The total average remuneration increased by 2.56%. This is a result of changes, as compared to the previous year, in basic salaries, money equivalent for coal allowance and non-periodical components of remuneration, years of service awards, pension and disability packages. Moreover, the number of employees who retired also increased - in 2011 it was 160 persons (110 in 2010).

The level of the average monthly remuneration in 2011 is also a result of increase in average employment by 150 persons, i.e. 3.83%, the time actually worked in 2011 grew by 3.65% (in which overtime work grew by 115.30%), the crew's work time on 6 January, the newly established public holiday, was compensated mainly by another full paid day off, which resulted in an increase by 1.29% in bonuses for holidays.

The time not worked by employees was at a level higher than in the previous year – 102.14%, in which time paid with the employer's means was 101.05%, including: non-worked time due to leaves and other paid absences 101.34% and due to sickness absence 99.75%.

7.4. Rules governing remuneration of the management and supervising personnel of the Company's and the value of such remuneration, awards or benefits payable to managing and supervising personnel in 2011

The Management Board and proxies:

Rules of remuneration of the Management Board members have been specified by the Company's Supervisory Board.
Members of the Management Board are employed on the basis of employment agreements, concluded between the Supervisory Board, represented by the authorised Members, and individual persons appointed to the Company's Management Board.
Depending on financial results and the performance of other tasks, the Management Board Members may be given an annual bonus in the maximum amount of 60% of their basic annual remuneration for the year preceding the year in which the award was granted.
The total gross remuneration paid to the Members of the Management Board in 2011 amounted to PLN 3,180,302.41. Within their duties at the Company, Members of the Management Board were given remuneration only in respect of employment agreements.

– Mirosław Taras	PLN 934,297.87	
– Zbigniew Stopa	PLN 714,505.67	
– Krystyna Borkowska	PLN 714,662.65	
– Waldemar Bernaciak	PLN 715,549.75	
– Lech Tor	PLN 101,286.47	appointed for office from 3 March 2011

The total gross remuneration paid to the Company's proxies in 2011 amounted to PLN 982,182.24. Within the duties at the Company, the proxies were given remuneration only in respect of an employment agreement.

<u>Supervisory Board</u>

Members of the Supervisory Board shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. The Company shall cover the costs incurred by the members of the Supervisory Board in connection with their performance of duties, and in particular the cost of travel to take part in the Supervisory Board's meeting, accommodation and subsistence, as well as costs incurred in connection with exercising individual supervision.

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution and shall not exceed the amount of the remuneration of a Management Board member determined in accordance with the rules of remuneration for Management Board members adopted by the General Shareholders Meeting. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

A total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company in 2011 amounted to PLN 348,000.00, including:

- Eryk Karski - PLN 84,000.00
- Stefan Kawalec - PLN 48,800.00
- Andrzej Lulek - PLN 48,000.00
- Jadwiga Kalinowska - PLN 60,000.00
- Ewa Pawluczuk - PLN 60,000.00
- Adam Partyka - PLN 48,000.00

Costs related to the performance of duties by the Supervisory Board in 2011 amounted to PLN 15,538.48. Members of the Supervisory Board do not receive benefits in-kind in relation to their duties.

Moreover, in 2011 two Members of the Company's Management Board received remuneration in respect of performing duties in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o.

- Zbigniew Stopa - PLN 43,260.00
- Mirosław Taras - PLN 41,100.00

Other Members of the Management Board and the Supervisory Board do not perform any duties in the subsidiaries of LW BOGDANKA S.A.
In 2011 there were no incentive or bonus programmes for the Company's Management Board based on the equity.

7.5. All agreements concluded by and between LW BOGDANKA S.A. and the management personnel which provide for compensation in case of resignation or dismissal from their position for no cause or in case they are dismissed as a result of acquisition of LW BOGDANKA S.A.

Pursuant to the provisions of employment contracts concluded by and between LW BOGDANKA S.A. and the individual Members of the Management Board, in case they are dismissed or their employment contract is terminated before the expiry of their term for reasons other than violation of basic obligations arising from the employment relationship, a Member of the Management Board is entitled to a severance pay in the amount of three months' base remuneration.

Furthermore, the agreements concluded with Mr Mirosław Taras, Mr Zbigniew Stopa, Mr Waldemar Bernaciak and Ms Krystyna Borkowska contain a provision under which, in case of employment contract termination due to the dismissal of the Employee from the position of the Employer's Management Board Member following the acquisition and in connection with the acquisition of the Employer's shares pursuant to the tender offer to subscribe for the Employer's shares as provided for in Article 73 or 74 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (Dz. U. 2009 No. 185, item 1439), with regard to which the Employer's Management Board communicated to Polish Financial Supervision Authority and announced to the public under Article 80 of the said Act a negative position concerning any of the components specified in Article 80.2 of the Act, the Employer shall pay for the benefit of the Employee a severance pay amounting to 24 months' gross base salary.

7.6. Employee social and welfare benefits

In the course of restructuring, the Company has disposed of the majority of its employee facilities, including the entire stock of company flats.

At the moment, the Company owns the following facilities: the Rogóźno holiday centre (which is rented by Związek Zawodowy Górników w Polsce – Trade Union of Miners in Poland), canteen at Bogdanka, which is rented by Przedsiębiorstwo Handlowo-Usługowe "Górnik" Sp. z o.o. at Bogdanka, the "Stary Tartak" facility, which functions as a training centre for employees, and a summer holiday centre in Łazy in the West Pomerania province (land property of an area of 120 ares, including four pavilions with 111 bed places and campsite with hygiene facilities).

Employee social and welfare benefits are provided as part of the Company Social Benefits Fund, which is earmarked for subsidising the following purposes:

- holidays for children and teenagers (summer camps, winter camps, etc.),
- company-organised holidays, including physical medicine and rehabilitation stays,
- subsidised trips,
- cultural and educational activities (art and culture events, tickets for sports events),
- material and financial support for employees and pensioners with welfare and living difficulties, (one-time benefits)
- housing support in the form of loans to subsidise charges associated with the exchange of cooperative apartments, construction of a residential house, cash contribution to a housing cooperative towards the construction of residential facilities, purchase of a residential building or apartment, vertical enlargement and extension of a building for residential purposes, and rehabilitation and upgrading of an apartment.

Table 32 Inflows and outflows from the Company Social Benefits Fund in 2010-2011 [in PLN '000]

Type of benefit	2010		2011	
	inflows	outflows	inflows	outflows
Housing loans	2,071	2,146	2,170	2,741
Holidays for adults	61	1,446		1,507
Holidays for children	-	531		484
One-time benefits	-	155		184
TOTAL:	**2,132**	**4,278**	**2,170**	**4,916**

7.7. Occupational health and safety

Working conditions

The nature of the Company's operations entails that the staff employed at the mine, especially underground, are exposed to a number of natural and technical risks. Work in underground conditions also exposes the staff to harmful and nuisance work environment factors at work stations.

Natural risks

The following natural threats occur in the mine:

- Methane hazard – category I (the lowest of four categories according to the classification).
- Fire hazard – the mine exploits the seams included in the fourth group of coal self-ignition hazard (according to five-group classification). High risk level requires conducting constant and intensive fire prevention measures and staff training in this respect. No fire occurred in 2011.
- Coal dust explosion risk – the seams where mining is taking place have been classified as category B in terms of coal dust explosion risk, and the long wall workings have been classified as no-risk, and category A and B in terms of coal dust explosion risk. At workings classified as category A and B in terms of coal dust explosion risk, zones inhibiting explosion propagation are maintained by stone dusting. At workings classified as category B in terms of coal dust explosion risk, anti-explosion dust and water barriers are used. Accumulation of the dangerous coal dust is limited by using dust volatility-inhibiting agents at sites where the dust originates (sprinkler systems in mechanical miners and heading machines and in dumping machines at output dump locations) In 2011, a new sprinkler system was implemented at dumping locations – air and water sprinkling. Test runs proved their effectiveness and in the next years an increase in such facilities is planned.
- Water risk – in 2011 all mining excavations were carried out at grade I water risk (the lowest one).

Strict compliance with occupational health and safety regulations, monitoring, and preventive measures ensure that those threats are entirely under control.

Technical risks

In 2011, on average 238 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present. Particularly dangerous machinery includes but is not limited to the machinery listed in Annex IV to Directive 98/37/EC implemented by virtue of the Regulation of the Minister of Economy, Labour and Social Policy of 10 April 2003 on the essential requirements relating to machinery and safety components (Dz. U. [Official Journal] No. 91, item 858). Particularly dangerous machinery includes but is not limited to locomotives, hydraulic-powered roof supports, presses, saws, etc. Reduction of technical risks and their impact on employees is effected gradually to reflect technological progress. New technological solutions in direct production, such as coal ploughing system, continue to be implemented. Moreover, at work stations indirectly associated with coal production, innovative technical solutions and small mechanisation equipment with improved safety norms are implemented. The Company monitors the market in terms of new safe machines and equipment. The staff is trained both in operating small mechanisation and machines, facilities and installations requiring appropriate qualifications. In addition to training carried out by the Training Department, the employees acquire skills and qualifications required for the Company in outside training sessions.

Harmful and nuisance factors

Measurements of harmful factors occurring at work stations at the Company are conducted in accordance with the Regulation of the Minister of Health of 20 April 2005 on testing and measuring harmful factors at work environment (Dz. U. [Official Journal] 28 April 2005) and an internal procedure developed in that respect:

- measurements of hard coal dust, including the content of free crystalline silica, audible noise, and general and local vibrations are conducted by the accredited Work Environment Laboratory of Lubelski Węgiel BOGDANKA S.A.
- measurements of ionising radiation, harmfulness of welding gases and UV radiation, as well as microclimate and energy expenditure are contracted to other external laboratories, such as GIG (Central Mining Institute) and Centrum Badań Jakości (Quality Control Centre) in Lubin.

Dustiness

In 2011, the number of staff working at work stations where health risk associated with the harmful factor of dust containing free crystalline silica in concentrations exceeding the maximum permissible concentration is present amounted to 948 persons. Those employees were employed at workings classified as category A and B in terms of harmful dust risk.

In 2011, there was a decrease in the number of persons employed at sites where maximum permissible concentration was exceeded. That was related to the implementation of new machinery and technology limiting the dust emission to the underground workings.

Preventive measures taken against the impact of harmful dust are contained in the preventive measures program in the Safety Document. The program involves the following:

1. Using efficient collective protection measures, including:
   a) at face workings:
   - internal and external sprinklers on mechanical miner organs,
   - chemical agents to soften water,

   b) at drift workings:
   - combined ventilation,
   - dry dust collectors,
   - internal and external sprinklers,
   - chemical agents to soften water,

   c) other measures at sites other than mine face:
   - sprinklers at dumping locations,
   - dust hoods at conveyors near air stopping,
   - washing and removal of accumulated dust.
2. Providing all staff exposed to harmful dust with appropriate personal protection equipment (dust masks), depending on the category of dust risk. Each employee is trained in using such personal protection equipment.

Audible noise

In 2011, the number of staff working at work stations where health risk associated with the harmful factor of noise exceeding the maximum permissible levels is present amounted to 1,205 persons.

In 2011, there was a growth in the number of persons employed at sites where the maximum permissible level of noise was exceeded. That is related to significant increase in the scope of work (launching a new mining field) and increase in the employment status.

Preventive measures against the noise involve consistent implementation of a plan of action intended to limit the harmful impact of noise on the employee. Such actions are conducted at four different levels:

- taking into account employee protection against noise at the stage of designing and creating a work station,
- monitoring the risk – noise – at work stations,
- limiting the employee's exposure to harmful noise during work at a work station,
- medical care – hearing tests.

Mechanic vibration

In 2011 the number of employees in work stations with health hazards of harmful factors, i.e. mechanical vibrations of the intensity in excess of the highest admissible values (occupational exposure limit), was 34.
The machinery, equipment and hand-held tools used in the production process generate mechanical vibration.
Depending on the site where vibrations penetrate the human body, they can be divided into two categories:

- localised vibrations which affect the human body through upper extremities (rotational and percussive tools such as drills, pneumatic hammers, roof bolting machines or tightening machines)
- general vibrations which penetrate the human body through body parts other than upper extremities (machinery and equipment such as heading machines, locomotives, road-heading machines, underground means of transport, etc.).

The current preventive measures to reduce the impact of vibrations (localised vibrations) involves primarily gradual introduction of new tools and equipment with lower vibration emissions. The time of using hand-held tools which generate vibrations is controlled so that it does not exceed the permissible time of using a given type of tool. Moreover, personal protection equipment – anti-vibration gloves – is used.

As for general vibrations, preventive measures involve using anti-vibration materials on machinery and equipment components which emit general vibrations, so that they do not propagate along structural components to which the employee may be exposed. For example, in 2011, after test runs, the Company chose not to buy a suspended locomotive having noticed that the permissible levels of mechanic vibrations were exceeded.

Despite such preventive policy, in 2011 the number of work stations, exceeding maximum permissible levels of mechanic vibrations, increased. This is related to the increase of the crew and the number of ongoing works.

Table 33 Number of employees working at work stations where maximum permissible levels and maximum permissible concentrations are exceeded

Year	**Underground**				
	dustiness	**noise**	**vibrations**	**chemical agents**	**other**
2008	1,336	1,036	-	-	-
2009	1,445	1,173	-	-	-
2010	948	907	17	-	-
2011	**1,097**	**1,205**	**34**		

Nuisance factors

Nuisance factors in work environment are such factors the impact of which may cause an employee to feel unwell or excessive fatigue but does not lead to permanent health deterioration. Such factors may, however, lead to prolonged absence due to illness and decreased efficiency.
The main nuisance factors present at the Company, and specifically associated with underground mining operations, include:

- microclimate,
- lighting,
- excessive physical effort.

Measurements of microclimate components (temperature, humidity, pressure, cooling intensity) and lighting are conducted by authorised departments of the Company, in accordance with the relevant applicable legal regulations. Reducing the impact of such nuisance factors is effected through a number of technological and organisational solutions. On a regular basis, measurements of microclimate parameters are conducted. In 2011, on average 913 staff were working daily in hot microclimate conditions (temperature above 25° C).
On average the number of employees exposed to excessive physical effort amounts to 258 persons per day. The Company keeps introducing equipment to improve the comfort and conditions of work. The market of new climatic equipment used in underground mines is monitored.

Work accidents

In 2011, there were 93 work accidents at LW BOGDANKA – 92 minor and 1 major. The number of accidents and basic accident rates are presented in the table below.

Table 34 Number of accidents and accident rates at the Company in 2008-2011

Year	2008	2009	2010	2011
Number of accidents – total	52	70	**70**	**93**
including: fatal	1	-	**-**	**-**
causing serious injury	-	1	**-**	**1**
frequency rate (per 1000 employees)	14.55	18.66	**17.84**	**22.81**
frequency rate (per 100,000 workdays)	7.09	8.91	**8.58**	**11.03**

Table 35 Work accident costs at the Company in 2008-2011.

Year	Number of accidents	including:		benefits paid (in PLN '000)
		fatal	serious	
2008	52	1	-	133.5
2009	70	-	1	181.6
2010	70	-	-	283.1
2011	**93**	**-**	**1**	**332.3**

7.8. Trade Unions

Four union organisations operate at the Company.
As at 31 December 2011, the size of the individual trade unions was as follows:

1. "Solidarność" Independent Self-Governing Trade Union — 1,118 members
2. Trade Union of Miners in Poland — 1,002 members
3. "Kadra" Trade Union — 269 members
4. "Przeróbka" Trade Union — 296 members

As at 31 December 2011, the number of staff employed at the Company amounted to 4,184 persons. In total, 2,685 employees belonged to union organisations, which constitutes 64.17% of the total head count.
Each of those union organisations includes members who belong to several union organisations – approx. 60 employees.

Cooperation of the Management Board of Lubelski Węgiel BOGDANKA S.A. with the management boards of union organisations is constructive. Union organisations participate in decision-making to the extent provided for by the law.

7.9. Collective disputes

On 8 February 2011, Trade Unions operating in LW BOGDANKA entered into collective dispute against the Company in connection with lack of consent of the Management Board to the execution of the payroll policy in the form proposed by union organisations. The main demands put forward by Trade Unions, i.e. "Solidarność" Independent Self-Governing Trade Union, Przeróbka" Trade Union, Trade Union of Miners in Poland and "Kadra" Trade Union, were: a rise by 4.5% of the average monthly remuneration in 2011. As a result of negotiations, on 23 February 2011 an understanding was signed, which concluded the collective dispute. The understanding provides for a rise of the average monthly remuneration by 3.5% from 1 January 2011.

Negotiations concerning the payroll policy in 2012 were conducted from November 2011 onwards. On 2 February 2012 the Trade Unions operating in LW BOGDANKA S.A. entered into a collective dispute with the Company in connection with the lack of consent of the Management Board to the execution of the payroll policy in the form proposed by the Trade Unions.

As a result of mediation conducted by a mediator designated by the Minister of Labour and Social Policy, an agreement was reached and signed on 9 March 2012, concluding the collective dispute. The agreement provides for a rise of average monthly remuneration by 5.5% compared to the average remuneration in 2011 as of 1 March 2012.

7.10. Information on a control system of employee share schemes

In 2011, no control system of employee share schemes was in place at LW BOGDANKA S.A.

8. ENVIRONMENTAL PROTECTION

8.1. Location of the Company

The entire infrastructure of the mine and the "Puchaczów V" mining area are surrounded with protected land. In the immediate vicinity the Polesie National Park and Łęczna Lake District Landscape Park are located. In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west.
In the north-west, the Polesie Protected Landscape Area is located, and in the south-east, the Chełm Protected Landscape Area, which changes into the "Dolina Świnki" (Świnka River Valley) wildlife corridor, which stretches parallel to the west border of the mining area.
The mine does not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-ecological actions, implementation of an Integrated Quality and Environmental Management System, and extension of the relevant certificate in accordance with PN EN ISO 14001 and 9001.

8.2. Natural environment protection measures

Air protection

LW BOGDANKA has an organised emitter which emits dust and gas into the atmosphere. It is the Ceramic Building Materials Plant where the main source of gas and dust emissions include: brick tunnel kiln, and ground material preparation unit. The EkoKLINKIER Construction Ceramics Plant has an integrated permit no. PZ 17/2006 of 29 December 2006, which specifies, among other things, the conditions and permissible amounts of pollutants which may be emitted from the plant into the air. The permit was amended by virtue of decision PZ 21/2009 of 6 July 2009 and is valid until 1 May 2012. In 2011, the Ceramic Building Materials Plant emitted 8,709 Mg of dust and gas without violating the permit. For air emissions from the Ceramic Building Materials Plant environmental charges were charged and paid at the end of each half-year.
The Ceramic Building Materials Plant is included in the European Union Emissions Trading Scheme and, pursuant to the National Allocation Plan, the plant received 12,049 Mg of CO_2 per annum in the 2nd trading period of 2008-2012. A report on CO_2 emissions after verification by an authorised company was sent to the National System Administrator – Institute of Environmental Protection. Time limit stipulated by the law — the end of the 1st quarter after the end of the trading year.
The second emitter is the waste rock disposal area, which may be a source of dust on dry and windy days.

Water and sewage management

Water and sewage management in terms of mine water involves:
- rock mass drainage at working sites,
- controlled drainage of Jurassic layers (limited amounts due to safety and technical issues),
- use of water for fire and process purposes (air-conditioning, machinery cooling, fighting dust risk),
- pumping water to the surface,
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczyńska Energetyka Sp. z o.o.),
- retention of mine water in surface tanks in order to reduce suspension,
- discharge of water from tanks through the Rów Żelazny ditch into the Świnka River.

In 2011, the average annual water supply to workings amounted to 5,893,495 m^3, average total mineralisation 3,072.92 mg/dm^3, Cl + SO_4 ion content – 1,364.75 mg/dm^3. The Cl + SO_4 ion content classifies the mine water of Lubelski Węgiel BOGDANKA S.A. into category II of industrial water (in accordance with GIG [Central Mining Institute] classification) – as was the case in previous years.

The quantity of mine water used in 2011 for industrial purposes underground and on the surface amounted to a total of approx. 12,936 m^3/day, out of which approx. 11,765 m^3/day was used underground for the purpose of supplying the fire-fighting system and climatic systems. On the surface, water was used primarily by the

Mechanical Coal Processing Plant in the quantity of 1,147 m^3/day for process purposes (water supplementation in closed circulatory system) and by Łęczyńska Energetyka – 24 m^3/day.

Tests of physicochemical properties of mine water are conducted on a regular basis, once a year, by Pomiar – GIG Lublin. In 2011, as was the case in previous years, 39 samples were taken for the purpose of physicochemical analyses of mine water which reaches the workings.

In 2011, tests of radioactive substances in mine water were conducted by the Radiometry Laboratory of the Central Mining Institute, and revealed the following concentrations: Radium ^{226} in the range of < 0.123 – 0.007 KBq/m^3, Radium ^{228} < 0.21 - 0.03 KBq/m^3. In the last 10 years, the results of water radioactivity analyses have been stable and show values significantly below the permissible norms.

The Company holds an administrative decision – water permit for special water use in accordance with its operations. It is decision no. ŚiR.III.6811/91/07 of 31 December 2007, valid until 31 December 2017, concerning:

a) drainage of the LW BOGDANKA S.A. mine in Bogdanka in quantities which shall not exceed:
   Qdavg = 20,000 m^3 /d, Qmax = 22,000 m^3/d,
   Qhmax = 917 m^3 /h, until 31 December 2010, and
   Qdavg = 26,700 m^3 /d, Qmax = 32 000 m^3/d,
   Qhmax = 1,400 m^3 /h, from 1 January 2011 until 31 December 2017.

b) discharge of unused mine water from the sedimentation tank through the discharge ditch into the "Żelazny" ditch, which is a tributary of the Świnka River.

In 2011, 14,976 m^3/day of water from mine drainage was discharged into the river. Mine water discharged into the surface water – the Świnka River – exceeds the parameters specified for category II of water quality only in terms of chloride content (on average 747.16 mg/dm^3).
Basic indicators of pollutants in the discharged water do not exceed the values specified in the water permit decision.
Drinking water and water for household purposes is supplied to Lubelski Węgiel BOGDANKA S.A. from the water mains of "Łęczyńska Energetyka" Sp. z o.o., which holds valid water permit decisions for:

- water intake and groundwater extraction in Bogdanka, Nadrybie and Stefanów,
- discharge of treated sewage,
- use of sewage treatment equipment.

Documentation maintained by "Łęczyńska Energetyka" Sp. z o.o. confirms compliance with the conditions specified in the decisions.
Pursuant to legal requirements, twice a year – after the end of each half-year, LW BOGDANKA calculated and paid a charge for Cl + SO_4 load in unused mine water discharged into the receiving water body – the Świnka River.
In 2011, in compliance with the water permit, routine maintenance of the perimeter ditch of the dumpsite and the "Żelazny" drainage ditch which discharges mine water into the Świnka River was conducted.

Surface protection

In 2011, the impact of mining on the surface – as to date – manifested itself mainly as an increase in the surface scope of impact, with the following maximum soil settlement values in the following regions:
- approx. 2.50 m in the area of the former Zakład Rolno-Hodowlany (Agriculture and Stock Farm) in Puchaczów,
- approx. 2.00 m in the area of the villages of Kobyłka and Nadrybie Dwór,
- approx. 2.00 m in the area of the village of Uciekajka and western part of the village of Kaniwola (with increasing area of those soil settlements),
- approx. 2.00 m east of the village of Dratów (with increasing area of those soil settlements).

In the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I) – after mining two seams – maximum soil settlement remains at the same level and amounts to approx. 4.50 m in the central part of the settlement basin.
In the area where faces 1/IV/385, 2/IV/385, 3/IV/385 and 4/IV/385 are mined (near the railway line east of Puchaczów), maximum soil settlement amounts to 2.00 m, with the impact range of that mining also growing.

Damage to buildings in 2011 – as to date – were primarily related to rural buildings, i.e. small-size residential and farm buildings. The reported damage to those buildings did not constitute a threat to their users and were removed immediately; also, protection against further impact was provided. In total, damage was removed and protection was provided in 12 buildings (in 6 residential and 6 farm ones).
In 2011, in the Puchaczów commune, in the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I), where in the previous years particularly significant permeation of farmland and entire farms, including buildings, occurred, the buy-out of the developed properties that were affected most with the negative effects of mining exploitation, which started in 2010, was continued. In connection with the above, in order to repair damage caused by mining which could not be removed, four farms, including buildings, were bought in 2011 in Bogdanka and Nadrybie Wieś (Puchaczów commune).
Also one developed property in Siedliszcze commune was purchased, due to acoustic nuisance related to the direct neighbourhood of the mine side-track.
As part of mining damage repair, dressing of damaged asphalt roads and dirt roads was carried out (in sections of commune and district roads) within a total distance of a 4.35 km.

Damage to farmland in 2011 manifested itself – as was the case in previous years – as persisting permeation of land, with the areas of permanent permeation becoming significantly larger in the following regions:
- the area east of the village of Dratów, i.e. in the area where faces 10/I, 9/I, 8/I and 7/I in seam 382 are mined,
- the area west of the villages of Kaniwola and Nadrybie Ukazowe, i.e. in the area of previous mining of faces 6/II, 7/II and 8/II in seam 382,
- the area of the villages of Uciekajka and Kobyłki, i.e. after mining faces 10/II, 11/II and 12/II in seam 382.
- in the area of the railway line east of Puchaczów, i.e. in the area where faces 1/IV, 2/IV, 3/IV and 4/IV in seam 385 are mined.

The affected land owners in this area received a suitable compensation amounting to PLN 1,813,100.

The costs of removing damage caused by mining in 2011 amounted to a total of PLN 5,721,200. In 2011, the total expenditure in connection with removing damage caused by mining slightly decreased in relation to the expenditure incurred in 2010, which amounted to PLN 6,187,500 (this is largely a consequence of partial purchase of the flooded farms.)
In 2011, supplementary water engineering works connected with controlling hydrographic conditions in the area of the villages of Kobyłki and Kaniwola were continued.

Reclamation

In 2011, Lubelski Węgiel BOGDANKA S.A. conducted land reclamation works in the landfill on an area of 3.0 ha. Also, land remediation was conducted together with site development (representative areas) on an area of approx. 0.48 ha in the Bogdanka and Stefanów Fields. The Company nurtured the greenery, and took care of the facility used as the mining waste dump, and previously remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

In 2012 and in the years to follow, it is forecast that another developed farming plots in the Puchaczów and Ludwin communes will be bought back, due to irreparable to-date and forecast further damages caused by mining exploitation processes (i.e. permanent continuous undercuts). In 2012 about 6 developed real properties are planned to be purchased (applications in this regard were submitted in 2011).

In 2012 and over the next years, it is predicted that further developed real properties will be purchased in the area of Bogdanka and Nadrybie Wieś, due to irreversible past and predicted damage caused by mining exploitation (i.e. permanent flooding). Due to mining damage – in 2011 it is planned that several overhead power lines will be replaced with cable power lines, and some power lines will be replaced with isolated networks. This issue is being dealt with by the Development Investment Department.

Difficulties occurred in the outflow of water in the area of the mining water outflow ditch, due to ground settling (about 1.5m - exploitation of panels No. 1/IV/385, 2/IV/385 and 3/IV/385). Due to that, the land survey of the ditch, on the basis of which the building modernisation design for the RE "Żelazny" ditch was developed, was performed in 2009. In 2010, hydro works will be conducted in this facility to significantly improve the outflow of the mining water to the Świnka river.

Waste management

In 2011, the total mining waste amounted to 3,288,948 tonnes. Approximately 52% of the waste was recovered and reused.
Waste recovery for industrial purposes in the EkoKLINKIER Construction Ceramics Plant amounted to a total of 26,319 tonnes of waste.
Waste recovery for non-industrial purposes (i.e. remediation of post-mining areas, using waste to strengthen roads, yards, and for other purposes) amounted to 2,066,460 tonnes.
Mining waste is mostly (94% of all managed waste) used for the purpose of rehabilitation of degraded land (different types of post-mining pits). It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation. That takes place in accordance with the "Program of Mineral Resources Post-Mining Pit Remediation in the Territory of the Lublin Province" developed by the Environmental Protection Department of the Province Governor's Office in Lublin and approved by the Lublin Province Governor.
Owners of remediated land hold appropriate decisions of environmental protection authorities (district governor's office).
The table below shows dynamic quantities of waste obtained, waste recovered, and waste treated by depositing it in the facility used as the mining waste dump – in accordance with the Act on waste (Dz. U. [Official Journal] No. 62, item 628, 2001, as amended).

Table 36 Waste

Item	2009	2010	2011
Mining waste (Mg)	3,788,150	3,288,948	4,050,085
Deposited waste (Mg)	2,291,656*	1,427,329**	1,957,305***
Reused waste (Mg)	1,496,494	2,366,927	2,092,780

*/including: 1,750,000 Mg deposited, 541,655 Mg stored
**/including: 541,655 Mg stored from 2009 and 885,674 Mg stored from current production

***/including 1,750,000 Mg deposited on the area of the facility, 207,305 Mg stored

In 2011 the waste stored on the area of the facility in the amount of 750,000 tonnes was disposed of, whereas 207,305 Mg intended for storage were deposited in 2012. The Company did not pay for waste storage, which is in line with the new Act on mining waste of 10 July 2008 (Article 26.3).
Lubelski Węgiel BOGDANKA S.A. obtained a decision of the Lublin Province Governor no. SiR VII. 6620/32/2004 of 10 September 2004, as amended, permitting the production, recovery and treatment of waste, including a specification of the manner of waste management. The decision – in accordance with the applicable legislation – is applicable to all waste generated by the mine.
In 2011, pursuant to I.10.4. of the integrated permit, tests of the physicochemical composition of waste rock were carried out, and they will be carried out on a regular basis, annually, in accordance with the aforementioned permit.
To date, analyses of Carboniferous waste rock carried out by "Pomiar-GIG" have demonstrated stability of the physicochemical properties of that waste and showed their suitability for, among other things, engineering works connected with levelling of terrain degraded by mining activity, works connected with separators at landfills, non-soil remediation, and road rehabilitation.
LW BOGDANKA also conducts post-industrial waste management (scrap, waste wood, used oil, etc.) and contract treatment of waste (to specialised companies) which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).

Environmental protection sanctions and charges to which the Company is exposed

Mining activity is associated with operating and environmental charges, and a number of costs connected with post-mining waste management, post-industrial land remediation, environmental monitoring, and preparation of certified reports and documentation necessary for proper operation of the plant.

Table 37 Cost related to environmental protection [in PLN '000]

No.	Type of cost		2009	2010	2011

1.	Protection costs (remediation, monitoring)		337.66	808.93	1,005.64
2.	Post-mining waste management and post-industrial waste treatment		19,231.38	33,005.58	30,174.42
3.	Cost of certified reports, opinions, documentation, designs, etc.		67.75	52.20	122.4
4.	Environmental charges, including:		310.37	382.06	391.08
	- emissions of gas and dust from means of transport, Ceramic Building Materials Plant and climatic equipment		113.13	162.78	179.83
	- waste [1)]		2.08	-	-
	- discharge of sewage		114.36	219.28	211.25
5.	**Total costs**		**19,947.15**	**34,248.77**	**31,693.54**

[1)] until 1 May 2012 storage of post-mining waste is not subject to charge (the Mining Waste Act)

Lubelski Węgiel BOGDANKA SA meets ecology norms and no penalties for violating environmental conditions specified in the applicable legal regulations were imposed on it in 2011.
Charges for operations conducted under the Geological and Mining Law include a mining operations charge and an exploitation charge.
The exploitation charge was paid quarterly to the accounts of communes where exploitation was conducted (60%) and towards the National Environmental Protection Fund (40%).

Table 38 Exploitation charge and mining use charge [in PLN '000]

No.	Type of charge	2009	2010	2011
1	Exploitation	9,239.49	10,075.26	10,492.70
2	Mining operations	3,382.18[1)]	-	-

1) one-time charge under the mining operations agreement of 6 April 2009 in order to mine hard coal from the Bogdanka deposit in connection with obtaining Licence No. 5/2009

9. COURT AND OUT OF COURT PROCEEDINGS

As of the date of submitting this Report, the Company has no information on any proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority in which LW BOGDANKA S.A. or its subsidiary is a party, concerning:

- 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.

9.1. Bankruptcy proceedings

As at 31 December 2011, the Company as a creditor was a party in the bankruptcy proceedings comprising the amount of PLN 63,261.84.

On behalf of the Company, the law firm filed:

- a debt claim in bankruptcy proceedings with arrangement option, against CONBELTS Bytom S.A. with its registered office in Bytom, for the amount of PLN 32,225.61. The proceedings are conducted by the District Court in Katowice, X Commercial Division, Judge-Commissioner: district court judge Renata Michalak, Case No. X Gup 45/09/12. Proceedings pending.

- a debt claim in bankruptcy proceedings against WPHUP RUREX Sp. z o.o. in Bytom for the amount of PLN 1,019.35; the proceedings are conducted by the District Court Katowice-Wschód in Katowice, case No. X GUP 44/09/8. Proceedings pending.

9.2. Arrangement proceedings

In 2011 the Company was not a party in arrangement proceedings.

9.3. Court cases

9.3.1. Lawsuits against the Company

Lawsuits against the Company in court

- commercial lawsuits

1. A lawsuit filed by the Consortium of: BUDIMEX SA with its registered office in Warsaw, Ferrovial Agroman S.A. with its registered office in Madrid, and Mostostal Kraków S.A. with its registered office in Krakow, for payment of the total sum of PLN 10,125,411.00 plus statutory interest from 2 November 2010 to the date of payment, pending before the Regional Court in Lublin, IX Commercial Division, case No. IX GC 245/11. The case is at the stage of evidence proceedings before the Court of first instance. The last meeting date has been cancelled due to the judge's sickness. No new date has been set so far.

   The claim for damages, pressed in this lawsuit, encompasses:

   - the amount of PLN 9,946,033.00 as redress of damage (benefits lost (*lucrum cessans*)) allegedly suffered by the members of the aforementioned Consortium in light of the Company's execution of the agreement for construction works with Mostostal Warszawa S.A.'s Consortium, the subject matter of which consists in the expansion of the Company's mechanical coal processing plant, whereas the judgement of the Regional Court in Lublin of 30 June 2010 amended the judgement of the National Appeal Chamber in Warsaw, invalidating the selection of the bid of Mostostal Warszawa S.A.'s Consortium and ordering re-assessment of bids and selection of the best bid;

   - the amount of PLN 179,378.00 as redress of damage on account of [...] incurred by the aforementioned Consortium against the judgement of the National Appeal Chamber, the costs of legal assistance related to the lawsuit initiated by the complaint of the aforementioned [consortium] against the judgement of the National Board of Appeal regarding the Company's actions as the Employer in the public procurement proceedings concerning the contract for the expansion of the aforementioned mechanic coal processing plant.

2. A lawsuit filed by Mr Adam Partyka, pending before the Regional Court in Lublin, IX Commercial Division, case No. IX GC 317/11. Pursuant to his statement of claim of 26 July 2011, Mr Adam Partyka demands that resolution No. 32 of the Annual General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A. of 10 May 2011 concerning amendments to the Company's Articles of Association be held invalid. Under the challenged resolution, the Annual General Shareholders Meeting deleted §§ 35-38 of the Company's Articles of Association, which provisions defined the employees' right to elect two members of the Supervisory Board. Presently, the case is at the stage of evidence proceedings before the Court of first instance; the next date of Court meeting has been set at 6 April 2012.

3. A lawsuit filed by Polskie Towarzystwo Mieszkaniowe in Lublin, for payment of PLN 2,684.00 plus interest from 17 August 2010. The pressed claim was for remuneration for marketing services "allegedly" performed by PTM for the Company. By virtue of a judgement of 16 December 2011, the District Court Lublin-Wschód in Lublin with its seat in Świdnik, in the case No. VIII GC 1448/11 upr, dismissed the claim in full and awarded the Company the amount of PLN 617 from the Claimant as reimbursement for the costs of the proceedings. The judgement is not final. At the current stage, a written rationale of the aforementioned judgement is being drawn.

Lawsuits filed by the Company

A lawsuit filed by the Company against Aleksander Kabut and Marek Sitarz for payment of PLN 29,555,090.00, pending before the Regional Court, Commercial Court, in Gliwice, case No. X GC 122/11. Under this lawsuit, the Company seeks award of the demanded sum from the defendants on account of their liability as members of Management Board of Dębieńsko Sp. z o.o. with registered office in Czerwionka Leszczyny under Article 299.1 of the Polish Commercial Companies Code. Presently, the case is at the stage of evidence proceedings. No new meeting date has been set by the Court so far.

- commercial lawsuits closed in 2011

A lawsuit filed by the Company against PIECEXPORT – PIECBUD S.A., a joint-stock company with its registered office in Dąbrowa Górnicza, for payment of PLN 42,772, pending before the District Court in Lublin, VIII Commercial Division, case no. VIII GC 886/09. The subject matter of the lawsuit is the Company's claim for performance by the defendant of an obligation under a quality guarantee provided by PIECEXPORT - PIECBUD S.A. on shaft ropes sold to the Company. By virtue of a judgement of 18 April 2011, the District Court in Lublin - wschód in Lublin with its seat in Świdnik awarded the Company the amount of PLN 42,772.12, plus statutory interest as described in the judgement, from PIECEXPORT-PIOECBUD Sp. z o.o. The Defendant appealed against the aforesaid judgement. By virtue of a judgement of 13 October 2011, the Regional Court in Lublin, IX Commercial Division, dismissed the Defendant's appeal and awarded the Company the amount of PLN 1,200 as reimbursement for the costs of the proceedings. This judgement is final and legally biding.

cases pending before labour courts

1. A lawsuit filed by Mr Jerzy Staniak against the company for "compensatory pension", pending before the District Court in Lublin, VII Labour Division, case No. VII P 476/10. Presently, the Claimant demands to be awarded a compensatory pension in the total amount of PLN 48,400.00 for the period from 1 November 2008 to 31 August 2010, plus statutory interest from the date of maturity to the date of payment. The case is at the final stage of evidence proceedings before the Court of first instance. The Company has been served the opinion of the finance and accounting expert, who calculated the amount of compensatory pension due to the claimant for the period covered by the lawsuit as PLN 26,236.92. The next date of Court meeting has been set at 27 February 2012.
2. A lawsuit filed by Mr Józef Dujka against the Company, claiming that the Claimant be restored to work and that the Court declare that the Claimant had been subject to mobbing at work. Value of the object of dispute: PLN 74,017.00. By virtue of a judgement of 14 April 2011, the District Court Lublin-Zachód in Lublin, in the case No. VII P 144/10, dismissed the lawsuit with regard to the demand to be restored to work, and decided to discontinue the proceedings in other respects. The Claimant appealed against the aforesaid judgement. By virtue of a judgement of 1 December 2011, the Regional Court, VII Labour Division, in the case No. VII Pa 154/11, dismissed the claimant's appeal and awarded the Company PLN 60 from the Claimant as reimbursement for the costs of the proceedings. This judgement is final and legally biding.
3. A lawsuit filed by Mr Wojciech Drozd against the Company, claiming payment, by the Company, of a "compensatory pension", pending before the District Court in Lublin, VII Labour Division, case no. VII P 859/08. The value of litigation is PLN 29,200. The claimant has claimed payment of a compensatory pension of PLN 1,000 per month starting from July 2008, to be subject to annual indexation by the inflation rate, and payment of PLN 13,200 as the aggregate amount of compensatory pension payments for the period from October 2005 to June 2008. On 6 December 2010, the Court admitted an opinion by a court expert on neurosurgery as evidence. The Company responded to the opinion. At a hearing on 7 December 2011, the court deferred the case without setting a new date.
4. A lawsuit filed by Mr Józef Florczyk against the Company, claiming that:
    1) a period out of work be included in the employment period that is the basis for determining employee benefits, including social insurance for the period from 13 July 1983 to 18 September 1996;
    2) the Court declare that the employee is entitled to acquire shares in the Company free-of-charge on the grounds that the employee was employed by the Company from 13 September 1977 to 13 July 1983, and on the grounds that the period out of work, specified in 1), be included in the employment period;
    3) the Court order that the employee is entitled to receive shares in the Company from the tranche for employees for the period of his employment with the Company from 13 July 1977 to 17 July 1983 and for the period out of work as included in the period of employment that is the basis for determining employee benefits, i.e. from 14 July 1983 to 18 September 1996 (in total, for the period from 13 September 1977 to 18 September 1996), value of litigation - PLN 3,815.00, pending before the District Court in Lublin, VII Labour Code, case no. VII P 351/10. By virtue of a judgement of 6 June 2011, the District Court Lublin-Zachód in Lublin dismissed the lawsuit. The Claimant appealed against the aforesaid judgement. By virtue of a judgement

of 29 November 2011, the Regional Court in Lublin, VII Labour Division, in the case No. VII Pa 209/11, dismissed the Claimant's appeal. On 2.01.2012, a written rationale for the judgement of the Regional Court in Lublin has been served. This judgement is final and legally biding.

- cases pending before labour courts, closed in 2011

- A lawsuit filed by Mr Jarosław Stopa against the Company, claiming payment, by the Company, of a compensatory pension of PLN 2,000 per month starting from 1 August 2010 (the value of litigation: PLN 24,000), pending before the District Court in Lublin, VII Labour Division, case no. VII P 838/11. On 27 June 2011, a court settlement has been concluded whereby the Company undertook to pay Mr Jarosław Stopa the amount of PLN 10,000.00 (ten thousand) as capitalised pension for the period from 1 August 2010 to 31 May 2011, payable by 15 July 2011, and PLN 1,000.00 (one thousand) as monthly pension, for the period from 1 June 2011 and for subsequent months, until 31 July 2012, payable by the 15th day of each subsequent month.

- A lawsuit filed by Mr Roman Kuczyński claiming the restoration of right to acquire the Company's shares free of charge, pending before the District Court Lublin-Zachód in Lublin, case No. VII P 722/11. On 15 June 2011, the Company filed its reply to the statement of claim. With the submission of 28 September 2011, the Claimant has withdrawn his claim, and with the decision of 4 October 2011, the Court decided to discontinue the proceedings in this case.

- social insurance cases closed in 2011

- The case instigated by the Company's appeal against the decision of the Zakład Ubezpieczeń Społecznych (*Social Security Institution*), Lublin Office, of 9 November 2010, ref. No. KGE-378852/25. With the aforesaid decision, Zakład Ubezpieczeń Społecznych, Lublin Office, on the grounds of Article 84.6 of the Polish Social Insurance Act, obligated the Company as a former employer of Mr Henryk Wąsik to return unduly paid benefits for the period from 1 November 2007 to 30 September 2010, in the amount of PLN 3,898.91. On 16 December 2010, the Company filed an appeal against that decision, to the Regional Court in Lublin, VIII Social Insurance Division. By virtue of a judgement of 16 December 2011, the Regional Court in Lublin, VIII Labour and Social Insurance Division, amended the challenged decision of the Zakład Ubezpieczeń Społecznych, Lublin Office, by determining that the Company was not under obligation to return the benefits unduly paid to H. Wąsik as coal allowance for the period from 1 November 2007 to 30 September 2010 in the amount of PLN 3,898.91.

- Administrative cases

1. Proceedings to determine the amount of property tax liability for 2003 instigated by the Head of the Cyców commune, file no. Fn.3113-5-9/08. By virtue of a decision of 28 November 2008, the Head of the Cyców commune defined the tax liability in the amount of PLN 1,306,099.00 and past due tax to amount to PLN 954,299.80. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company filed an appeal from the above decision on 16 December 2008 to the Local Government Appellate Court in Lublin. By virtue of decision of 24 February 2009, the Local Government Appellate Court in Lublin (SKO 41/24/P/2009) quashed the decision of the authority of first instance in full and discontinued the proceedings due to expiry of the tax liability. On 31 March 2009, the Head of the Cyców commune returned to the Company the excess payment, i.e. the amount of tax liability specified in the decision of 28 November 2008 plus interest and interest on that excess payment. The District Prosecutor in Lublin filed a complaint for the above decision to the Provincial Administrative Court in Lublin. By virtue of a judgement of 22 September 2010, the Provincial Administrative Court in Lublin, in the case No. I SA./Lu 657/09, quashed the challenged decision of the Local Government Appellate Court in Lublin. After the Provincial Administrative Court in Lublin quashed with the aforesaid judgement the decision of the Local Government Appellate Court of 24 February 2009 concerning full quashing of the decision of the Head of the Cyców commune on the amount of property tax liability for 2003, the Local Government Appellate Court in Lublin, with the decision of 18 October 2011, case ref. No. SKO.41/1932/P/2011, quashed the decision of the authority of first instance in full and discontinued the proceedings due to expiry of the tax liability. It is still possible for the Prosecutor to file an appeal with the Supreme Administrative Court (within 6 months of being served the decision) against the aforesaid decision of the Local Government Appellate Court in Lublin.

2. Proceedings to determine the amount of property tax liability for 2003 instigated by the Head of the Puchaczów commune. By virtue of a decision of 30 May 2008, the Head of the Puchaczów commune,

in case no. PF3110/001/75/06/07/08 2003 defined the property tax liability for 2003 in the amount of PLN 8,735,945.10 and past due tax to amount to PLN 4,240,166.30. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company filed an appeal of the above decision. The Local Government Appellate Court in Lublin, by virtue of decision of 14 October 2008 quashed the above decision in full and sent the case back for the re-examination to the authority of first instance. Following the re-examination the Head of the Puchaczów commune, by virtue of a decision of 23 December 2008, in case no. PF-3110/001/80/06/07/08 2003 defined the property tax liability for 2003 in the amount of PLN 8,346,780.80 and the past due tax to amount to PLN 3,851,002.00. On 31 December 2008, the Head of the Puchaczów commune returned to the Company the excess payment of PLN 686,960 comprising the property tax liability, interest on tax plus interest on that excess payment. The returned amount resulted from the difference between the amount of past due tax liability specified in the decision of 30 May 2008 and the amount specified in the decision of 23 December 2008. The Company filed an appeal of the above decision on 12 January 2009 to the Local Government Appellate Court in Lublin. The Local Government Appellate Court in Lublin, by virtue of the decision of 17 March 2009, in case no. SKO 41/373/P/2009, quashed the decision of the authority of first instance in full and discontinued the proceedings due to the expiry of the tax liability. On 29 April 2009, the Head of the Puchaczów commune returned to the Company the excess payment, i.e. the amount of the tax liability specified in the decision of 23 December 2008; however, the amount of the excess payment has not been returned in full amount. The District Prosecutor in Lublin filed a complaint for the above decision to the Provincial Administrative Court in Lublin. By virtue of a judgement of 4 December 2009, the Provincial Administrative Court, in case no. I S.A./Lu 616/09, quashed the decision of the Local Government Appellate Court of 17 March 2009. By virtue of a decision of 30 June 2010 the Local Government Appellate Court in Lublin quashed in full the decision of the Head of the Puchaczów commune of 23 December 2009 and sent the case back to be re-examined by the authority of first instance. On 12 January 2011, the Head of the Puchaczów commune issued a decision (case ref. No. PD-3110/96/06/07/08/09/2010/2011 2003) determining the amount of property tax for 2003 to be paid by the Company, i.e. PLN 8,346,780.80, including PLN 3,851,002 in past-due property tax for all the months of 2003. The Company appealed against the decision to the Local Government Appellate Court in Lublin. The Local Government Appellate Court in Lublin, with the decision of 28 October 2011, case ref. No. SKO.41/739/P/2011, quashed the decision of the authority of first instance in full and discontinued the proceedings due to expiry of the tax liability. It is still possible for the Prosecutor to file an appeal with the Supreme Administrative Court (within 6 months of being served the decision) against the aforesaid decision of the Local Government Appellate Court in Lublin.

3. Proceedings to determine the amount of property tax liability for 2004 instigated by the Head of the Puchaczów commune. On 30 November 2009, the Head of the Puchaczów commune issued a decision specifying the property tax liability for 2004, in the amount of PLN 8,460,204.20 as well as past due tax liability of PLN 3,942,761.90. The authority of first instance specified the above decision as immediately enforceable. On 22 December 2009, the Head of the Lubelski Tax Office in Lublin, acting under the writs of enforcement issued by the Head of the Puchaczów commune as regards the tax liabilities along with interest, as specified in the abovementioned decision, seized the Company's movables in the form of machines and equipment. On the same day the Company made a payment, to the bank account of the Lubelski Tax Office in Lublin, of the amount of past due tax with interest, as specified in the writs of enforcement issued by the Head of the Puchaczów commune along with the enforcement costs. On 28 December 2009, the Company filed to the Local Government Appellate Court in Lublin an appeal from the decision of the Head of the Puchaczów commune of 30 November 2009. The Local Government Appellate Court in Lublin, by virtue of the decision of 29 November 2011, in case No. SKO.41/172/P/2010 quashed in full the decision of the authority of first instance and sent the case back for re-examination by the authority of first instance. Proceedings pending.

4. Proceedings to determine the amount of property tax liability for 2004 instigated by the Head of the Cyców commune. On 30 November 2009, the Head of the Cyców issued the decision specifying the property tax liability for 2004 to amount to PLN 1,387,486.90 as well as past due tax liability of PLN 1,031,010.00. The authority of first instance specified the abovementioned decision as immediately enforceable. On 22 December 2009, the Head of the Lubelski Tax Office in Lublin, acting under the writs

of enforcement issued by the Head of the Cyców commune as regards the tax liabilities along with interest, as specified in the abovementioned decision, seized the Company's movables in the form of machines and equipment. On the same day the Company made a payment, to the bank account of the Lubelski Tax Office in Lublin, of the amount of past due tax with interest, as specified in the writs of enforcement issued by the Head of the Cyców commune along with the enforcement costs. On 28 December 2009, the Company filed to the Local Government Appellate Court in Lublin an appeal from the decision of the Head of the Cyców commune of 30 November 2009. The Local Government Appellate Court in Lublin has extended several times the time limit for examination of the appeal filed by the Company. The Local Government Appellate Court in Lublin, with the decision of 14 December 2011, case ref. No. SKO.41/231/P/2010, quashed the decision of the authority of first instance in full and ordered the matter to be re-examined by the authority of first instance.

5. Proceedings to determine the amount of property tax for 2005, instigated by the Head of the Puchaczów commune. On 20 October 2010, the Head of the commune issued a decision (case ref. No. PD-3110/87/06/07/08/09/2010 2005) determining the amount of property tax for 2005 at PLN 9,082,684.50 and past due tax to amount to PLN 4,390,617.30. In addition, the Head of the Puchaczów commune issued a decision on 12 November 2010 making the above decision immediately enforceable. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company appealed against the above decision. Currently, the matter is under consideration by the Local Government Appellate Court, following an appeal against the decision of the Head of the Puchaczów commune (case ref. No. SKO.41/4729/P/2010O). The Local Government Appellate Court in Lublin, with the decision of 14 December 2011, case ref. No. SKO.41/4729/P/2010, quashed the decision of the authority of first instance in full and discontinued the proceedings due to expiry of the tax liability. It is still possible for the Prosecutor to file an appeal with the Supreme Administrative Court (within 6 months of being served the decision) against the aforesaid decision of the Local Government Appellate Court in Lublin.

6. Proceedings to determine the amount of property tax for 2005, instigated by the Head of the Ludwin commune. On 20 October 2010, the Head of the commune issued a decision (case ref. No. Fn.3110/15-9/2010 2005) determining the amount of property tax for 2005 at PLN 405,401.90 and past due tax to amount to PLN 399,540.80. In addition, the Head of the Ludwin commune issued a decision on 12 November 2010 making the above decision immediately enforceable. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company appealed against the above decision. Currently, the matter is under consideration by the Local Government Appellate Court, following an appeal against the decision of the Head of the Ludwin commune (case ref. No. SKO.41/4726/P/2010). By virtue of decision dated 19 April 2011, the Local Government Appellate Court quashed the decision of the authority of first instance and dismissed the proceedings. As indicated in one of the letters from the Head of the Ludwin commune, the Prosecutor filed with the Provincial Administrative Court in Lublin the appeal against the aforesaid decision to the Provincial Administrative Court in Lublin, case ref. No. I SA/Lu 581/11. The Provincial Administrative Court in Lublin, by virtue of a judgement of 21 December 2011 quashed the above decision issued by the Local Government Appellate Court in Lublin and sent the case back for re-examination.

7. Proceedings to determine the amount of property tax for 2005, instigated by the Head of the Cyców commune. On 19 October 2010, the Head of the commune issued a decision (case ref. No. Fn.3113-5-08/10) determining the amount of property tax for 2005 at PLN 1,561,682.20 and past due tax to amount to 1,157,482.00. In addition, the Head of the Cyców commune issued a decision on 12 November 2010 making the above decision immediately enforceable. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company filed the appeal against the decision. By virtue of a decision of 20 April 2011, the Local Government Appellate Court quashed the decision of the authority of first instance and dismissed the proceedings. As indicated in one of the letters from the Head of the Cyców commune, the Prosecutor filed with the Provincial Administrative Court in Lublin the appeal against the aforesaid decision of the Local Government Appellate Court in Lublin. Due to the fact that the Prosecutor withdrew his appeal against the aforesaid decision of the Local Government Appellate Court in Lublin, the Provincial

Administrative Court in Lublin, with the decision of 16 December 2011 in case No. I SA/Lu 686/11, dismissed the proceedings – the case has been closed in a final and legal binding manner.

8. Proceedings to determine the amount of property tax for 2006, instigated by the Head of the Cyców commune. On 21 November 2011, the Head of the Cyców commune issued a decision (case ref. No. Fn.3123.1.7.2011) determining the amount of the Company's property tax for 2006 at PLN 1,549,849.20 and past due tax to amount to PLN 1,157,482.00. In addition, with the determination of 12 December 2011, the Head of the Cyców commune made the aforementioned decision immediately enforceable. On the basis of the aforesaid determination, the Head of the Cyców commune issued enforcement orders and filed a request with the Head of Lublin Tax Office for instigation of administrative enforcement proceedings. The Company paid the enforcing authority the amount of tax arrears, plus interest, as specified in the aforesaid decision. On 21 December 2011, the Company filed with the Local Government Appellate Court the appeal against the aforesaid decision.

9. Proceedings to determine the amount of property tax for 2006, instigated by the Head of the Ludwin commune. On 21 November 2011, the Head of the Ludwin commune issued a decision (case ref. No. FN. 3120.15.23.2011) determining the amount of the Company's property tax for 2006 at PLN 405,406.79 and past due tax to amount to PLN 399,540.79. In addition, with the determination of 12 December 2011, the Head of the Ludwin commune made the aforementioned decision immediately enforceable. On the basis of the aforesaid determination, the Head of the commune issued enforcement orders and filed a request with the Head of Lublin Tax Office for instigation of administrative enforcement proceedings. The Company paid the enforcing authority the amount of tax arrears, plus interest, as specified in the aforesaid decision. On 21 December 2011, the Company filed with the Local Government Appellate Court the appeal against the aforesaid decision.

10. Proceedings to determine the amount of property tax for 2006, instigated by the Head of the Puchaczów commune. On 18 November 2011, the Head of the Puchaczów commune issued a decision (case ref. No. PD-3110/92/06/07/08/09/2011) determining the amount of the Company's property tax for 2006 at PLN 9,280,318.00 and past due tax to amount to PLN 4,507,273.00. The Company paid the first instance authority the amount of tax arrears, plus interest, as specified in the aforesaid decision. On 21 December 2011, the Company filed with the Local Government Appellate Court the appeal against the aforesaid decision.

- administrative proceedings closed in 2011

1. A procedure initiated following a decision issued by the Lubelskie Province Road Transport Inspector on 8 October 2011 (case ref. No. WITD.DI.0152.W.252/251/10). On 8 October 2010, the Lubelskie Province Road Transport Inspector issued a decision (case ref. No. WITD.DI.0152.W.252/251/10) imposing a financial penalty of PLN 17,320 on LW BOGDANKA S.A. for its violation of the Act of 21 March 1985 on Public Roads (Dz. U. of 2007, No.19, item 115, as amended). On 26 October 2010, the law firm filed an appeal against the above decision to the Chief Road Transport Inspector. On 30 November 2010, the Chief Road Transport Inspector issued a decision (case ref. No. BPO-5-2883-LB3/2010/9539-06) quashing, to the full extent, the decision of the Lubelskie Province Road Transport Inspector of 8 October 2010 and referred the matter for reconsideration by the authority of first instance. On 30 December 2010, the law firm submitted a letter to the Lubelskie Province Road Transport Inspector, accompanied by the documents requested by this authority, confirming the Company's position on the matter in question. By virtue of a decision of 10 February 2011, case ref. No. WITD.WP.0152W.A.C/14/10/1/2011, the Lublin Province Road Transport Inspector in Lublin imposed a financial penalty on the Company in the amount of PLN 17,320.00. The Company filed the appeal against the aforesaid decision. By virtue of a decision of 30 March 2011, case ref. No. BPO-5-536-LB3/2011 2152-25, the Chief Road Transport Inspector upheld the decision of the authority of first instance. On 4 May 2011, the Company filed with the Provincial Administrative Court in Warsaw the appeal against the aforesaid decision. By virtue of a judgement of 23 August 2011, the Provincial Administrative Court in Lublin, in case No. VI SA/Wa 1327/11, dismissed the appeal.

2. A procedure initiated following a decision issued by the Mazovia Province Road Transport Inspector on 10 November 2010 (case ref. No. WITD.DI.0152/Z/694/250/10). On 10 November 2010, the Mazovia Province Road Transport Inspector issued a decision (case ref. No. WITD.DI.0152/Z/694/250/10)

imposing a financial penalty of PLN 4,200 on LW BOGDANKA S.A. for its violation of the Act of 21 March 1985 on Public Roads (Dz. U. of 2007, No.19, item 115, as amended). On 6 December 2010, the law firm filed an appeal against the above decision to the Chief Road Transport Inspector. On 21 February 2011, the Chief Road Transport Inspector issued a decision (ref. no. BPO-5-3353-WA7/2010/274-25) upholding the appealed decision issued by the authority of first instance. The Company may appeal against the above decision to the Provincial Administrative Court in Warsaw. The Company has appealed against the above decision to the Provincial Administrative Court in Warsaw. By virtue of a judgement of 13 July 2011, the Provincial Administrative Court in Lublin, in case No. VI SA/Wa 1012/11, dismissed the appeal.

3. A procedure initiated following a decision issued by the Mazovia Province Road Transport Inspector on 17 November 2011 (case ref. No. WITD.DI.0152/Z/353/250/10). On 17 November 2010, the Mazovia Province Road Transport Inspector issued a decision (case ref. No. WITD.DI.0152/Z/353/250/10) imposing a financial penalty of PLN 2,520 on LW BOGDANKA S.A. for its violation of the Act of 21 March 1985 on Public Roads (Dz. U. of 2007, No.19, item 115, as amended). On 20 December 2010, the law firm filed an appeal against the above decision to the Chief Road Transport Inspector. On 21 February 2011, the Chief Road Transport Inspector issued a decision (case ref. No. BPO-5-82-WA7/2010/1275.25) upholding the appealed decision issued by the authority of first instance. The Company may appeal against the above decision to the Provincial Administrative Court in Warsaw. The Company has appealed against the above decision to the Provincial Administrative Court in Warsaw. By virtue of a judgement of 13 July 2011, the Provincial Administrative Court in Lublin, in case No. VI SA/Wa 1013/11, dismissed the appeal.

9.4. Enforcement proceedings

In 2011 the Company was a party to enforcement proceedings for the total amount of PLN 407,383.99.

9.5. Potential claims to be made against the Company

1. Possible administrative proceedings which may be initiated against the Company refer to specifying the amount of the Company's liabilities for payment of property tax and may be initiated by the Head of Ludwin commune, Head of Cyców commune and Head of Puchaczów commune, for the years 2007-2011;
2. Possible court proceedings which may be initiated against the Company refer to a claim by Ms Olga Koza, pursuing a business activity under the name Przedsiębiorstwo Wielobranżowe MONTER with its registered office in Lisów, for payment of PLN 360,985 (three hundred and sixty thousand nine hundred and eighty-five zloty), plus statutory interest, for the Company's inappropriate performance of agreement No.1064/Z/2007 of 17 October 2007 entered into between the Company and Ms Olga Koza. On 14 July 2010, the Company was delivered, by the District Court in Lublin, VIII Commercial Division, the above creditor's application for a summons to a settlement meeting before court (case ref. No. VIII GCo 233/10). The parties failed to reach a settlement.
3. A claim by Ms Olga Koza, pursuing a business activity under the name Przedsiębiorstwo Wielobranżowe MONTER with its registered office in Lisów, for payment of PLN 29,862.83 in statutory interest for the Company's delay in payment for goods delivered by Ms Olga Koza. On 31 March 2010, Ms Olga Koza issued an interest note (case ref. No. 01/2010) for PLN 29,862.83, requesting the Company to pay the amount.

9.6. Planned court proceedings

Case brought by the Company against Konińskie Składy Budowlane Sp. z o.o., registered office in Konin, for the payment of PLN 43,704.00 as a price for the purchased goods. The statement of claim is being prepared.

10. EXTERNAL INSPECTIONS CARRIED OUT AT THE COMPANY

In 2011 the following inspections were conducted in the Company:

Table 39 External inspections in the Company

No.	Inspection body	Dates	Scope of the inspection
1.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	9 Jan. -11 Jan. 2011	Inspection of mining shaft hoist in shaft 1.2 – ad hoc inspection at the request of the Head of Mining Supervision in Mining Facility
2.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	10 Jan. -11 Jan. 2011	Inspection of the head and dispatch offices, together with communications, safety and alarm systems, as well as main telecommunications networks
3.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	12 Jan. -14 Jan. 2011	Inspection in G-5 section, Bogdanka Field
4.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	18 Jan. - 21 Jan. 2011	Inspection of blasting team's activities, mining, energy and machinery, and construction issues
5.	State District Sanitary Inspectorate (Państwowy Powiatowy Inspektorat Sanitarny) in Łęczna	27 Jan. -31 Jan. 2011	Inspection of health and hygiene conditions in work environment - Stefanów Field
6.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	25 Jan. -26 Jan. 2011	Ad hoc inspection of the mining rescue team's activities
7.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	10 Feb. -11 Feb. 2011	Inspection of the mining plant's OHS analysis, training, professional adaptation of employees working in mining plant's traffic areas Safety document – assessment of occupational risk
8.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	15 Feb. -18 Feb. 2011	Inspection of methods of fighting methane hazards, inspection of preparatory works and construction works
9.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	22 Feb. 2011	Inspection regarding the application for commissioning mining plant's primary facilities known as "Main drainage pump station at the level of 560 m", after the implementation of changes covered by the Addendum No. 6 to the station's documentation
10.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	March 2011	Inspection of recognition and prevention of natural hazards and decline of roof rocks during excavation works and preparatory works as well as hazards deriving from machines and equipment
11.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	6 Apr.-8 Apr. 2011	Inspection of mining plant staff's training in the OHS
12.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	12 Apr.-15 Apr. 2011	Inspection of: conduct of mining works in the preparatory and mining works' section, organisation of transport of materials, machines and equipment necessary to carry out mining works consisting in the re-building of the workings. Execution of particularly hazardous works in connection with the conducted works, the technical condition of machines and equipment, implementation of multi-level technical condition control system for machines and equipment as per rules in place in the mining plant, the technical condition of power equipment, the accident rate analysis, the OHS team's activities
13.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	8.May- 11 May 2011	Inspection of mining shaft hoists, shafts and small shafts with equipment, building structures of the mining plant as per the competencies of the Office
14.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	May 2011	Inspection of the fighting of coal dust explosion hazard as well as the electrical equipment used in

No.	Inspection body	Dates	Scope of the inspection
			the workings under risk of coal dust explosion
15.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	5 Jun.-7 Jun. 2011	Inspection of mining shaft hoists, shafts and small shafts with equipment
16.	Office for Rail Transport (Urząd Transportu Kolejowego) in Warsaw	28 Jun.- 04 Jul. 2011	Inspection of the extent of implementation of the possessed "Safety Management System" approved by the President of the Railway Transport Office
17.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	Jun. 2011	Inspection of the execution of excavation workings in the mining plant and the preparatory works under existing natural hazards
18.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	19 Jul.- 22 Jul. 2011	Inspection of excavation works and preparatory works in terms of methane hazards, inspection of OHS Department
19.	State Labour Inspection, Lublin Branch (Państwowa Inspekcja Pracy, Oddział w Lublinie)	8 Aug.- 23 Aug. 2011	Inspection of OHS compliance in underground transport and supervision staff's work time
20.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	10 Aug.- 12 Aug. 2011	Inspection of mining works and electric machinery works when drilling the workings and reinforcing the panels
21.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	16 Aug.- 17 Aug. 2011	Mandatory inspection of main fanning station's facilities
22.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	21 Aug.- 24 Aug. 2011	Limited inspection: LV and MV power equipment, installations and networks, head and dispatch offices, together with communications, safety and alarm systems
23.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	6 Sep.- 9 Sep. 2011	Limited inspection
24.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	19 Jul. - 22 Jul. 2011	Inspection of excavation works and preparatory works in terms of methane hazards, inspection of OHS Department
25.	State Labour Inspection, Lublin Branch (Państwowa Inspekcja Pracy, Oddział w Lublinie)	8 Aug.- 23 Aug. 2011	Inspection of OHS compliance in underground transport and supervision staff's work time
26.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	10 Aug. - 12 Aug. 2011	Inspection of mining works and electric machinery works when drilling the workings and reinforcing the panels
27.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	16 Aug.- 17 Aug. 2011	Mandatory inspection of main fanning station's facilities
28.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	21 Aug.- 24 Aug. 2011	Limited inspection: LV and MV power equipment, installations and networks, head and dispatch offices, together with communications, safety and alarm systems
29.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	6 Sep.- 9 Sep. 2011	Limited inspection
30.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	13 Sep. 2011	Comprehensive limited inspection – post-acceptance
31.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	20 Sep. - 21 Sep. 2011	Limited inspection
32.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	27 Sep.- 28 Sep. 2011	Inspection of water hazards, temperature...

No.	Inspection body	Dates	Scope of the inspection
33.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	27 Sep.– 30 Sep. 2011	Inspection of the head and dispatch offices, together with communication systems, as well as main telecommunications network, skipping mining shaft hoist installed in shaft 2.1, emergency mining shaft hoist installed in shaft 2.1, shafts and small shafts with equipment, shaft top building over shaft 2.1, hoist umbrella roofing for shaft 2.1
34.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	11 Oct.- 13 Oct. 2011	Ad hoc inspection, Q3 2011 analysis of OHS team activities in selected scope
35.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	20 Oct. - 28 Oct. 2011	Limited inspection, prevention of fire hazards and review of measurement documentation
36.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	23 Oct.- 25 Oct. 2011	Limited inspection, power equipment, installations and networks
37.	Marshall Office (Urząd Marszałkowski) of the Lublin Province in Lublin	15 Nov. 2011r.	Inspection of compliance with the integrated permit terms, in connection with the analysis of the same
38.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	17 Nov.- 18 Nov. 2011	Inspection of mining, electric machinery, electricity, geology and measurement issues
39.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	20 Nov.- 22 Nov. 2011	Ad hoc inspection – main fanning station
40.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	29 Nov.- 30 Nov. 2011	Limited inspection: mining, electric machinery and measurement
41.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	8 Dec.- 9 Dec. 2011	Limited inspection: mining, existing hazards
42.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	20 Dec.- 21 Dec. 2011	Limited inspection: mining, electric machines

11. OTHER SIGNIFICANT EVENTS AFFECTING LW BOGDANKA'S OPERATIONS, THAT OCCURRED IN THE FINANCING YEAR AND IN THE FOLLOWING PERIOD BY THE DATE OF THE APPROVAL OF THE FINANCIAL STATEMENTS

11.1. Free of charge shares for eligible employees

Due to the fact that LW BOGDANKA S.A. was created as a result of the restructuring of a state enterprise into a joint stock company, it was subject to the provisions of the Act on Commercialisation and Privatisation. In accordance with Article 36 of the Act on Commercialisation and Privatisation as well as on the basis of Article 17 of the Company's Articles of Association, eligible employees shall have the right to acquire, free of charge, up to 15% of shares held by the State Treasury as at the date of the Company's registration, i.e. 3,243,000 (three million two hundred and forty-three thousand) Company's Series B registered Shares.

Eligible employees may exercise the aforementioned right, provided that within 6 months from the date of the Company's registration, they submit a written statement on the intention to acquire the shares. Failure to submit the statement within the aforementioned time limit led to the loss of the right to acquire the shares free of charge. In case of the Company, the aforementioned six-month time limit commenced on the date when the Act became effective. Therefore, in compliance with Article 77 of the Act on Commercialisation and Privatisation, the six-month period lapsed on 8 October 1997.

Lists of the eligible employees were created at the Company, enumerating those who submitted the statements on the intention to acquire the shares. Written complaints issued by the employees were also considered. The list was created on 22 October 1997.

The transaction of disposal of 1,689,939 shares of LW BOGDANKA S.A. effected by the State Treasury on 8 December 2009 pursuant to general rules, became a gateway for the commencement of the process of making the shares of LW BOGDANKA S.A. available free of charge to eligible employees pursuant to the aforementioned Act on Commercialisation and Privatisation as well as the Regulation of the Minister of the State Treasury of 29 January 2003 on detailed rules of dividing eligible employees into groups, determining the number of shares available for each of these groups as well as acquiring the shares by the eligible employees (Dz.U.03.35.303).

The list of the eligible employees, including their period of employment in the state-owned company under commercialisation, its predecessor and the Company as well as the total period of employment in these entities, was presented in the Company's registered office on 29 December 2009.

On 3 February 2010 the Management Board of LW BOGDANKA S.A. as well as the representatives of the trade unions operating at the Company signed an agreement on specifying the number of shares of LW BOGDANKA S.A. available to each of the eligible groups, divided according to the total period of employment in the state enterprise KWK Bogdanka, its predecessor as well as the Company.

On 8 February 2010 the Management Board created a final list of the eligible employees, supplemented by the data on the number of shares to which the eligible employees are entitled.

The process of signing agreements on a free-of-charge acquisition of shares commenced on 7 April 2010, and was completed on 9 March 2012.

The right to acquire the Company's shares free of charge became effective upon the lapse of 3 months from the disposal by the State Treasury of the first shares pursuant to general rules, i.e. from 9 March 2010 onwards, and it may be exercised by the eligible employees until 9 March 2012. The right to acquire the shares free of charge is subject to inheritance, subject to the provisions of Article 38c)2–4 of the Act on Commercialisation and Privatisation. The shares acquired free of charge by the eligible employees may not be traded until the lapse of two years, or - in the case of employees being members of the Company's Management Board - three years, from the disposal by the State Treasury of the first shares on general terms.

On 28 December 2011, the Company published in Current Report No. 33/2011 the information about the final number of shares of B series which – on the basis of the Resolution of the Company's Management Board of 15 December 2011 – have been converted from registered shares into bearer shares at the end of the third business day from the Prospectus' publication date; application will be made with respect to those shares for admission into trading and initiation of trading in regulated market of Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*). The number of the aforesaid shares is 3,208,111.

On the same day, the application was filed with the Warsaw Stock Exchange for initiation of trading in those shares. In Current Report No. 34/2011 of 28 December 2011, the Company announced that the Company's plenipotentiary – BRE Bank Brokerage House (*Dom Inwestycyjny BRE Banku S.A.*) had filed, on the Company's behalf, the application for initiation of trading in shares at the Warsaw Stock Exchange as a consequence of the registration of shares with the National Depositary of Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*).

According to the Current Report, the total number of ordinary bearer shares of series B covered by the application and initiated in stock market trading as a result of registration stood at 3,208,111. The total number of all floating shares after the application-covered shares were initiated amounted to 33,978,701. It was proposed that 4 January 2012 be the date of registration and initiation.

On 29 December 2011, the Management Board of the National Depositary of Securities decided to register in the National Depositary of Securities 3,208,111 ordinary bearer shares of B series of LUBELSKI WĘGIEL BOGDANKA S.A., provided that the company running the regulated market decides to initiate those shares into trading on the same regulated market, on which other shares of that company, coded PLLWBGD00016, were initiated.

One day later i.e. 30 December 2011, the Management Board of Warsaw Stock Exchange, on the basis of the application notified by the Company in Current Report No. 34/2011, adopted the resolution on admission into stock exchange trading and initiation of stock exchange trading in ordinary bearer shares of B series of Lubelski Węgiel BOGDANKA S.A. at the WSE Main Market. 3,208,111 ordinary bearer shares of B series of Lubelski Węgiel BOGDANKA S.A. were admitted into stock exchange trading.

On 4 January 2012, 3,208,111 employee shares of Lubelski Węgiel BOGDANKA S.A., acquired free of charge by the Company's eligible employees, were initiated at the WSE. On the same day, the Company's shares were registered with the National Depository of Securities. The remaining shares intended for the entitled employees for free-of-charge acquisition, as well as the ones held by the Management Board, as at the date of submitting on this Report, remain registered shares.

11.2. Production launched in Stefanów

On 1 October 2011, the test start-up of mining panel in the Stefanów Field was launched. The day before, 30 September 2011, the hoisting vessel, so-called "skip", in shaft 2.1 in the Stefanów Field was commissioned by the Mining Office for Inspection Tests of Electrical Machinery. Two hoisting vessels operating in the shaft have the capacity of 40 ton each and ultimately will transport coal to the surface at the speed of 18 m/s.

The panel intended for excavation is 305 m long and has the reach of 5,070 m. The coal deposit will be mined with the use of plough unit purchased by the company from Bucyrus in 2010. Last year, this unit reached a world record output of 16,800 tonnes a day.

The launching of the excavation shaft in Stefanów and the start-up of plough panel now allows the Company to carry out a full-load start-up of the so-called "trestle bridge": a surface output transport and delivery system between the Stefanów Field and Bogdanka. This structure has already passed the construction acceptance and technical acceptance and had been commissioned by the Technical Inspection Office.

The test start-up of excavation panel started on 1 October 2011. Lubelski Węgiel BOGDANKA S.A. at this stage has reached the target output level of approx. 10,000 tonnes/day with the use of excavation and ventilation shaft 2.1 in the Stefanów Field.

In February 2012, the plough unit installed in the Stefanów Field reached the record output of 23,100 tonnes/day, with the panel progressing by 26m. This world record has been achieved while testing the maximum operating capacities of the plough unit.

11.3. Marketing activities conducted by the Company in 2011

The execution of marketing activities at LW BOGDANKA S.A. in 2011 was based on the following documents:

- "Technical and Business Plan for Lubelski Węgiel BOGDANKA for 2011" approved by resolution of the Company's Supervisory Board No. 86/VII/2011 of 2 March 2011.
- "Sponsorship strategy for Lubelski Węgiel BOGDANKA S.A. for 2010 ÷ 2014" (Resolution of the Supervisory Board No. 75/VII/2010 of 28 September 2010).
- "Sponsorship strategy for Lubelski Węgiel BOGDANKA S.A. for 2010 ÷ 2014" replaced, as of the day of its adoption, the previous document entitled "Plan for the sponsorship activity of the LW BOGDANKA Group in 2010", at the same time extending the definition of the role of sponsorship conducted by LW BOGDANKA S.A. in the environment by corporate social responsibility.

The above documents formed the basis for allocating the following dedicated promotional budgets (planned advertising fund):

1. Advertising sponsorship, sports – understood as all activities conducted by sports clubs or sports event organisers that involve the provision of sports advertising in exchange for the sponsorship of sports clubs or sports event organisers in various disciplines, significant from the viewpoint of the strategy adopted and the advertising reach.
2. Advertising sponsorship, other – understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand.
3. Promotion – Promotional mix for the BOGDANKA corporate brand – understood as public relations and publicity activities correlated with a media campaign aimed at promoting the Company's corporate image. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion]. These tasks are executed in-house by the Company's promotion and advertising unit, as well as outsourced to advertising agencies in case of official media campaigns.
4. Promotion – Promotional mix for the EkoKLINKIER associated brand – understood as public relations and publicity activities correlated with a product or image campaign of EkoKLINKIER bricks in the media, in order to boost the sales results of the brand. It also involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion].

The rationale behind the marketing activities undertaken:

1) Advertising sponsorship, sports and other

a) Achieving marketing objectives:

- o Continued creation of company image as leader of the mining industry in the Polish and European market;

- o Emphasising the pro-environmental image of the Company by promoting the accompanying brand in the market of construction materials, emphasising the ecological aspect of the activity conducted in all opinion-forming environments. Strengthening and authenticating the eco-friendly nature of the Company's brands;
- o Manifesting the success of the enterprise, confirming its credibility in the eyes of current and future contractors and investors;
- o Achieving the influence of the dynamic and modern image of sport on the image of the Company. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines;
- o Promotion of the image of the Company and its shareholders by sponsorship. Promotion of the Company products within the message directed to the target group, which is to be influenced by sponsoring;

b) Achieving business objectives:

- Creating the image of the corporation brand of BOGDANKA as a modern and profitable mining and power enterprise, attractive for capital market investors in view of the implemented development and expansion program. An increase in the value of the Company brands through a range of advertising services provided by sponsored entities. Obtaining a high media coverage, the advertising equivalent of which exceeds over twice the means involved in sponsorship;
- Ensuring dynamics of the Company image in the capital market. Creating the image of the Company on the national and international arena in the context of its own plans of expansion and development, and consequently the increase of the value of the Company on the capital market;
- Development of appropriate for the Company public relations in Poland and in the region. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness;
- Winning favour of persons and institutions directly influencing operations of enterprises, including support of persons related to eco-friendly environments. Limiting possibilities of conflicts related to investment plans in the context of pro-ecological attitudes in the areas situated next to environmentally protected areas;

c) Achieving social aims:

- Minimising high risk of conflicts in the Company between the employer and trade unions, maintaining social order in the Company. Mitigating possible social tensions and creating an atmosphere of friendly attitude towards the Company's projects;
- Maintaining good relations with employees, which translates into continued high performance of work provided by them;
- Satisfying expectations of the local community in the region, which is one of the poorer regions of Poland;
- Involvement of local youth into sport and social events of educational dimension, properly forming personalities of prospective future employees of the Company;
- Activating the community of the Lublin region into sport, social and cultural events, which would not be initiated without the support of the Company;
- Creating the image of a socially responsible company, caring about employees and their families;

2) promotion of the BOGDANKA corporate brand and the EkoKLINKIER associated brand

   - Creating BOGDANKA's Corporate Identity as a modern and highly profitable mining and power company, attractive to capital market investors due to its programme of development and expansion, as well as changes to the Company's capital structure;
   - Emphasising the social dimension of the corporate and associated brand by sports, social and cultural sponsorship, which stimulates the activity of local communities in the Lublin region;
   - Highlighting the pro-environmental image of the Company by promoting the "EkoKLINKIER" associated brand on the construction materials market, consistently stressing the ecological aspect of the company's operations in all opinion-making circles.

Execution of the 2011 advertising budget

Promotional activities for the BOGDANKA corporate brand focused chiefly on the brand's image and were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's advertising was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business (building the success dimension of the brand), as well as a reliable employer, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates [building the social dimension of the brand]. The fundamental PR operations conducted in 2011 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies in connection with the Company's presence on the Warsaw Stock Exchange and to build a positive image in the eyes of the existing and future shareholders.

Advertising at cultural and scientific events greatly contributed to the creation of positive brand image in the community, as well as among researchers, decision- and opinion makers and emphasised the importance of Lubelski Węgiel BOGDANKA S.A. for the Lublin region as one of few large and expansive companies in the area.

The promotional activities involved mainly displaying the logos of brands belonging to LW BOGDANKA S.A. at events considered important for the region and the corporate brand from the point of view of advertising and target groups. Information about the range of products offered by the Company was actively distributed at cultural, educational and other events.

The advertising activities listed above had a significant impact on the promotion of the BOGDANKA brand. Radio and television broadcasts of sports tournaments and sponsored social or sports events, articles about sports teams sponsored by the Company and their photographs published in the press demonstrated the Company's commitment to the promotion of sports and an active lifestyle. All these activities were aimed at promoting the Company's Corporate Identity – domestic and international success, good relations with the general public, earning the trust of the Company's stakeholders.

In conclusion, the sponsorship of sports clubs, in particular GKS Bogdanka, Lubelski Węgiel KMŻ and Bogdanka Racing Team, as well as the purchase of advertising in nationwide media, promoted the BOGDANKA brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of LW BOGDANKA S.A. brands among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Advertising at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers, greatly enhancing the social dimension of the brand in the region. The promotion of the corporate and associated brands was strengthened by the success of sports clubs sponsored through advertising, as well as by advertisements shown at sports events or tournaments involving other clubs, with whom advertising co-operation had been established.

The execution of the advertising budgets of the corporate and the associated brand stood at 52.97% and 88.94%, respectively. The sports sponsorship budget was in 78.54% executed, whereas the execution of the budget allocated to other sponsorship stood at only 12.00%. The total savings, amounting to almost PLN 3,125,000 were attributable to external factors and a cost-reduction program.

Table 40 Advertising budget execution in 2011 [in PLN]

Item	Advertising budget item	Execution in 2011
1	Promotion of the BOGDANKA corporate brand	794,497
2	Promotion of the EkoKLINKIER associated brand	604,820
3	Advertising sponsorship, sports	7,932,500
4	Advertising sponsorship, other	24,000
TOTAL		**9,355,817**

11.4. Donations for causes related to education, culture, fitness and sports, health care and social services, religious worship

Lubelski Węgiel BOGDANKA is a valued employer in the region. The Company's biggest asset are its people, who identify with the business and its mission. The Company's personnel, together with their families, numbers over 10,000 individuals who are directly and indirectly associated with and financially dependent on the mine.

In its operations, apart from achieving positive economic results, the Company has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. Moreover, the Company sponsors sports and cultural activities. This philosophy benefits the Company, helps to promote a favourable image of a business that cares about non-economic activities and, first and foremost, encourages local initiative.

In 2011, the Company's Management Board allocated to donations in the form of cash and non-cash donations of the total amount of PLN 271,478.89 (two hundred seventy-one thousand four hundred and seventy-eight zlotys 89/100).

In 2011, the Management Board allocated funds for the following purposes:

- health care and promotion	- PLN 86,551.00
- culture, art, protection of culture and tradition	- PLN 126,177.72
- promotion of sports	- PLN 17,908.67
- public order and safety	- PLN 4,000.00
- education and science	- PLN 36,841.50

Pursuant to Article 32.2.3 of the Company's Articles of Association, the Supervisory Board's approval is required for contracts of donation whose value exceeds the PLN equivalent of EUR 5,000.

In 2011 no contract of donation, requiring the approval of the Company's Supervisory Board, was concluded.

All beneficiaries are required by the provisions of the contract to issue a written statement confirming the acceptance of a donation, followed by a report on the use of the donation for the purpose specified in the contract. Such reports are submitted by the beneficiaries in the form of statements, descriptions, photocopies of invoices and other documents proving due execution of the contract of donation.

11.5. Adoption of the CSR strategy for 2012-2015

On 1 March 2012, the Management Board of Lubelski Węgiel BOGDANKA S.A. adopted for implementation a Corporate Social Responsibility Strategy (CSR) for 2012-2015. This basic corporate document presents the vision and objectives that Bogdanka intends to achieve through sustainable development. It was created on the basis of key CSR challenges faced by the worldwide mining industry. The PwC team for sustainable development and corporate responsibility supported the company in creating the Strategy.

For many years now, LW BOGDANKA S.A. has been applying a number of corporate responsibility practices to its business activities. Adopting and implementing the comprehensive CSR Strategy means that the company has an obligation to undertake specific measures in such areas as:

- ethics and communication transparency in business practice;
- security and development of the company employees;
- innovative and active influence on the surroundings and the environment;
- achieving business objectives in accordance with the rules of sustainable development.

The CSR Strategy for LW BOGDANKA S.A. is also a commitment of constant monitoring of all the yardsticks of the activities undertaken, and to report the company's social engagement, for instance in sports and culture sponsorship, environmental protection, or improvement of the employees' security and self-development.

On 17 January 2012, The Management Board of LW BOGDANKA S.A. adopted a resolution on creating the *"Solidarni Górnicy"* (Solidary Miners) foundation and accepting its Articles of Association.

The aim of the foundation will consist in providing financial support and aid to the Company employees who have been injured in acts of God, who are ill or in a difficult financial situation, as well as to their families; supporting cultural, health, ecological and other events of big local and regional importance, as well as helping victims of catastrophes, accidents and natural disasters.

12. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT

The Company's Supervisory Board adopted a resolution, at its meeting on 8 June 2011, to select PricewaterhouseCoopers Sp. z o.o., a limited liability company with its registered office in Warsaw, Al. Armii Ludowej 14, as the auditor responsible for a review of the Company's financial statements for the first half of 2011, consolidated financial statements of the LW BOGDANKA Group for the first half of 2011 and for auditing the Company's financial statements for 2011 and the consolidated financial statements of the Group for 2011, prepared in accordance with International Accounting Standards (IAS).

The agreement with the auditor was concluded on 12 July 2011 for a term within which the auditor is able to carry out the audit.

PricewaterhouseCoopers Sp. z o.o. was entered under number 144 on the list of entities licensed to audit financial statements. The list is maintained by the National Chamber of Statutory Auditors.

The Company hired PricewaterhouseCoopers Sp. z o.o. to audit the consolidated financial statements of the LW BOGDANKA Group for the three financial years covering the total period from 1 January 2006 to 31 December 2008 and to examine forecasts for the financial results of the LW BOGDANKA Group for the period from 1 January to 31 December 2009 for the purpose of preparing a prospectus. In addition, PricewaterhouseCoopers Sp. z o.o. audited the Company's financial statements for 2009 and 2010, the consolidated financial statements of the LW BOGDANKA Group for 2008-2010, and reviewed separate and consolidated financial statements for the first half of 2009 and the first half of 2010. Moreover, on 30 May 2010, the Company signed an agreement with PricewaterhouseCoopers Sp. z o.o. for advisory services to analyse the Corporate Social Responsibility and develop a relevant CSR Strategy.

The fee for auditing the financial statements amounted to PLN 120,000 net in 2008 and PLN 135,000 net for 2009, and PLN 95,000 for 2010.

The Company's Supervisory Board selected the auditor in accordance with Article 32.1.4 of the Company's Articles of Association, in compliance with the applicable legislation and professional standards, which was described in Current Report No. 19/2011 of 9 June 2011.

The fees for PwC for the review and audit of the financial statements as well as the fees for other services performed by PwC for the current and previous financial year shown in the table below (PLN '000):

Table 41 Fee for PricewaterhouseCoopers for the review and audit of the financial statements and the fees for other services (PLN '000 net)

PricewaterhouseCoopers Sp. z o.o	2011	2010
– auditing annual financial statements	95	95
– other certifying services, including a review of financial statements	38	35
– tax advisory services	-	-
– other services	84.36*	120.5**
Total	**257.36**	**250.5**

* fee to PwC Sp. z o.o. (company connected in terms of ownership with PricewaterhouseCoopers Sp. z o.o.) for conducting the analysis and remuneration on account of works concerning creation of the CSR strategy

** including conducting the project entitled "Evaluation of Lubelski Węgiel BOGDANKA S.A.'s exposition to the risks" in the Company in 2010.

13. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

13.1. Corporate governance rules applicable at LW BOGDANKA S.A.

In 2011 LW BOGDANKA S.A. complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules in the form of the "Code of Best Practice for WSE Listed Companies" were attached as Appendix to the resolution of the Supervisory Board of the Warsaw Stock Exchange No. 12/1170/2007 of 4 July 2007. Additionally, the Supervisory Board of the Warsaw Stock Exchange adopted on 19 May 2010 Resolution No. 17/1249/2010 on adopting changes to "Code of Best Practice for WSE-listed Companies". Those changes have been effective as of 1 July 2010. Currently, the Company applies the rules of corporate governance based on the "Code of Best Practice for WSE Listed Companies" passed with the resolution of the Board of the Stock Exchange No. 20/1287/2011 of 19 October 2011, effective from 1 January 2012.

"Code of Best Practice for WSE Listed Companies" is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - www.corp-gov.gpw.pl.

On 23 June 2009 the Company published Current Report No. 7/2009 on non-application of selected rules of the Code of Best Practice for WSE Listed Companies by Lubelski Węgiel BOGDANKA S.A.

According to the Corporate Governance Report No. 1/2010 of 15 June 2010 the following rules of the Code of Best Practice for WSE Listed Companies were not applied permanently at the Company until that day: Rule 6 of part III and Rule 7 of part III. On 15 June, the Company, fulfilling the obligation imposed by Article 29.3 of the WSE Rules hereby announces that due to cessation of reasons for not complying with rules No. 6 and 7 of part III of the Code of Best Practice for WSE Listed Companies as described in Current Report No. 7/2009 of 23 June 2009, the Company will comply with all the rules of the corporate governance stipulated in the Code of Best Practice.

13.2. The main characteristics of internal audit and risk management systems used by LW BOGDANKA S.A. with regard to the process of drawing up financial statements and consolidated financial statements

Lubelski Węgiel BOGDANKA S.A. draws up separate and consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties.

Control mechanisms intended for implementation of the following control aims have been implemented in LW BOGDANKA S.A.:

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;
- Reliability and completeness –all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;

- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and tax personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

Lubelski Węgiel BOGDANKA S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The same principles apply in the companies forming the Lubelski Węgiel BOGDANKA Group, for which LW is the parent entity.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel BOGDANKA S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Audit and Internal Control Department within the Company's organisational structure, operating pursuant to the Rules of Audit and Internal Control, is also of significance. The internal audit system at Lubelski Węgiel BOGDANKA S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues a relevant opinion. A chartered auditor is appointed by the Company's Supervisory Board from among reputable audit firms in accordance with recommendations made by the Audit Committee, which, among other things, pays due attention to ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.

13.3. Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A.

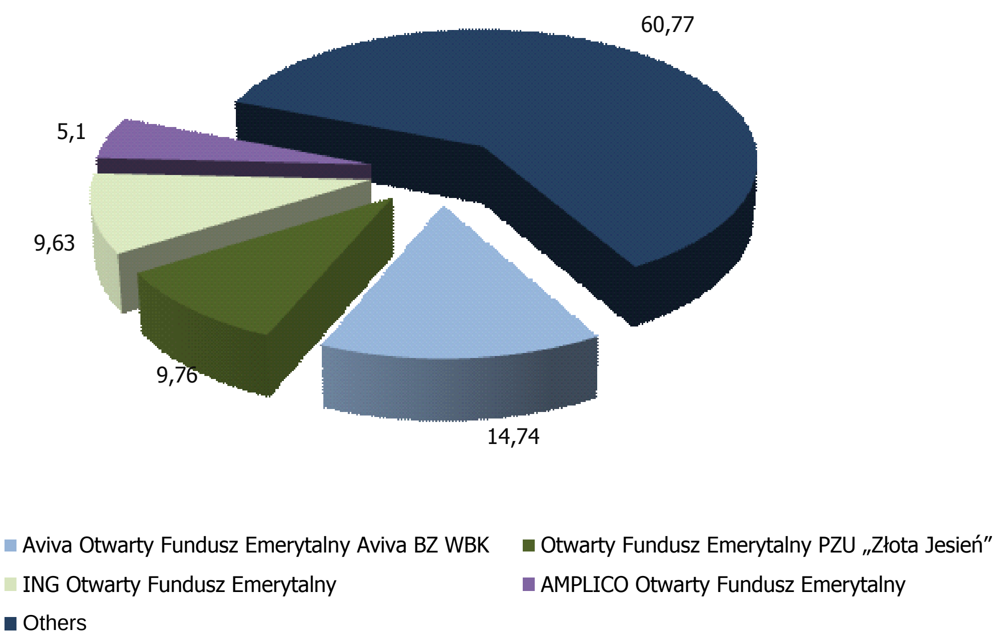
Table 72 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 20 March 2012 and 9 November 2011

Shareholder	20 March 2012	9 November 2011

	Number of shares/ Number of votes at the GSM	Share in the share capital (%)*	Number of shares/ Number of votes at the GSM	Share in the share capital (%)*
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
Other	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.

Chart: The shareholding structure of LW BOGDANKA S.A. as at 20 March 2012.



13.4. Owners of all the securities which entitle to special control rights

LW BOGDANKA S.A. has not issued any securities which would entitle shareholders to special control rights.

13.5. Restrictions on exercising the voting right

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on exercising the voting right at the General Shareholders Meeting of the Company.

13.6. Restrictions on transferring ownership of the Company's securities

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on transferring ownership of the Company's securities.

13.7. Description of the rules governing the amendments made to the Company's Articles of Association

Amendments to the Articles of Association of LW BOGDANKA S.A. shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Company's Articles of Association as well as provisions of the Commercial Companies Code.

If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

After the General Shareholders Meeting amends these Articles of Association, the Management Board shall draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, in the event of amending the Articles of Association, the Regulation of the Minister of Finance of 19 February 2009 (Dz. U. 09.33.259) 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, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.

13.8. Governing bodies

13.8.1. Management Board

13.8.1.1. Description of rules regarding appointment and dismissal of management officers as well as their rights, and in particular the right to make a decision on the issue or purchase of shares

Appointment of Management Board members

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.;

Pursuant to the Articles of Association of Lubelski Węgiel BOGDANKA S.A., the Management Board shall be composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board shall be appointed for a joint term of office lasting 3 (three) years.

As long as over a half of the shares in the Company were held by the State Treasury, the members of the Management Board (with the exception of the Management Board member elected by the employees) were appointed by the Supervisory Board following a verification procedure, pursuant to the Regulation of the Council of Ministers on the verification procedure for positions of management board members in certain companies, dated 18 March 2003 (Dz. U. No. 55, item 476, as amended).

The Supervisory Board conducts qualification procedure in the event that circumstance justifying the appointment of a Management Board member occurs.

The conclusion of the election and recognition of its validity shall take place prior to the date of the General Shareholders Meeting accepting the statements, balance sheet and the profit and loss account for the final year of the Management's Board term of office.

Employees shall elect members of the Management Board directly in a general election, in secret ballot.

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

Dismissal of Management Board members

In compliance with the Company's Articles of Association currently in effect, each Management Board member may be dismissed or suspended from office by the Supervisory Board.

13.8.1.2. Composition of the Management Board

Management Board - 7th term of office

On 5 March 2010 the Supervisory Board appointed the following persons for the 7th term of office (2010-2012) of the Company's Management Board:

1.	Mirosław Taras	President of the Management Board
2.	Krystyna Borkowska	Vice-President for Economic and Financial Affairs, Chief Accountant
3.	Zbigniew Stopa	Vice-President for Technical Affairs
4.	Waldemar Bernaciak	Vice-President for Trade and Logistics

The mandates of the members of the Management Board expire on the date of the Annual Shareholders Meeting which approves the financial statements of the Company for 2012, i.e. not later than 30 June 2013.

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.

As at 31 December 2011, the composition of the Management Board of Lubelski Węgiel BOGDANKA S.A. of the 7th term was as follows:

1.	Mirosław Taras	President of the Management Board
2.	Krystyna Borkowska	Vice-President for Economic and Financial Affairs, Chief Accountant
3.	Zbigniew Stopa	Vice-President for Technical Affairs
4.	Waldemar Bernaciak	Vice-President for Trade and Logistics
5.	Lech Tor	Member of the Management Board elected by the employees

Mirosław TARAS, M.Sc.Eng. - President of the Management Board

Mirosław Taras graduated in 1980 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree in mining, specialising in Mine Design and Construction. In 1996 he completed postgraduate studies at the Warsaw School of Economics in the field of Corporate Finance Management. Attended a wide range of training sessions, courses and workshops (including finance management, sales, negotiations, controlling and accounting), as well as successfully completed a course for supervisory board members of State Treasury companies. His professional career began in 1979 with a position of an industrial systems fitter at PIP INSTAL Lublin. From 1980 to 1991 he held a number of mining supervisory positions at PP KWK Bogdanka, starting with a trainee, through to an underground On-Duty Engineer. In 1992 he served as the Vice-President of the Management Board of PPH Min-Water Sp. z o.o., while in 1992-1998 he was employed at KWK Bogdanka S.A. at the position of Chief Foreman. From 1997 to 1999 he served as the Vice-President of the Management Board at Lubcoal S.A. In 1999-2001 he held the position of Vice-President of the Management Board at Grupa Kapitałowa Lubelski Węgiel S.A. From 2001, for a period of two years, he served as the Director of the Construction Ceramics Plant, followed by the positions of the Sales and Rail Transportation Director and Deputy Director, as well as a Commercial Proxy at Lubelski Węgiel BOGDANKA S.A. Since 16 February 2008, Mirosław Taras has served as the President of the Management Board of Lubelski Węgiel BOGDANKA S.A.

Mirosław Taras holds the following qualifications recognized by the State Mining Authority: Higher-rank mining supervisor (1986).

Zbigniew STOPA, M.Sc.Eng. - Vice-President of the Management Board for Technical Affairs

Zbigniew Stopa graduated in 1984 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree, specialising in Deposits Exploitation Technology. In 1997 he completed postgraduate studies at the Central Mining Institute in Katowice in the field of Occupational Health and Safety Management. He attended a wide range of training sessions and specialist courses (the fundamentals of economics, human resource management, finance for managers) as well as completed a course for supervisory board members of State Treasury companies.

Zbigniew Stopa's career has always been connected with Lubelski Węgiel BOGDANKA S.A. and its legal predecessors. In 1984-1985 he underwent a training programme underground, while from 1985 to 1987 he worked as an underground overman. In 1987 he was appointed to the position of an underground shift foreman, and towards the end of that year, to the position of an underground section foreman. In 1991-2006 he worked as an underground chief foreman. From May to December 2006 he served as the Manager of Mining Works of Nadrybie mining field. On 15 December 2006 he was appointed Vice–President of the Management Board - Production Director.

Zbigniew Stopa holds the following qualifications recognized by the State Mining Authority: head of the mining works department (1997), higher-rank mining supervisor (1991). In 2007 he was appointed a member of the Mining Occupational Health and Safety Committee affiliated with the State Mining Authority in Katowice by the President of the State Mining Authority.

Waldemar BERNACIAK, M.Sc.Eng. - Vice-President of the Management Board for Trade and Logistics

Waldemar Bernaciak graduated in 1979 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree in mining and geology, specialising in Mine Design and Construction. In 1999 he completed postgraduate studies in the field of management and logistics at the University of Illinois at Urbana – Champaign. In 2001 he graduated from the School of Controlling in Katowice. Furthermore, he attended a number of specialist training courses (including a course on planning and production management in a coal mine at the Silesian University of Technology, logistics, materials management and stock optimisation). He also completed a course for supervisory board members of State Treasury companies.

From the outset his career has been in the mining industry. From 1979 to 1997 he was employed by Kombinat Budownictwa Górniczego WSCHÓD and its legal successors, where he held various positions, starting with a trainee miner, through an overman, shift foreman, section foreman, senior mining, engineering and construction specialist to the chief foreman (deputy mining works manager). For a decade, from 1997, he served as the Head of Materials and Machine Management Department at Lubelski Węgiel BOGDANKA S.A., while from February to August 2007 as the Head of Logistics. In August 2007 he was appointed Vice–President of the Management Board - Director for Mine Expansion, Trade and Logistics. Next, for several months he served as the acting President of the Management Board – Managing Director. On 16 February 2008 he returned to the position of Vice–President of the Management Board - Director for Mine Expansion, Trade and Logistics. In October 2008 he was appointed Vice-President of the Management Board for Trade and Logistics and has held that position ever since.

Waldemar Bernaciak holds the following qualifications recognized by the District Mining Authority in Lublin: Lower–rank mining supervisor, intermediate-rank mining supervisor, higher-rank mining supervisor, mining works manager.

Krystyna BORKOWSKA, M.A.- Vice President of the Management Board for Economic and Financial Affairs, Chief Accountant

Krystyna Borkowska graduated in 1975 from the Faculty of Production Economics at the University of Gdańsk, specialising in Finance. In 2002 she obtained a Controller's Diploma from the School of Controlling in Katowice. In 2004 she completed postgraduate studies at the Warsaw School of Economics at the Chair of Management in Economy, in the field of European Standards in Accounting and Finance. In 2007 she completed postgraduate studies in Public Procurement at the European School of Law and Administration in Warsaw.

Krystyna Borkowska's career began in 1975 with an internship at Koszalińskie Przedsiębiorstwo Ceramiki Budowlanej O/Bytów. In 1975 - 1976 she worked as a Senior Financial Clerk in Gdańskie Przedsiębiorstwo Ceramiki Budowlanej. For three years, starting from June 1976, she held the position of Head of Economic Planning at Zakład Produkcji Magnetofonów in Lubartów. From 1979 to 1998 she was employed by Przedsiębiorstwo Robót Górniczo - Budowlanych PROGOBEX S.A. in Łęczna, holding a vast range of positions there, from a Planning Specialist, through managerial functions in the economic and finance division, the position of Deputy Director for Economic and Financial Affairs, Chief Accountant, to the Vice-President of the Management Board - Chief Accountant. Since 1998 Krystyna Borkowska has been involved with Lubelski Węgiel BOGDANKA S.A. and its legal predecessors. She started off as the Head of Accounts - Deputy Chief Accountant and in June 1999 was appointed Vice-President of the Management Board for Economic and Financial Affairs. Since 2001 she held the position of Chief Economist. In 2004 she became Vice–President for Economic and Financial Affairs. For the period of two months in 2007 she performed duties of Chief Economist. Since 2007 she has served as Chief Accountant and, additionally, since 26 April 2008, as the Vice–President of the Management Board for Economic and Financial Affairs.

Lech Tor – Member of the Management Board elected by 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.

13.8.1.3. Description of operations and authorisations

Pursuant to the Company's Articles of Association, the Management Board of LW BOGDANKA S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board.

In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

1. adopting the Rules of Procedure for the Management Board,
2. adopting the Company's Organisational Rules,
3. creation and liquidation of the Company branches,
4. appointment of a proxy,
5. contracting loans,
6. adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
7. assuming contingent liabilities (including the issuance of guarantees, sureties and notes),

8. disposing of and acquiring non-current assets with a value exceeding the PLN equivalent of EUR 50,000.00 (fifty thousand euro),
9. any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW BOGDANKA S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW BOGDANKA S.A. pays due attention to transparency and efficiency of the management system of the Company and to the maintenance of its affairs in compliance with the provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Declarations of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The power of proxy may be revoked by any and each of the Management Board members.

In accordance with the Company's Organisational Rules, the **President of the Management Board**:

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards;
2. Represents the Company in relations with third parties;
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
   a) company organisation,
   b) supporting the operations of the Company's governing bodies,
   c) privatisation, Company restructuring,
   d) ownership supervision and capital investments,
   e) internal structural and ownership transformations,
   f) providing information and reports to investors, shareholders and stock exchange institutions,
   g) implementing LW BOGDANKA S.A.'s strategy and the Company's long-term plans,
   h) co-operation with the media and the information policy,
   i) current records archive and general secretariat,
   j) internal audit in the Company,
   k) matters of defence,
   l) HR policy, employee and social issues,
   m) occupational health and safety, training workshops,
   n) diversification of the Company's operations and EU integration,
   o) future plans with regard to the development and modernisation of the production process,
   p) protection of personal data and confidential information,
   q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,
   r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,
   s) monitoring the quality of construction ceramics.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:

1. Managing the Company's finances.
2. Economic effectiveness of investment projects.
3. Pay and insurance policy.
4. Economic and financial analyses.
5. Reporting and statistics.
6. Budgeting and controlling.
7. Supervising Company value management.
8. Providing financial and bookkeeping services.
9. Accounting and settlements with business partners.
10. Continuous stocktaking.

Major responsibilities of the **Vice-President for Economic and Financial Affairs as the Chief Accountant** include:

1. Organising the work of subordinate departments and ensuring their effective operation in line with the Accounting Act and other accounting tasks.
2. Drawing up the required current financial statements.
3. Drawing up the annual financial statements.
4. Supervising the organisation of management accounting.
5. Compiling internal reports for the Company's governing bodies.
6. Ongoing analysis of settlements (accounts receivable and liabilities).
7. Approving documents for payment and posting.
8. Submitting motions to the Company's Management Board regarding issues requiring its decision.
9. Developing the rules for managing short-term securities.
10. Organising the work related to financial management in terms of cash accounting and settlements with third parties.

The Vice-President for Commerce and Logistics organises and supervises the Company's operations in the following areas:

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Sales of construction ceramics.
4. Designing and executing promotional, advertising and brand management activities.
5. Market analyses.
6. Rail transportation.
7. Logistics and warehouse management.
8. Computerisation of the Company.
9. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues
10. Production of construction ceramics.

The Vice-President for Technical Affairs organises and supervises the Company's operations in the following areas:

1. Investment and refurbishment activities.
2. Cost estimation and service valuation.
3. Material and machinery management.
4. Environmental protection and utilisation of pit waste.
5. Maintaining and developing production capacity.
6. Analysis and optimisation of the usage of production capacity, including machinery and equipment.

7. Deposit management planning.
8. Trade coal mining and production.
9. Keeping surveyor and geological records, as well as production records.
10. Technical and economic progress.
11. Organising and planning production and mine development.
12. Research and implementation.

Member of the Management Board elected by employees is responsible for:

1. Co-operating with the workforce and the trade unions active in the Company.
2. Social dialogue in the Company.
3. Creating conditions for better use of the Company's social potential (internal marketing).
4. Supervising the correct use of the funds available from the Company's Social Fund.
5. Performing other duties imposed by the resolutions of the Management Board.

13.8.1.4. Information about Management Board meetings and the resolutions adopted

In the reporting year 2011 the Management Board appointed for the 7th term held 95 minuted meetings and adopted the total of 1,493 resolutions.

The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Company's ordinary management and at the request of individual Management Board members.

13.8.1.5. Information on powers of proxy granted and revoked

In 2011 there was no change in the composition of the Company's proxies.

13.8.2. The Supervisory Board

Appointment and removal from office of the Supervisory Board members

The rules concerning appointment and removal from office of the Supervisory Board members of the Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.

In accordance with the Articles of Association of LW BOGDANKA S.A., the Supervisory Board consists of 5 (five) to 9 (nine) members. The members of the Supervisory Board are appointed and removed from office by the General Shareholders Meeting for a joint term of office of three years.

A Supervisory Board member shall file his/her resignation in writing to a member of the Management Board or to a proxy. The Management Board member or the proxy who receives the resignation shall promptly notify the other members of the Management and Supervisory Boards of the same.

The mandates of the Supervisory Board Members expire not later than on the date when the General Shareholders Meeting approves the report on operations and the financial statements for the last full financial year when the Supervisory Board Members performed their function.

Members of the Supervisory Board may be removed from office by the General Shareholders Meeting at any time.

13.8.2.1. Composition of the Supervisory Board

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting.

<u>Supervisory Board – 7th term of office</u>

In 2011 the Supervisory Board for the 7th term of office operated in the following composition:

1. Eryk Karski - Chairman of the Board

2.	Stefan Kawalec	- Vice-Chairman of the Board
3.	Jadwiga Kalinowska	- Secretary of the Board
4.	Ewa Pawluczuk	- Member of the Board
5.	Adam Partyka	- Member of the Board
6.	Andrzej Lulek	- Member of the Board

The mandates of the members of the Supervisory Board expire on the date of the Extraordinary General Shareholders Meeting which approves the financial statements of LW BOGDANKA S.A. for 2011, i.e. not later than 30 June 2012.

As at the submission of this Report, i.e. 20 March 2012, and as at 31 December 2011 the Supervisory Board was in office in the above composition.

13.8.2.2. Description of activities

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations. The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

The responsibilities of the Supervisory Board include:

1. assessment of the Directors' Report on the Company's operations and financial statements for the preceding financial year regarding their conformity with books, documents and facts. The above applies also to the consolidated financial statements of the capital group, if such a report is prepared.
2. assessing motions of the Management Board regarding the distribution of profits or covering of losses;
3. submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
4. selecting a chartered auditor to audit annual financial statements and consolidated financial statements of the Company's capital group;
5. determining the scope and deadlines for the Management Board's submission of annual material and financial plans (technical and economic) and long-term strategic plans;
6. issuing opinions on the Company's long-term strategic plans;
7. issuing opinions on annual business plans (specifying the tasks to be performed and the related budgets),
8. adopting rules laying down the detailed procedure followed by the Supervisory Board;
9. adopting for the Company's internal purposes the uniform text of the Company's Articles of Association prepared by the Company's Management Board,
10. approving the Management Board rules;

2. The powers of the Supervisory Board shall include granting consent to the Management Board for the following:

1) acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 250,000.00.
2) acquisition or disposal of property, plant and equipment not related to the Company's core business, where the value of a single transaction exceeds one-twentieth of the Company's share capital,
3) conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 5,000.00, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association. The equivalent of the amount is calculated at the exchange rate quoted by the National Bank of Poland as at the date of concluding the agreement
4) entering by the Company or by its subsidiary into a significant contract with an entity related to the Company, a member of the Supervisory Board or a member of the Management Board, and with

entities related to them. The obligation to express consent does not concern typical arm's length transactions concluded as part of the operating activity by the Company and a subsidiary in which the Company holds a majority equity interest;

5) entering by the Company into a credit, loan, or surety agreement or any similar agreement with a member of the Management Board, a proxy, a liquidator, or for the benefit of any of those persons;
6) issue of bonds, excluding issue of securities referred to in Article 52.3.5 of the Company's Articles of Association;
7) granting by the Company of a loan, a guarantee, issuing a bill of exchange or granting other indebtedness.

3. Additionally, the Supervisory Board's powers shall include in particular:

1) appointing and dismissing members of the Management Board,
2) establishing the remuneration rules and remuneration amounts to be received by the Management Board members,
3) suspending the members of the Management Board from office for important reasons,
4) delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,
5) representing the Company in agreements and disputes between the Company and the Management Board members,
6) granting consent to the creation of foreign branches of the Company,
7) granting permission to Management Board members for accepting positions on the governing bodies of other companies.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, are defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee is a standing committee at the Supervisory Board and is a sole committee operating at the Company.

13.8.2.3. Audit Committee

The Audit Committee is composed of three members, at least two of whom shall be independent members, and at least one of them possesses competence with regard to accounting or auditing.

The task of the Audit Committee shall be advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its Group, as well as chartered auditors auditing the Company's financial statements. In particular, the duties of the Audit Committee shall include:

1) monitoring the process of financial reporting and performing audits,
2) monitoring the effectiveness of the following systems: internal control, internal audit and risk management,
3) cooperation with the chartered auditor auditing the financial statements of the Company, as well as monitoring the autonomy of the chartered auditor and an entity authorised to audit the financial statements, and recommending to the Supervisory Board the chartered auditor to be selected,
4) discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and
5) providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

The Committees of the Board shall submit to the Board periodic reports on their operations. As at the date of submitting this Report in, i.e. as at 20 March 2012, and as at 31 December 2011, the Audit Committee operated in the following composition:

As the new composition of the Supervisory Board was appointed, on 6 July 2010 the Supervisory Board appointed the Audit Committee in the following composition:

1. Ewa Pawluczuk - Chairman,
2. Jadwiga Kalinowska - Secretary,
3. Eryk Karski - Member.

Eryk Karski and Ewa Pawluczuk are independent members of the Audit Committee. In 2011, there were no changes in the composition of the Audit Committee.

13.8.3. General Shareholders Meeting

13.8.3.1. Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting

The General Shareholders Meeting of LW BOGDANKA S.A. holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and Article 44 of the Company's Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website (www.lw.com.pl), in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the General Shareholders Meeting with the right to vote.

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General

Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A., members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.

Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.

The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports,
- adopt a resolution on the distribution of profit or coverage of loss,
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties,
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members,
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts.
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon,
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator,
- increase in or reduction of the Company's share capital,
- issue of bonds of any type,
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code,
- mandatory redemption of shares in accordance with the Commercial Companies Code,
- creation, use and release of capital reserves,
- use of statutory reserve funds,
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company,
- merger, transformation or demerger of the Company,
- amendments to the Company's Articles of Association, including changes to the Company's business profile,
- dissolving and liquidating the Company.
- establishment of another company by the Company,
- subscription for or acquisition of shares in another company,
  disposal of subscribed for or acquired shares in another company.

13.8.3.2. Information of General Shareholders Meetings held in 2011

In 2011 one General Shareholders Meetings was held – Annual General Shareholders Meeting on 10 May 2011 held in the Company's registered office in Bogdanka.

Agenda:

1. Opening of the General Shareholders Meeting.
2. Electing the Chairman of the General Shareholders Meeting.
3. Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting the agenda.
5. Adopting the Resolution on the election the Ballot Counting Committee of the General Shareholders Meeting.
6. Recognising the Financial Statements and Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2010.
7. Recognising the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group and the Consolidated Director's Report on Operations of the Lubelski Węgiel BOGDANKA Group for 2010.
8. Presentation of the Report on Operations of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. as the Company's governing body for 2010.
9. Presentation of the Management Board's motion regarding the distribution of net profit for 2009.
10. Presentation of the Supervisory Board's Report on the assessment of the Company's the Financial Statements and Directors' Report on Operations for 2010, and the Management Board's motion regarding the distribution of net profit.
11. Presentation of the Supervisory Board's Report on the assessment of the Consolidated Financial Statements of the Group and the Director's Report on Operations of the Group for 2010
12. Adopting resolutions on:
    (a) approval of the Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2010,
    (b) approval of the Financial Statements of Lubelski Węgiel BOGDANKA S.A. for 2010,
    (c) approval of the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. Group for 2010,
    (d) approval of the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group for 2010,
    (e) granting discharge to the members of the Management Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2010,
    (f) approval of the Report on Operations of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. as the Company's governing body for 2010,
    (g) granting discharge to the members of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2010,
    (h) distribution of net profit for the financial year 2010,
13. Adopting a resolution on proposed amendments to the Company's Articles of Association.
14. Miscellaneous.
15. Closing of the General Shareholders Meeting

Information on adopted resolutions, as well as on all other documents, is available on the Company's website at www.lw.com.pl, in the General Shareholders Meeting tab.

13.8.3.3. Dividend policy

In accordance with the Articles of Association of LW BOGDANKA S.A., the manner of allocating the net profit of the Company is specified in a resolution of the General Shareholders Meeting.
The amount of profit to be distributed as dividend should be divisible by the total number of the Company shares.
The General Shareholders Meeting may allocate a portion of the profit towards:

1) dividend for the shareholders, with the proviso that the amount of profit to be distributed as dividend should be divisible by the total number of the Company shares,
2) other long-term capitals and funds,
3) other purposes defined by the General Shareholders Meeting by way of a resolution.

The dividend record date shall be the date of the Annual General Shareholders Meeting for the financial year, with the proviso that the dividend payment shall be made within two months from the dividend record date.

Dividend for 2005

Under resolution of 17 August 2006 regarding the Management Board's request concerning the amendment of a resolution adopted by the Annual General Shareholders Meeting of 29 June 2006 on the distribution of net profit for 2005 generated by the Company, the net profit of PLN 72,536,230 was allocated in 60.03%, i.e. in the amount of PLN 43,541,710, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 18.92.

Dividend for 2006

Under resolution of 17 August 2007 regarding the Management Board's request concerning the amendment of a resolution adopted by the Annual General Shareholders Meeting of 29 June 2007 on the distribution of net profit for 2006 generated by the Company, the net profit of PLN 84,218,680 was allocated in 59.38%, i.e. in the amount of PLN 50,008,530, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 21.73.

Dividend for 2007

Under resolution of 25 April 2008 regarding the opinion on the Management Board's request concerning the distribution of net profit for 2007 and the undistributed profit from previous years, the net profit generated by the Company of PLN 75,262,490 was allocated in 7.49%, i.e. in the amount of PLN 5,638,330, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 0.24. The description of allocation of shares in 2007 is presented in the Financial Statements.

Dividend for 2008

On 31 March 2009, the Management Board of LW BOGDANKA S.A. adopted a resolution on making a request to the General Shareholders Meeting regarding the distribution of net profit for 2008. The Management Board proposed that the net profit generated by the Company in the amount of 118,370,160 was allocated in full to the capital reserve of the Company for the purpose of financing investments planned for 2009, in line with the Technical and Economic Plan adopted by the Company for 2009. On 17 April 2009, the Supervisory Board adopted a resolution accepting the proposition of the Management Board regarding the distribution of net profit for 2008. Under the resolution of 15 May 2009 regarding the distribution of net profit for 2008 generated by the Company amounting to PLN 118,370,160, 75.05%, i.e. PLN 88,832,460 was allocated for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 3.86.

Dividend for 2009

In pursuance of the strategy of LW BOGDANKA S.A. which assumes incurring significant investment outlays, the Management Board recommended to the General Shareholders Meeting that a dividend for 2009 should not be paid. Under resolution of the Company shareholders of 10 June 2010, the net profit earned by LW BOGDANKA S.A. in 2009 in the amount of PLN 192,052,876.83 was fully earmarked for the reserve capital of the Company, allocated for financing investments planned to be implemented in 2010.

Dividend for 2010

On 10 May 2011, the General Shareholders Meeting adopted a resolution regarding distribution of net profit for 2010.

The General Shareholders Meeting decided to distribute the net profit generated by the Company in 2010 amounting to PLN 227,362,313.44 (two hundred twenty-seven million three hundred sixty-two thousand three hundred and thirteen zlotys 44/100) 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 Company's shareholders, i.e. to pay a dividend of PLN 1.40 (one zloty 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.

Dividend for 2011

On 19 March 2012, the Company's Management Board adopted a resolution on a motion to the General Shareholders Meeting regarding distribution of net profit for 2011.

In compliance with the above resolution, the Management Board, taking into consideration the financial needs connected with the Company's development, implementation of the adopted investment programme and the necessity of providing a proper level of the Company's financial liquidity, proposes to distribute the net profit generated by the Company in 2011 amounting to PLN 218,977,735.69 (two hundred and eighteen million nine hundred and seventy-seven thousand seven hundred thirty five zlotys 69/100) as follows:

1. The amount of PLN 68,027,180.00 (sixty-eight million twenty-seven thousand one hundred and eighty zlotys) – for distribution to the Company's shareholders.
2. The amount of PLN 150,950,555.69 (one hundred and fifty million nine hundred and fifty thousand five hundred and fifty-five zlotys 69/100) - to the Company's reserve capital.

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

14. Tables

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Mirosław Taras	Prezes Zarządu	....
Krystyna Borkowska	Z-ca Prezesa Zarządu ds. Ekonomiczno-Finansowych - Główny Księgowy	....
Zbigniew Stopa	Z-ca Prezesa Zarządu ds. Technicznych	....
Waldemar Bernaciak	Z-ca Prezesa Zarządu ds. Handlu i Logistyki	....
Lech Tor	Członek Zarządu wybierany przez pracowników	....

Bogdanka, 19 March 2012