DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2011 to 31 December 2011

BOGDANKA, MARCH 2012

1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1. Structure and changes in the structure of Lubelski Węgiel BOGDANKA Group

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

The Associated Undertaking is EKSPERT Sp. z o.o., in whose capital Łęczyńska Energetyka Sp. z o.o. holds 50% of shares.

As at the date of submitting this Report, i.e. 20 March 2012, LW BOGDANKA S.A. also held 24.41% of shares in Kolejowe Zakłady Maszyn KOLZAM S.A., the company in bankruptcy, with a total par value of PLN 168,050. The ownership title to the shares was transferred to the Company as security for settlements for performing transportation services. That company has not been included in the consolidation.

1.2. Information on the undertakings of the LW BOGDANKA Group

1.2.1. The Parent Undertaking of the LW BOGDANKA Group

The LW BOGDANKA Group consists of Lubelski Węgiel BOGDANKA S.A. and Łęczyńska Energetyka Sp. z o.o., the subsidiary undertaking.

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
Scope of activities	

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).

Supplementary activities

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EKOKLINKIER 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 1 April 2011, and established at the level of 70% of the maximum production capacity.

1.2.2. Subsidiary undertaking and associated undertaking

Łęczyńska Energetyka Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.	(81) 443 11 02, (81) 462 55 53
Fax:	(81) 443 11 01
Website:	www.lebog.com.pl
e-mail:	biuro@lebog.com.pl
Industry Identification Number (REGON):	004164490
Tax Registration Number (NIP):	713-020-71-92

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

Shareholding structure:

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

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

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

Łęczyńska Energetyka Sp. z o. o. was established on 28 May 1990.

On 15 June 1990, the Company was registered with the commercial register under entry No. 1823 in section B by the District Court in Lublin, XI Commercial Division. The Company commenced its business activities on 1 July 1990 under the name of KOBO Sp. z o.o., taking over the activities of the mine's Power Engineering Department with respect to heat energy production at the boiler facility in Bogdanka as well as transmission and distribution of the energy to recipients in Bogdanka, Nadrybie and Stefanów and to the town of Łęczna.

As of 1 June 1992 the Company took over the operations of the Water and Wastewater Division.

Between 1994 and 1999 the Company expanded its activities as regards heat production and distribution to include local heat generation plants in Zawadów, Łęczna and Ostrów Lubelski.

As of 2 January 2000 the Company has also provided accommodation and catering services at the Kalnica resort.

In 2011 the Company's Management Board decided to suspend the activities at the resort and designate it for sale by a potential buyer (or buyers).

On 1 February 2001 the Łęczna Municipality made an in-kind contribution to the Company in the form of former ZEC Łęczna's assets in exchange for shares accounting for 23.33% of the Company's increased share capital.

Since 17 April 2001 the Company has operated under the business name of Łęczyńska Energetyka Sp. z o.o. in Bogdanka.

Under resolution No. 19 of 7 December 2004, adopted by the Extraordinary Shareholders Meeting, the Company's share capital was increased by PLN 40,000,000 by creating 40,000 new shares with a par value of PLN 1,000 per share. On 9 December 2004, all shares were taken up by Lubelski Węgiel Bogdanka S.A. (by a notarial deed Rep. No. 6026/2004), and on 16 December 2004 fully paid up in cash.

By virtue of Resolution No. 1 of 27 July 2006, the Extraordinary Shareholders Meeting increased the Company's share capital by PLN 2,618,000. The shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. No. 3148/2006) on 30 August 2006 in exchange for an in-kind contribution in the form of the right to perpetual usufruct of land and fixed assets to the total market value of PLN 2,618,477.

LW BOGDANKA's share in the share capital of Łęczyńska Energetyka Sp. z o.o. in Bogdanka accounts for 88.70%.

Associated undertaking:

EKSPERT Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.	(81) 462 20 62
Fax:	(81) 462 20 62
Website:	-
e-mail:	wkekspert@wp.pl
Industry Identification Number (REGON):	432693862
Tax Registration Number (NIP):	505-000-15-99

Share capital (as at 31 December 2011): PLN 50,000, divided into 100 shares of PLN 500.

Łęczyńska Energetyka Sp. z o.o. has a 50% share in the share capital of EKSPERT Sp. z o.o., and holds 50% of votes at the Shareholders Meeting of EKSPERT Sp. z o.o.

The business activity of EKSPERT Sp. z o.o. consists in manufacturing metal constructions and preparing technical and structural/technological documentation.

On 14 July 2011 the Extraordinary Shareholders Meeting of EKSPERT Sp. z o.o. adopted Resolution No. 2/2011 on dissolving the Company. Moreover, on the same date the Extraordinary Shareholders Meeting of EKSPERT Sp. z o.o. adopted also Resolution No. 2/2011 on appointing the liquidator and determining the manner of representation. Under that resolution Mr Waldemar Kania, the then President of EKSPERT Sp. z o.o., was appointed as the Company's liquidator. On 27 October 2011 two resolutions were adopted by the Extraordinary Shareholders Meeting of EKSPERT Sp. z o.o.: Resolution No. 3, under which Mr Waldemar Kania was dismissed from the function of EKSPERT Sp. z o.o.'s liquidator and Resolution No. 4, under which Mr Marcin Plewka, the Deputy President of the Management Board for Economic and Commercial Affairs of WARBO S.A., was designated as the new liquidator as of 31 October 2011.

1.3. Organisational and capital affiliations of the Group

Łęczyńska Energetyka Sp. z o.o. holds 50% of shares in the share capital of EKSPERT Sp. z o.o.

1.4. 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.

1.4.1. Changes in basic management rules of LW BOGDANKA S.A. and its Group

In 2011, the following changes to the management rules of the Parent Undertaking were made.

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.

In 2010, there were no other changes to the management rules of the LW BOGDANKA Group in addition to those listed above.

1.5. Information on branches (establishments) owned by the undertakings of the Group

Lubelski Węgiel BOGDANKA and its subsidiary undertaking do not have any branches (establishments).

2. INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF THE LW BOGDANKA GROUP CONCLUDED IN 2011 AND FOLLOWING THE BALANCE-SHEET DATE

The undertakings of the LW BOGDANKA Group have no information about significant agreements concluded in 2011 between the shareholders. All significant agreements concluded by the undertakings of the LW BOGDANKA Group in 2011 are described below.

In 2011 and after the balance-sheet date the subsidiary did not conclude any agreements significant for the business activities of the LW BOGDANKA Group.

2.1. Trade agreements

2.1.1. 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.

2.1.2. 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.

2.1.3. 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.

2.1.4. 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.

2.1.5. 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.

2.1.6. 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.

2.1.7. 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 agrement

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.

2.1.8. 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.

2.2. 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.

2.3. 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.

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.

2.4. 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.

2.5. Agreements related to achieving share issue objectives

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

2.6. 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.

3. FINANCIAL POSITION OF THE LW BOGDANKA GROUP

3.1. Basis of preparation of the Annual Consolidated Financial Statements

The Group 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 consolidated financial statements of the LW BOGDANKA Group for the financial year from 1 January 2011 to 31 December 2011 (hereinafter referred to as the "Annual Consolidated 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.

3.2. Information on current and forecast economic and financial position of the LW BOGDANKA Group with assessment of financial resources management

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

As at the date of drawing the information, the Group sees no threats as to its ability to settle contracted liabilities in future. Analyses of financial resources held and planned to be held are continuously conducted in order to minimise a risk of losing liquidity even for a short moment.

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

Table 1 Selected financial information of the LW BOGDANKA Group [PLN '000]

Item	Q4 2011	Q4 2010	Change [%]	4 Qs 2011	4 Qs 2010	Change [%]
Revenue on sales	435,588	296,223	47,05	1,301,349	1,230,447	5.76
Gross profit	201,773	92,452	118,25	384,653	409,684	-6.11
EBITDA	229,941	77,090	198,28	450,603	414,548	8.70
EBIT (Operating profit)	164,048	43,332	278,58	265,739	276,472	-3.88
Profit before taxation	162,882	46,364	251,31	271,981	288,229	-5.64
Net profit for the financial year	133,203	37,142	258,63	221,246	230,122	-3.86
Operating cash flow	75,813	84,399	-10,17	313,802	368,235	-14.78
Investing cash flow	-173,346	-130,350	32,99	-726,489	-577,793	25.74
Financing cash flow	100,025		-	43,406		-

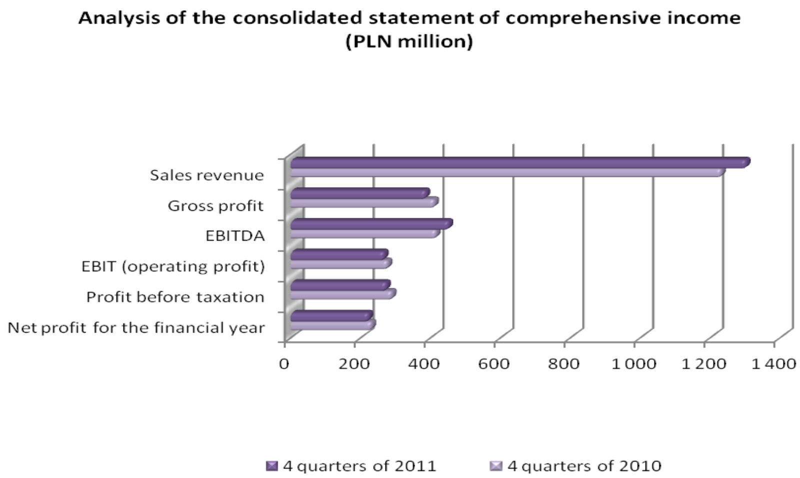
Table 2 Selected financial information of the LW BOGDANKA Group continued [PLN '000]

Item	31 Dec. 2011	Structure of the balance sheet [%]	31 Dec. 2010	Structure of the balance sheet [%]	Change [%]
Total assets	3,076,228	100.00	2,828,045	100.00	8.78
Fixed assets	2,674,216	86.93	2,163,972	76.52	23.58
Current assets	402,012	13.07	664,073	23.48	-39.46
Shareholders' equity	2,142,646	69.65	1,969,019	69.62	8.82
Provisions and liabilities	933,582	30.35	859,026	30.38	8.68

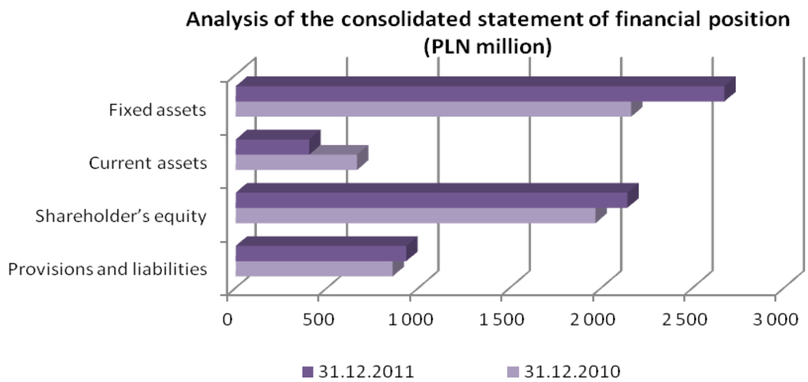
The financial statements prepared for the period from 1 January 2011 to 31 December 2011 show that the Lubelski Węgiel BOGDANKA Group's revenue on sales was PLN 1,301,349,000, which is an increase of 5.76%, i.e. by PLN 70,902,000 as compared to same period of the previous year. In the very fourth quarter of 2011 the Group generated revenue of PLN 435,588,000, i.e. higher by 47.05% than in the same period of the previous year.

For 12 months of 2011, the Group noted a decrease in the operating profit from PLN 276,472,000 to PLN 265,739,000 (-3.88% on a year-to-year basis). EBITDA (operating profit before depreciation/amortisation) was PLN 450,603,000 for the period from 1 January 2011 to 31 December 2011 as compared to PLN 414,548,000 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 Parent Undertaking 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 Group went up).



The net profit for four quarters of 2011 was PLN 221,246,000 compared to PLN 230,122,000 for the same period of 2010, which means a decrease of 3.86%, i.e. by PLN 8,876,000. The net result for the fourth quarter was PLN 133,203,000 compared to PLN 37,142,000 for the fourth quarter of 2010 (increase of 258.63%).



The Group's consolidated statement of financial position as at 31 December 2011 shows an increase in the balance-sheet total to PLN 3,076,228,000, i.e. by PLN 248,183,000, compared to the figure as at 31 December 2010. The value of fixed assets went up from PLN 2,163,972,000 (31 December 2010) to PLN 2,674,216,000 (31 December 2011). This increase (+23.58%) is the result of the Parent Undertaking'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 664,073,000 to PLN 402,012,000 (PLN -262,061,000,-39.46%) – mostly as a consequence of a decrease in cash held by the Group (resulting from expenditure on the implemented investment programme). The investment programme under implementation also affected the structure of basic asset items. The share of fixed assets increased from 76.52% (as at 31 December 2010) to 86.93% (as at 31 December 2011). At the same time the share of current assets dropped from 23.48% (as at 31 December 2010) to 13.07% (as at 31 December 2011), mainly due to a decrease in the balance of cash.

On the shareholders' equity and liabilities side, shareholders' equity went up to PLN 2,142,646,000 (i.e. by 8.82%). 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 Group went up to PLN 74,556,000, and the change consisted in:

- an increase in long-term liabilities by PLN 170,679,000 (to PLN 626,566,000),
- a decrease in short-term liabilities by PLN 96,123,000 (to PLN 307,016,000).

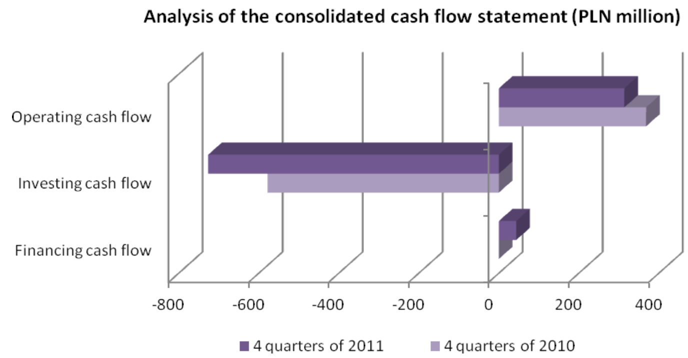
Under short-term liabilities, the value of loans and borrowings went down by PLN 50,000,000 – the change resulted from reclassifying (pursuant to a signed annex) a portion of a loan taken out by the Parent Undertaking

(PLN 41,000,000) from short-term into long-term category (with maturity over 12 months). During 2011 the Parent Undertaking 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, 69.65% and 69.62%.

During four quarters of 2011 the Group 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 368,235,000 (4 quarters of 2010) to PLN 313,802,000 (4 quarters of 2011).



Between 1 January 2011 and 31 December 2011 net cash flows from investing activities amounted to PLN -726,489,000 and were higher by PLN 148,696,000 than in the same period of 2010 – the increase was caused by continuing works of the investment process under implementation by the Parent Undertaking.

In the period from January to December 2011 the Group generated net cash inflows from financing activities amounting to PLN 43,406,000 (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 Group did not generate any financing cash flow.

The value of cash in hand and on bank accounts as at 31 December 2011 amounted to PLN 102,820,000 and was lower by PLN 369,281,00 than the same data for the previous year.

3.2.1. Coal production and sales

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

Table 3 Production capacity of the LW BOGDANKA Group for 4 quarters of 2011 and 4 quarters of 2010 (in '000 tonnes)

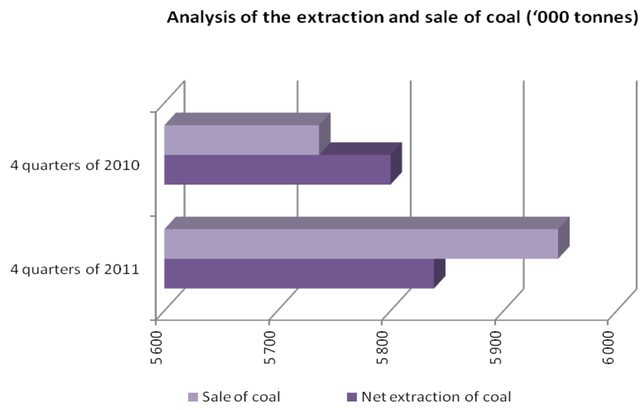
4 Qs 2011	**4 Qs 2010**	**Change 2011/2010 [%]**
5,838.40	5,800.03	0.66%

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 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 4 Sale of coal of the LW BOGDANKA Group 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 Parent Undertaking sold a portion of its stocks. The diagram below shows the extraction and sale of commercial coal in the individual periods under analysis.

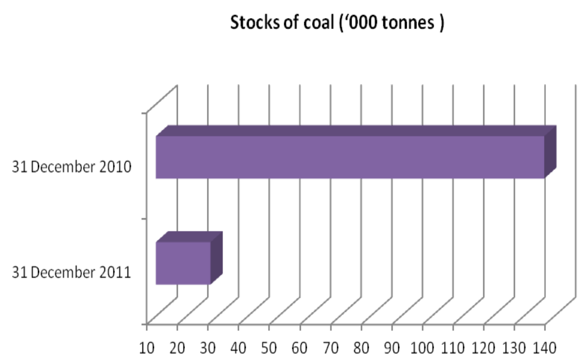


3.2.2. Stocks

The balance of stock of commercial coal held by the Parent Undertaking 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 5 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%



3.2.3. 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).

3.2.4. Revenue on sales and key customers

During four quarters of 2011, the LW BOGDANKA Group's revenue on sales was at a level of PLN 1,301,349,000 – it was higher by PLN 70,902,000 than revenue obtained in the same period of 2010.

The Lubelski Węgiel BOGDANKA Group has 4 sources of revenue: sales of coal, sales of ceramics, other activities, (including the revenues of Łęczyńska Energetyka Sp. z o.o.) and sales of goods and materials.

The main source of revenue on sales for the LW BOGDANKA Group 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 94.11% of the Group's revenue on sales (96.80% 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 consolidated financial statements published by the Group, 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 consolidated 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 the Parent Undertaking and Elektrownia Kozienice S.A., GDF Suez Energia S.A., Elektrownia Ostrołęka S.A. and the Ożarów Group.

Revenue on other activities accounted for 3.37% of the total revenue in the period from 1 January 2011 to 31 December 2011, whereas in the previous year this ratio was 1.82% - significant items in that group included revenue connected with coal transport services provided by the Parent Undertaking for one of the customers and revenue on lease of fixed assets. The consolidated revenues of the Group are higher in this respect than the revenues of the Parent Undertaking by PLN 11,518,000. The year before, however, this difference amounted to PLN 8,177,000 (an increase of 40.86%).

Revenue on sales of goods and materials increased in the analysed period by 165.04%, i.e. by PLN 15,053,000. This amount includes power coal bought by the Parent Undertaking 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 0.66% of the Group's total revenue.

Table 6 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group (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	43,807	22,442	95.20%
Sales of goods and materials	24,174	9,121	165.04%
Total revenue on sales	**1,301,349**	**1,230,447**	**5.76%**

Table 7 Structure by type of revenue on sales of the LW BOGDANKA Group

Item	4 Qs 2011	Share [%]	4 Qs 2010	Share [%]
Sales of coal	1,224,690	94.11%	1,191,016	96.80%
Sales of ceramics	8,678	0.66%	7,868	0.64%
Other activities	43,807	3.37%	22,442	1.82%
Sales of goods and materials	24,174	1.86%	9,121	0.74%
Total revenue on sales	**1,301,349**	**100.00%**	**1,230,447**	**100.00%**

The LW BOGDANKA Group 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 8 Geographical structure of revenue on sales of the LW BOGDANKA Group

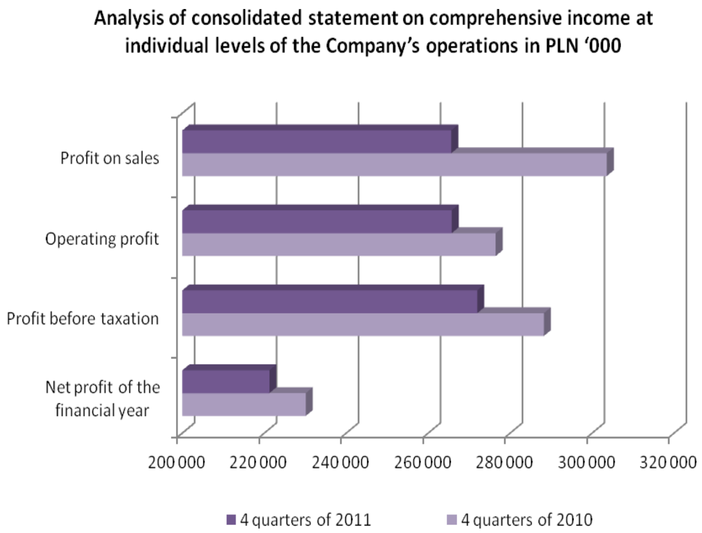
Item	4 Qs 2011	Share [%]	4 Qs 2010	Share [%]
Domestic sales	1,300,870	99.96%	1,229,619	99.93%
Export sales	479	0.04%	828	0.07%
Total revenue on sales	**1,301,349**	**100.00%**	**1,230,447**	**100.00%**

3.2.5. Statement of the Group's comprehensive income

In the period from 1 January 2011 to 31 December 2011, the revenue on sales of the LW BOGDANKA Group went up compared to the same period of the previous year by 5.76% (to a level of PLN 1,301,349,000). In the same period, costs of the Group (costs of products, goods and materials sold together with selling and administrative costs) increased by 11.74% to a level of PLN 1,035,717,000. Such changes in revenue and costs resulted in the profit on sales being lower by 12.50%, i.e. 265,632,000 for 12 months of 2011 as compared to PLN 303,582,000 for the same period of 2010.

Table 9 Selected items of the statement of comprehensive income of the LW BOGDANKA Group

Item	4 Qs 2011	4 Qs 2010	Change (2011/2010) [%]
Revenue on sales	1,301,349	1,230,447	5.76%
Cost of products, goods and materials sold, cost of sales, administrative expenses	1,035,717	926,865	11.74%
Profit on sales	**265,632**	**303,582**	**-12.50%**
Other income	5,597	3,902	43.44%
Other expenses	2,434	3,343	-27.19%
Other net profit/loss	-3,056	-27,669	-88.96%
Operating profit	**265,739**	**276,472**	**-3.88%**
Financial income	12,535	25,362	-50.58%
Financial expenses	6,293	13,546	-53.54%
Share in (losses)/profits of associated undertakings	-	-59	-100.00%
Profit before taxation	**271,981**	**288,229**	**-5.64%**
Income tax	50,735	58,107	-12.69%
Net profit for the financial year	**221,246**	**230,122**	**-3.86%**
- attributable to shareholders of the Parent Undertaking	220,921	229,811	-3.87%



Other income

For 12 months of 2011, other operating income amounted to PLN 5,597,000 compared to PLN 3,902,000 for the same period of the previous year – this means an increase of 43.44%. The amount of PLN 5,597,000 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 -3,056,000 compared to PLN -27,669,000 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 the Parent Undertaking's accounting for the purchase of a ploughing system for low seam mining).

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 265,739,000, which is lower than that for the previous year by 3.88%, i.e. by PLN 10,733,000.

Financial income

Financial income for 12 months of 2011 amounted to PLN 12,535,000 compared to PLN 25,362,000 a year ago (decrease of 50.58%). The change in financial income is a consequence of lower annual-average level of cash in the Group.

Financial expenses

In the analysed period of 2011, financial expenses amounted to PLN 6,293,000 compared to PLN 13,546,00 a year ago (decrease by PLN 7,253,000, i.e. of 53.54%). Such decrease in value was caused by the lower annual average level of the Parent Undertaking's interest-bearing debt, and the fact that some interest calculated in 2011 increased the value of outlays for tangible fixed assets under construction (the Parent Undertaking) 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 5.64% – profit before taxation for four quarters of 2011 amounted to PLN 271,981,000 compared to PLN 288,229,000 for four quarters of 2010.

Obligatory appropriations of the result in the 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 221,246,000 as compared to PLN 230,122,000 for the same period in 2010 – year-to-year net profit of the Group went down by 3.86%.

3.2.5. Profitability of the Group

Table 10 Profitability ratios of the LW BOGDANKA Group

Item	4 Qs 2011	4 Qs 2010	Change [p.p.] 2011-2010	Change (2011/2010) [%]
Gross margin on sales	29.56%	33.30%	-3.74	-11.23%
EBITDA	34.63%	33.69%	0.94	2.79%
EBIT	20.42%	22.47%	-2.05	-9.12%
Gross margin	20.90%	23.42%	-2.52	-10.76%
Net margin	17.00%	18.70%	-1.70	-9.09%
Return on Assets (ROA)	7.49%	8.69%	-1.20	-13.81%
Return on Equity (ROE)	10.76%	12.41%	-1.65	-13.30%

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 the LW BOGDANKA Group went down from 33.30% (4 quarters 2010) to 29.56% (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 20.42%, which means a decrease by 2.05 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.

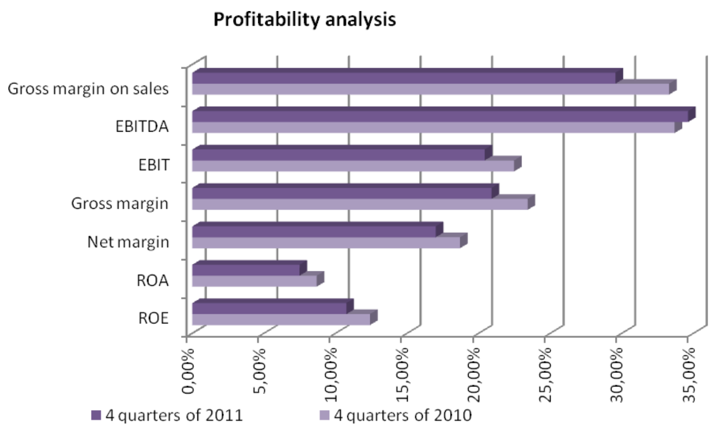
EBITDA went up from 33.69% (4 quarters 2010) to 34.63% (4 quarters 2011). The change in value of the ratio was caused by depreciation going up from PLN 138,076,000 (2010) to PLN 184,864,000 (2011).

Gross margin for four quarters of 2011 amounted to 20.90% and was lower by 2.52 p.p. than margin for four quarters of 2010.

Net margin on operations conducted by the Lubelski Węgiel BOGDANKA Group for four quarters of 2011 amounted to 17.00% as compared to 18.70% for four quarters of 2010.

A decrease in return on assets (from 8.69% to 7.49%) resulted from lower net profit and higher average assets disclosed by the Group in its annual consolidated financial statements. The Group, an in particular the Parent Undertaking, 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 3.86%) with equity going up (by 8.82%) at the same time. The effects of using equity for financing the Group's operations will be visible in the subsequent reporting periods.



3.3. Assessment of factors and untypical events affecting the business activities of the Group and the Group's consolidated operating profit for the financial year

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

3.4. Differences between the Group's financial results disclosed in the annual report and the published result forecasts for a given year

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

3.5. 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 18 of the Financial Statements of the Group.

3.6. Debt and financing structure of the LW BOGDANKA Group

Table 11 Debt ratios of the LW BOGDANKA Group

Item	31 Dec. 2011	31 Dec. 2010	Change (2011/2010) [%]
Overall debt ratio	30.35%	30.38%	-0.10%
Debt to equity ratio	43.57%	43.63%	-0.14%
Fixed capital to fixed assets ratio	100.68%	108.95%	-7.59%
Short-term debt ratio	9.98%	14.26%	-30.01%
Long-term debt ratio	20.37%	16.12%	26.36%

As at 31 December 2011, the share of liabilities in financing the operations of the LW BOGDANKA Group, measured with the overall debt ratio, was 30.35% and respectively 30.38% as at 31 December 2010. In the period covered by the consolidated financial statements for four quarters of 2011 the debts of the LW BOGDANKA Group 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 43.57% (as at 31 December 2011) – which is a consequence of shareholders' equity being higher by PLN 173,627,000, with the Group's total liabilities going up by PLN 74,556,000 at the same time.

The fixed capital to fixed assets ratio is above 100% - this indicates the Group's financial safety. After completion of the investment programme, it is expected that the ratio remains at the level of ≥100%.

Table 1 Liquidity ratios of the LW BOGDANKA Group (days)

Item	31 Dec. 2011	31 Dec. 2010	Change (2011/2010) [%]
Current liquidity ratio	1.49	2.07	-28.02
Quick liquidity ratio	1.33	1.88	-29.26

In the period covered by the Annual Consolidated Financial Statements the liquidity ratios of the LW BOGDANKA Group remained at a safe level – the Group 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 taken out by the Parent Undertaking, and the balance of funds from conducted operating activities.

Table 2 Turnover rates of the LW BOGDANKA Group (days)

Item	31 Dec. 2011	31 Dec. 2010	Change (2011/2010) [%]
Stock turnover	20.8	24.7	-15.79
Trade debtors collection rate*	53.6	36.2	48.07
Trade creditors payment rate**	94.5	89.8	5.23
Operating cycle (1+2)	74.4	60.9	22.17
Cash conversion cycle (4-3)	-20.1	-28.9	-30.45

*Trade debtors and other receivables

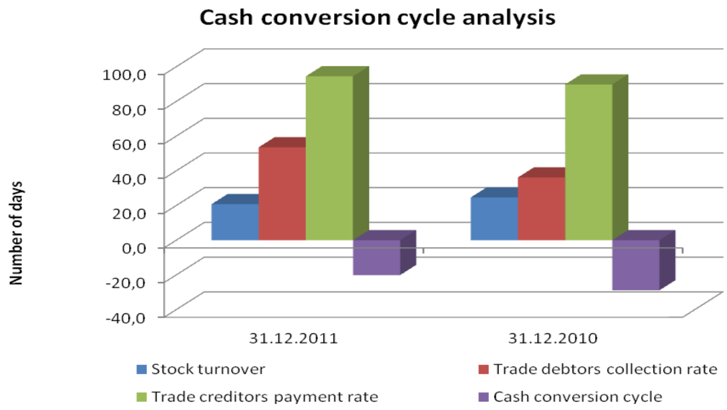
** Trade creditors and other liabilities

Compared to the rate as at 31 December 2010, the stock turnover rate for 2011 fell from 24.7 days to 20.8 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 53.6 days (as at 31 December 2011) and 36.2 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 74.4 days compared to 60.9 days as at 31 December 2010 – it means that the current assets are converted into cash on the average by 13.5 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 89.8 days (as at 31 December 2010) to 94.5 days (as at 31 December 2011).



The trends described above resulted in the cash conversion cycle of -20.1 days as at 31 December 2011 compared to -28.9 days as at 31 December 2010. The negative value of the cash conversion cycle means that the Lubelski Węgiel BOGDANKA Group makes use of non-interest bearing debt.

3.7. Agreements concerning the Group'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.

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

In 2011 Łęczyńska Energetyka Sp. z o.o. did not grant or contract any loans or borrowings, or terminate any agreements concerning loans or borrowings.

3.8. 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,

In 2011 Łęczyńska Energetyka Sp. z o.o. did not provide and did not receive any sureties or guarantees.

3.9. Information on financial instruments

In 2011 the Group 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.

3.10. Overview of significant off-balance sheet items of the Group in subjective, objective and value terms

In 2011 there were no off-balance sheet items.

3.11. The main characteristics of internal audit and risk management systems used by the LW BOGDANKA Group with regard to the process of the drawing up financial statements and consolidated financial statements

The Lubelski Węgiel BOGDANKA Group draws up 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 Parent Undertaking'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.

At LW BOGDANKA S.A. inspection mechanisms were implemented for the purpose of executing the following inspection goals:

- Rights and obligations – the distribution of tasks among employees enables early detection of errors or abuses,
- Reliability and completeness – all operations and transactions are properly carried out and recorded from the beginning to the end,
- Timeliness – operations are performed and recorded in registers or software applications in due time, as provided for by the regulations,
- Valuation and allocation – assets and liabilities are valued accurately, and profits and costs are disclosed in their correct amount,
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in relevant documents,
- Monitoring and reporting – reports containing information and data concerning the executed operations are promptly submitted to the Company's Management Board,
- Confidentiality – information and data are available only on a need-to-know basis,
- Availability – IT systems and applications are available in time required for executing and recording operations and transactions,
- Compliance – the process and its supporting systems comply with the requirements resulting from legal provisions, norms and standards.

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 clarity of 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 undertakings forming the Lubelski Węgiel BOGDANKA Group, for which LW is the Parent Undertaking.

The Group 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 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 facts and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor who issues a relevant opinion. The Company's Supervisory Board elects a certified auditor from the group of reputable auditing companies, in accordance with the guidelines of the Audit Committee, which, among other things, ensures 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 facts, 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.

4. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR THE LW BOGDANKA GROUP'S OPERATIONS

Factors important for the development of the LW BOGDANKA Group's operations are described below, as well as in section 4.7 of the Report.

Additionally, the important factors for the development of Łęczyńska Energetyka are:

- executing the conversion of the boiler house into a combined heat and power station, thus entering an advantageous electrical power market in view of the forecast surge in electricity prices, and securing all requirements regarding environment protection;
- opportunity to obtain subsidies for pro-environmental investments;
- expanding the range of services offered in the town of Łęczna (e.g. maintenance services for internal central heating, hot water and water and sewage installations, providing emergency utility assistance);
- opportunity to produce aggregates for the construction industry using the combustion by-products from the fluidised bed boiler designed for the heat and power station;
- the interest shown by local producers in the cultivation of energy plants offers an opportunity to secure a steady supply of biomass for the future heat and power station, consequently resulting in the production of attractive "green energy";
- persistently rising prices of liquid and gas fuel make the heat energy offered more attractive.

4.1. The Group's development strategy and policy on development direction

4.1.1. Development strategy for LW BOGDANKA S.A.

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) <u>Marketing operations</u>

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.

4.1.1. Development strategy of Łęczyńska Energetyka Sp. z o.o.

The Management Board of Łęczyńska Energetyka Sp. z o.o. in Bogdanka has set the following strategic objectives for the Company to be completed until 2017:

I 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" in stages, i.e.

1. Building the Water Treatment Station (SUW), including process connections with the hydrophore unit and the Heat-Generating Plant area.

The Water Treatment Station, using the water that will come from draining the mine, will be producing potable water, water to make up for heat network losses, and water to make up for losses in the cooling cycle and in the water and steam cycle of the Heat and Power Station being designed.

The Water Treatment Station will be situated in the area of the existing liquid waste treatment plant, which will still be operated, whereas its final section will be situated in the existing water softening building adapted to new purposes.

Currently, tendering documentation is being compiled to grant an order to design and build the Water Treatment Station.

1) Execution of a 69 MW_t and 77 MW_e power unit along with necessary auxiliary installations.

Execution of the heat and power generating plant will based on the OFz-265 fluidised bed boiler (265 t/h steam) and a 77 MWe pass-out and condensing turbine set. As far as thermal energy production is concerned, the new power unit will replace the currently functioning stoker-fired boilers which, after the plant has been activated, will be used as an auxiliary source for the plant. The produced electric energy will be taken off from the HPGP by means of the existing reception system LW BOGDANKA S.A. (both for the mine and other recipients). The new power unit will burn a mixture of fuels in weigh proportion being 65% of washery slurry, 20% of coal sift and 15% of biomass. Execution if the investment will enable high watt-hour efficiency production, i.e. at a maximum consumption of chemical energy included in the used fuel. This will guarantee the Company the role of the main thermal and electric energy supplier for BOGDANKA S.A. at a cost-free use of washery slurry, the waste product (so far not used) of LW BOGDANKA S.A., as the basic fuel.

Commencement of works related to the Water Treatment Station, as well as executing the Heat and Power Generating Plant is conditioned by closing the process of financing the undertaking. Financing these undertakings is to take place with the use of an external source of financing (syndicated credit facility or an external investor).

I. Modernisation of Bogdanka-Łęczna heat distribution network.

Modernisation of the heat distribution network at Bogdanka-Łęczna section will mean replacement of the existing insulation at the heat supply main by the new insulation layer, of higher thermal protecting parameters (lower thermal conductivity). Execution of this task will add to reduction of loss during transmission of thermal energy at this section. Owing to increased durability, in the case of a failure of the heat distribution network, the new insulation will significantly decrease eventual leak and will prevent the spread of heating medium along the pipeline.

4.2. Investments of the LW BOGDANKA Group

4.3. Material investments of the LW BOGDANKA Group in 2011

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

A list of capital expenditure incurred in 2011 is presented in the table below.

Table 14 List of capital expenditure incurred in 2011 [in PLN '000]

Item	2011	2010
Capital expenditure on acquisition of tangible fixed assets	718,096	615,159
Capital expenditure on acquisition of intangible fixed assets	616	397

Capital expenditure (payments made on dates set in the agreement) include liabilities due to investments executed in the previous year and part of outlays incurred in the first quarter of 2011.

In 2011, due to investment execution the outlays on tangible fixed assets in construction amounted to PLN 699,307,000. Those outlays concern the following investment groups:

Table 15 Key material investments of the LW BOGDANKA Group in 2011 [PLN '000]

Key tangible investment	Outlays incurred from 1 Jan. 2011 to 31 Dec. 2011	Outlays incurred from 1 Jan. 2010 to 31 Dec. 2010
Construction and assembly work	504,800	497,099
Order picking and purchases of finished foods	190,787	192,118
Other	3,720	3,926
Total	**699,307**	**693,143**

4.4. The Company's investments in fixed assets – implementation of share issue objectives

4.4.1. Investments in 2011 and the plan for 2012

Table 16 Implementation of investment projects in 2011 and the plan for 2012, as divided into projects [PLN'000]

Investment projects		Plan 2011	2011 implementation	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

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.

B. Making coal seams available

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 1 October. The coal-ploughing system for the panel as delivered by Bucyrus pursuant to contract No. 359/IZ/2009 of 2009.
2. Significant purchase items 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.

Pro-environmental 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 Board on 28 July 2010.

4.4.1.1. 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 further PLN 100 million, in accordance with a tender procedure completed in December 2011 (see Current Report No. 30/2011 of 23 December 2011). In addition, 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 shareholders' decision as regards the distribution of profit for the financial year 2011 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 Company's balance-sheet total.

A strategic investment project of Łęczyńska Energetyka sp. z o.o. involves the "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production".

The commencement of works related to Task 3 of the first stage of the investment referred to above (the construction of the Water Treatment Station for treating the pit waters from mine drainage at LW BOGDANKA S.A. together with the construction of technological connections with the hydrophore plant and the Heat-Generation Plant premises) and the works to be carried out in the second stage (the construction of a fluidised bed combustion boiler along with the pass-out and condensing turbine-generator unit and the construction of the remaining infrastructure required for the correct operation of the heat and power station) is contingent upon the closure of project financing. These investments are to be funded with the help of an external source of financing (a syndicated loan or a third-party investor).

Task 4 of the first stage – the conversion of the 110 kV power line in the foreland of the 110/6 kV Bogdanka station in order to remove collision with the planned heat and power plant.

4.4.1.2. Capital expenditure and investments

The balance of cash held by the Group as at 31 December 2011 stood at PLN 161,108,000 with:

- the amount of PLN 58,288,000 disclosed in fixed assets,
- the amount of 102,820,000 disclosed in current assets.

The amount of PLN 58,288,000 includes the funds collected by the Parent Undertaking as part of the Mine Closure Fund, in order to cover the cost of closure of a mining plant (these funds are held in a long-term bank deposit). The remaining cash is held in short-term bank deposits (including overnight deposits) – the amount of deposits depends on internal forecasts with regard to income and expenditure.

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.

In 2011 the subsidiary made no significant capital investments. The subsidiary deposited free cash in bank deposits with maturity of 1 month and 3 months. An average balance of cash in bank deposits amounted to PLN 27 million.

4.5. Investments of Łęczyńska Energetyka Sp. z o.o.

4.5.1. Investments in 2010-2011

Table 17 Investment expenditure incurred by ŁE in the 12 months of 2011 and the 12 months of 2010 [in PLN '000]

Specification	1 Jan. 2011 – 31 Dec. 2011	1 Jan. 2010 – 31 Dec. 2010
Capital expenditure on acquisition of tangible fixed assets	7,196.0	14,776.0
Capital expenditure on acquisition of intangible fixed assets	11.0	4.0

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

Investment tasks completed in 2009-2011 included:

- purchase of machines and facilities necessary for production purposes,
- necessary modernisation of buildings, structures and machines,
- purchase of vehicles for the supplies department.

The total amount of investment expenditure incurred in 2009-2011 amounted to PLN 27,026,000. In the discussed period of three years, expenditure on modernisation of buildings and structures, which amounted to PLN 24,574,000, thus making up 90.9% of all expenditure, was the item of the highest value on the list of investment expenditure.

Table 18 Value of investment expenditure incurred in 2009-2011 broken down by groups of fixed assets

Group of fixed assets	2009		2010		2011	
	PLN '000	%	PLN '000	%	PLN '000	%
Own land	-	-	-	-	-	-
Buildings and structures	4,775.0	94.8	14,501.0	98.1	5,298.0	73.5
Machines and devices	234.0	4.6	140.0	0.9	1,620.0	22.5
Vehicles	-	-	127.0	0.9	241.0	3.4
Intangible fixed assets	-	-	4.0	0.0	11.0	0.1
Other	30.0	0.6	8.0	0.1	37.0	0.5
TOTAL	5,039.0	100.0	14,780.0	100.0	7,207.0	100.0

Table 19 Key material investments of ŁE in the 12 months of 2011 and the 12 months of 2010 [PLN '000]

Key tangible investments	Outlays incurred from 1 January 2011 to 31 December 2011	Outlays incurred from 1 January 2010 to 31 December 2010
Construction and assembly work	5,298.0	14,501.0
Order picking and purchases of finished goods	1,861.0	267.0
Other	37.0	8.0
Prepayments for fixed assets under construction	-	-
TOTAL	7,196.0	14,776.0

Modernisation works for the buildings and structures within the above-mentioned periods are related to the following fixed assets:

1) the modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production,
2) the modernisation of the low-parameter heat and domestic hot water distribution network at W-1 in Łęczna,
3) the modernisation of office premises in the boiler house in Bogdanka,
4) the exchange of condenser batteries in low-voltage (RNN) and main computer (RGK) switching stations,
5) the replacement of a section of the NS network,
6) the exchange of the low-parameter heat and domestic hot water distribution network at K-2 in Łęczna,

7) the conversion of premises in K-2 in Łęczna into commercial premises,
8) the modernisation and refurbishment of the hydrophore plant building in Stefanów,
9) the construction of new sections of potable water supply network (within the LW BOGDANKA S.A. Management Board's building and the outpatient clinic),
10) the modernisation of the rainwater pumping station in Bogdanka,
11) the modernisation of the hydrophore plant building and the water treatment station in Bogdanka,
12) the modernisation of the substation W-5 building in Łęczna,
13) the modernisation of the W1A and K-1 group junction in Łęczna,
14) the modernisation of inlet air heating for the S shaft 1.5 in Nadrybie,
15) the modernisation of the facade and the refurbishment of the administration building in Bogdanka.

In 2009-2011, the investments were financed from own funds.

The Company's priority investment task for 2011 was to adjust its Heat-Generating Plant in Bogdanka to legal requirements that result from Directive 2001/80/EC upon limiting emission volumes of certain gas and dust pollutants into the atmosphere. Requirements as defined in Annex XII Point D of the Accession Treaty obliged the Company to adjust its Heat-Generating Plant to emission standards; therefore in the Scheduled Program of the "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production" project, it has been envisaged to complete the tasks meeting the above-mentioned requirements.

Task 1 – the conversion and modernisation of 5 WR-5 water heaters and the modernisation of 5 WR-5 water heaters was completed in 2010, whereas the modernisation of the supporting equipment and installations (the replacement of exhaust gas ventilators with the use of inverters, the modernisation of control cabinets, the completion of the conversion of gas ducts, including their insulation) was executed in 2011.

Task 2 – building desulphuring and dedusting installations, and adjusting the Heat-Generating Plant's infrastructure to its new technological arrangement. Construction works were completed by the end of 2010. In 2011, positive results concerning measurements of emissions were obtained and operation was started.

The commencement of works related to Task 3 of the first stage of the investment referred to above (the construction of the Water Treatment Station for treating the pit waters from mine drainage at LW BOGDANKA S.A. together with the construction of technological connections with the hydrophore plant and the Heat-Generation Plant premises) and the works to be carried out in the second stage (the construction of a fluidised bed combustion boiler along with the pass-out and condensing turbine-generator unit and the construction of the remaining infrastructure required for the correct operation of the heat and power station) is contingent upon the closure of project financing. These investments are to be funded with the help of an external source of financing (a syndicated loan or a third-party investor).

Task 4 of the first stage involves the conversion of the 110 kV power line in the foreland of the 110/6 kV Bogdanka station in order to remove collision with the planned heat and power plant.

4.6. Development, research and implementation works in the Group

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

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.

In 2011, the Management Board of the Subsidiary Undertaking decided on commencing activity with regard to creating a device for grinding biomass fuels (assembly line for passing and grinding biomass).

4.7. Description of risks, threats and factors which, in the assessment of LW BOGDANKA S.A., will affect the results achieved by the Group in at least one-year horizon

4.7.1. Risk associated with the Group's social, economic and market environment

4.7.1.1. Risk associated with the social and economic situation in Poland and the world

The LW BOGDANKA Group's financial standing depends on the economic situation in Poland and the world. The financial results generated by the Group 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 Group 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 Group 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, the LW BOGDANKA Group has been consistently achieving positive financial results since 1994.

The LW BOGDANKA Group'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.

4.7.1.2. 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 Group 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 the LW BOGDANKA Group.

4.7.1.3. 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 the LW BOGDANKA Group. 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 Group 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 LW BOGDANKA Group in 2011 and after the balance-sheet date is presented in section 3.1 of the Report.

4.7.1.4. 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 Group's operations is, however, limited, owing to the fact that LW BOGDANKA S.A. 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 Group 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 Group 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.

4.7.1.5. Interest rate risk

The LW BOGDANKA Group is a party to financial agreements based on variable interest rates, therefore it is exposed to a risk of fluctuations in interest rates with respect to loans incurred, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in financial expenses of the Group. and hence have an adverse effect on the Group'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 the LW BOGDANKA Group the interest rate risk has a limited bearing on the financial standing of the LW BOGDANKA Group given a relatively low degree of financing the Group'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 by the Parent Undertaking (extension of the Stefanów Field), as well as by its subsidiary, Łęczyńska Energetyka, by way of performing the investment task "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production". The possibility to increase debt will also depend on owners' decision as regards the division of net profit.

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

Apart from a wide-ranging investment programme executed by the Parent Undertaking, the Group is also planning to execute an investment of its subsidiary, Łęczyńska Energetyka, i.e. the "Modernisation and extension of the heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production". The manner and scope of financing the said investment by the subsidiary, in view of the equity held and its credit rating, shall require sureties and guarantees on the part of LW BOGDANKA. Łęczyńska Energetyka does not have the capacity to finance the investment in question independently, due to insufficient equity potential.

4.7.1.6. Risk associated with changes in exchange rates

Analysis of historical data of the Group 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 Group, and most transactions are settled in the domestic currency. As at the day of submitting the Report, the operating activity of the LW BOGDANKA Group was not exposed to the foreign exchange risk.

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

Currently the LW BOGDANKA Group 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 and debt financing, currently totalling PLN 341 million. In December 2011, the Parent Undertaking 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.

Similarly now, LW BOGDANKA sees no threat for obtaining further debt financing for the performance of its own investments. The current loan in the amount of PLN 341 million accounts for approx. 15.9% of the Group's equity (PLN 2,142 million) and approx. 11.1% of the balance-sheet total.

Apart from a wide-ranging investment programme executed by the Parent Undertaking, the Group is also planning to execute an investment of its subsidiary, Łęczyńska Energetyka, i.e. the "Modernisation and extension of the heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production". The manner and scope of financing the said investment by the subsidiary, in view of the equity held and its credit rating, shall require sureties and guarantees on the part of LW BOGDANKA. Łęczyńska Energetyka does not have the capacity to finance the investment in question independently, due to insufficient equity potential.

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

The operating activities of the LW BOGDANKA Group 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 the Group's operating activities or losses relating to property, financial assets and employees or could result in the Group 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.

4.7.1.9. 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 LW BOGDANKA Group, 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.

4.7.1.10. 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 LW BOGDANKA Group 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 LW BOGDANKA Group 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.

4.7.1.11. Risk of hostile takeover of the Group

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.

4.7.2. Risks directly associated with the Group's operations

4.7.2.1. Risk associated with estimating the size of deposits of LW BOGDANKA

Data on quantity and quality of hard coal which is available to the LW BOGDANKA Group 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.

4.7.2.2. Risk associated with the launch of extraction of new deposits of LW BOGDANKA

A material aspect of the operations conducted by the LW BOGDANKA Group 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 Group obtained a licence for extracting a hard coal deposit in a new enlarged mining area, which will enable it 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.

4.7.2.3. 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 the LW BOGDANKA Group, and therefore on its future financial results.

The Group 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 of LW BOGDANKA 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 the Group 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 Group's technical and technological risk.

4.7.2.4. Risk associated with high costs of technologies applied by the Company

The technology of power coal extraction applied by the LW BOGDANKA Group 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 Group's development strategy.

4.7.2.5. Risk of IT systems malfunctioning

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

However, the Group 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 LW BOGDANKA Group 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 the LW BOGDANKA Group 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.

4.7.2.6. Key customer risk

Vast majority of the power coal produced by the LW BOGDANKA Group 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 Group could have an adverse effect on the financial results.

As at the day of submitting the Report, the Group 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 Group 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 LW BOGDANKA might be forced to enter into talks with other coal buyers that will guarantee the sale of coal in the long-term perspective. The Group 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 12.3 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 Group by taking over higher volumes of LW BOGDANKA sales than they are now. This poses a risk of increasing the dependency of the Group 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 Group regarding allocation of significant volumes of coal originating from increased extraction. The Group mitigates this risk by looking for alternative sale options: using LW BOGDANKA'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 LW BOGDANKA Group, 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.

4.7.2.7. 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, the LW BOGDANKA Group 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 LW BOGDANKA 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.

4.7.2.8. Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of the Group payable by its customers and the surplus of the Group's receivables in comparison to liabilities. As of the end of 2011, trade debtors and other short-term receivables of the Group accounted for 8.13% of the carrying value and 19.26% of its 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 Group undertakings continuously monitor customers' arrears associated with making payments for the products and services sold (including for the Group's 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 Group undertakings make transactions solely with those customers whose creditworthiness has been confirmed. For many years the LW BOGDANKA Group 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.

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

The LW BOGDANKA Group 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.

LW BOGDANKA 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.

4.7.2.10. Risk associated with the strong position of the trade unions in the Group

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, six trade union organisations operate at the Group associating the total of 64% of the Group'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 primarily of LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Group could affect the operating activities conducted by LW BOGDANKA. This also refers to possible protests related to the risk of hostile takeover of LW BOGDANKA, and thus of the entire Group.

In the Group's opinion, cooperation of the Management Boards of the Group's Parent Undertaking and the subsidiary with the trade unions operating within the Group, has so far been successful. The Group's objectives include continuation of the cooperation between the Management Boards and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving the undertakings' and the whole Group's objectives and strategy.

4.7.2.11. Risk associated with retaining and attracting human resources for LW BOGDANKA

Within the years to come, the Company intends to significantly increase 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.

4.7.2.12. Risk of the employees of the Company being additionally employed in external entities cooperating with the LW BOGDANKA Group

Such cooperation involves external entities providing outsourcing services to LW BOGDANKA, 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 the LW BOGDANKA Group.

4.7.2.13. Key supplier risk

The specific nature of the Group's operations (both those of LW BOGDANKA and Łęczyńska Energetyka with regard to the performance of the planned investment) 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 companies.

The LW BOGDANKA Group, 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 Group requires that a performance bond is made.

4.7.2.14. Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements signed by the LW BOGDANKA Group (particularly those relating to the purchase of specialist equipment and technology), its undertakings are 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 Group 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.

4.7.2.15. Risk associated with related party transactions

Within the LW BOGDANKA Group mutual intercompany transactions are concluded, 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 Group's opinion, all transactions within the Group concluded by LW BOGDANKA with Łęczyńska Energetyka were 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.

4.7.2.16. Risk associated with the mine closure at LW BOGDANKA

The LW BOGDANKA Group 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, LW BOGDANKA 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 Group's financial results.

4.7.3. Financial risk

4.7.3.1. Liquidity risk

In mid-2009, the Lubelski Węgiel BOGDANKA Group 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 the Group, cash as at 31 December 2011 amounted to PLN 102,820,000 current liquidity ratio – 1.49, and quick liquidity ratio – 1.33. In the period between 1 January 2011 and 31 December 2011, the Group generated lower flows from operating activities by approx. 23% than in the analogous period of 2010. Therefore, as at the day of submitting the Report, there is no risk of the Group'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 the Group 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.

4.7.3.2. Insurance risk

The LW BOGDANKA Group 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 Group operations are covered by other insurance policies, such as third party liability insurance against damage caused in connection with business activity or property in its 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 Group on insurance companies. Therefore, it cannot be guaranteed that insurance policies taken out by the Group will prove sufficient for covering each and every loss or liability, which may exert an influence on the Group financial standing, results of its operations and the generated cash flow.

4.7.4. Risks associated with environmental protection

4.7.4.1. Risk associated with reclamation and mining damage

LW BOGDANKA 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.

4.7.4.2. 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 the LW BOGDANKA Group have a significant impact on the environment. Given the nature of that impact, the Group undertakings 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 applicable to both LW BOGDANKA and to Łęczyńska Energetyka.

As at the date of submitting the Report, the Group'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 LW BOGDANKA 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 both LW BOGDANKA and to Łęczyńska Energetyka. The changes may lead to the necessity of adjusting the Group undertakings' 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 LW BOGDANKA or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays and hence adversely affect the Group's financial results.

In order to lower the risk related to the provisions of the amended Mining Waste Act, in 2011 LW BOGDANKA 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.

4.7.4.3. 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, LW BOGDANKA 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 Group'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.

4.7.4.4. Investment risks associated with protected areas

The Group undertakings' plants are 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 LW BOGDANKA'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 Group 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 the Group's investment activity, certain obligations may be imposed on the Group's undertakings 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 Group's financial result.

4.7.5. Risk associated with proceedings and legal environment

4.7.5.1. 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 LW BOGDANKA's stock exchange debut may tarnish the Group's image and goodwill. Tax statements submitted by the Group's undertakings may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions within the Group as 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 Group applies various tax optimisation and tax planning methods, consequently limiting to a large extent the impact of such potential adverse events on the operations and financial performance of the individual Group's undertakings.

4.7.5.2. Risk of real estate tax on mining excavations of LW BOGDANKA

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.

4.7.5.3. 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

4.7.5.4. 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 Group's undertakings. 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 Group's undertakings or if the Mining Law introduces new requirements to be imposed on LW BOGDANKA, it could lead to a deterioration of its financial situation and as a result negatively affect the Group's results and development prospects.

4.7.5.5. Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. is listed on the Warsaw Stock Exchange, the Group is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Group's activity to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (Dz. U. 09.185.1439). 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 Group undertakings' activities from the perspective of disclosure requirements.

4.7.5.6. 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.

5. OWNERSHIP CHANGES IN THE LW BOGDANKA GROUP IN 2011

5.1. 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 20 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
Adam Partyka	1,024	5,120	1,024	5,120	0
Total	**15,073**	**75,365**	**15,073**	**75,365**	**0**

5.2. Information on agreements known to LW BOGDANKA S.A. and the subsidiary (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 undertakings of the LW BOGDANKA Group have 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.

5.3. Acquisition of the Company's own shares

In 2011 the undertakings of the LW BOGDANKA Group did not acquire any of its own shares.

6. INFORMATION ON THE LW BOGDANKA GROUP PERSONNEL

6.1. Employment in the Group

Table 21 Employment at the Lubelski Węgiel BOGDANKA Group

Item		Employment at the end of year				Structure	Change 2011/2010
		2008	2009	2010	2011	%	%
Total							
Group total		**3,792**	**4016**	**4087**	**4303**	**100**	**5,29**
Including:	LUBELSKI WĘGIEL BOGDANKA S.A.	3,667	3,885	3,968	4,184	97.23	5.44
	ŁĘCZYŃSKA ENERGETYKA sp. z o.o.	125	131	119	119	2.77	0.00

Full-time employees							
Group total		**548**	**589**	**589**	**640**	**14.87**	**8.66**
Including:	LUBELSKI WĘGIEL BOGDANKA S.A.	511	549	564	596	**13.85**	**5.67**
	ŁĘCZYŃSKA ENERGETYKA sp. z o.o.	37	40	43	44	**1.02**	**2.33**
Workers							
Group total		**3,244**	**3,427**	**3,480**	**3,663**	**85.13**	**5.26**
Including:	LUBELSKI WĘGIEL BOGDANKA S.A.	3,156	3,336	3,404	3.588	**83.38**	**5.41**
	ŁĘCZYŃSKA ENERGETYKA sp. z o.o.	88	91	76	75	**1.74**	**-1.32**
Underground staff							
LUBELSKI WĘGIEL BOGDANKA S.A.		**2,643**	**2,838**	**2,895**	**3,010**	**69.95**	**3.97**

2011 brought a 5.29% increase in employment in the Group. Most cases of staff leaving were due to retirement. A rise in employment at the Parent Undertaking was caused by new hirings in connection with the Stefanów Field investment programme.

In 2011 the personnel employed at the Parent Undertaking accounted for 97.23% of total employment in the Group. Workers accounted for 85.13% of all employees.

In comparison with 2010 the number of underground staff went up by 115 workers, i.e. 3.97%. These employees constituted the main group employed in the Group, i.e. 69.95 %.

6.2. Salaries and wages in the Group

The average monthly salary in the Group (excluding profit-based compensation) stood at PLN **6,448.27** and was 2.71% higher than the average remuneration in 2010.

Remuneration in the Group is one of the highest in the hard coal mining sector and in the Lublin region.

Tabela 22 Salaries and wages in the LW BOGDANKA Group

Item		**Average salary (PLN)***			**Change (%)**
		2009	**2010**	**2011**	**2011/2010**
Total staff					
TOTAL		**6,598.68**	**6,277.90**	**6,448.27**	**2.71**
Including:	LUBELSKI WĘGIEL BOGDANKA S.A.	6,812.68	6,366.77	6,529.89	2,56
	ŁĘCZYŃSKA ENERGETYKA sp. z o.o.	3,369.36	3,403.24	3,662.38	7,61
Full-time employees					
TOTAL		**8,356.22**	**8,024.59**	**8,483.97**	**5.72**
Including:	LUBELSKI WĘGIEL BOGDANKA S.A.	8,621.42	8,257.03	8,727.75	5.70
	ŁĘCZYŃSKA ENERGETYKA sp. z o.o.	4,649.35	4,704.91	5,208.11	10.70
Workers					
TOTAL		**6,421,05**	**5,975.18**	**6,090.47**	**01.93**
Including:	LUBELSKI WĘGIEL BOGDANKA S.A.	6,516.01	6,053.13	6,162.53	1.81
	ŁĘCZYŃSKA ENERGETYKA sp. z o.o.	2,793.14	2,784.15	2,778.73	- 0.2

*payroll fund charged to the Company's costs

Under an agreement on the payroll policy concluded on 23 February 2011 between the trade unions and the Management Board of Lubelski Węgiel BOGDANKA S.A., the growth rate of average monthly remuneration in 2011 was set at 3.50% compared to 2010. The failure to execute the agreement referred to above was caused by difficulties in performing the tasks set in the Technical and Economic Plan. 2011 turned out to be a problematic period in the Company's operations, due to delays in launching the planned investments, breakdowns of underground mining machinery, a delay in the commissioning of a new shaft etc., as well as changes to working time arrangements.

The rise in average monthly salary in Łęczyńska Energetyka was attributable to the payment of the annual bonus, changes to working time arrangements and amendments to the rules of remuneration of the Management Board of that Company under Resolution No. 16/2011 of 27 May 2011 adopted by the Annual Shareholders Meeting.

The level of remuneration paid out at the LW BOGDANKA Group did not adversely affect its profitability or management efficiency, nor limit its investment operations.

LW BOGDANKA S.A.'s Management Board exercises ongoing supervision over the share of payroll costs in the total cost of coal production. In the year in question the relationship between the pay increase rate, pay for performance and work efficiency rate is deemed correct.

6.3. Value of remuneration, awards or benefits, including under incentive or bonus schemes based on LW BOGDANKA equity, paid, payable or potentially payable to the members of the Management and Supervisory Boards in 2011

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.

6.4. All agreements concluded by and between LW BOGDANKA S.A. and Łęczyńska Energetyka 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.

6.5. Information on a control system of employee share schemes in the Group

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

7. ENVIRONMENTAL PROTECTION

7.1. Environmental activity of LW BOGDANKA

7.1.1. 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.

7.1.2. 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 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:
   Q_{davg} = 20,000 m^3/d, Q_{max} = 22,000 m^3/d,
   Q_{hmax} = 917 m^3/h, until 31 December 2010, and
   Q_{davg} = 26,700 m^3/d, Q_{max} = 32 000 m^3/d,
   Q_{hmax} = 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 23 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 24 Cost related to environmental protection [in PLN '000]

Type of cost		2009	2010	2011
Protection costs (remediation, monitoring)		337.66	808.93	1,005.64
Post-mining waste management and post-industrial waste treatment		19,231.38	33,005.58	30,174.42
Cost of certified reports, opinions, documentation, designs, etc.		67.75	52.20	122.4
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
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 25 Exploitation charge and mining use charge [in PLN '000]

Type of charge	2009	2010	2011
Exploitation	9,239.49	10,075.26	10,492.70
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

7.2. Environmental activities by Łęczyńska Energetyka Sp. z o.o.

a) Atmospheric air protection

In 2011, the Company operated the following boiler houses:

- in Bogdanka (power 57 MW, coal co-burned with biomass),
- in Zawadów (power 0.435 MW, coal and waste wood),
- boiler house Pasternik in Łęczna (power 2,06 MW, coal, a reserve boiler house)
- in Ostrów Lubelski (power 3.24 MW, coal) – until the end of August 2011.

With respect to air protection, the Company holds the following decisions:

- Decision No. PZ 13/2007 issued by the Lublin Province Governor ref. No. ŚR.V.6618/8-10/2007 of 22 October 2007: - an integrated permit for the "heat-generating plant / heat and power station to cogenerate heat and electrical energy in Bogdanka", amended by the decision No. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010 issued by the Lublin Marshal's Office in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.
- decision ref. no. RŚ.V.PS.7691/15/09 of 17 April 2009 issued by the Marshall Office in Lublin that allows the Company to take part in the European Community's emission trading scheme in the accounting period for years 2008-2012.

b) Water and liquid waste management

Currently the Company holds the aquatic legal survey permits:

- decision by the Poviat Starosty [county authorities] in Łęczna No. BAO OSR6223/10/4/2002/2003 to collect water in Bogdanka and Nadrybie and to dispose liquid waste from the waste treatment plant in Bogdanka and Nadrybie, valid until 31 December 2012, amended by decision No. BAO 6223./ 6/2009-9 of 10 May 2009; (the change concerns liquid waste disposal from the waste treatment plant in Nadrybie) and the decision no. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 - of 22 October 2007 - an integrated permit for the "heat-generating plant / heat and power station to cogenerate heat and electrical energy in Bogdanka", amended by the decision No. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010 issued by the Lublin Marshal's Office in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.
- decision by the Poviat Starosty [county authorities] in Łęczna Nr BAO 6223/7/3/2005 to collect water from the water intake Stefanów, valid until 30 September 2015.

Currently, the subsidiary runs three potable water intakes: in Bogdanka, Nadrybie and Stefanów, and two liquid waste treatment plants: a mechanical / biological one in Bogdanka with the capacity of 700 m3/24 hours, and a mechanical / biological one (Bioblok) in Nadrybie with the capacity of 400 m3/24 hours.

c) Waste management

The Company conducts waste management in accordance with the following decisions:

a decision issued by the Poviat Starosty [county authorities] in Łęczna, ref. no. BAO 6140/29/08-2 valid until 30 June 2018, which is related to management of hazardous waste arising as a result of the Company's activities in places: Nadrybie, Stefanów, Łęczna, and Zawadów, and decision No. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 - of 22 October 2007 - an integrated permit for the "Heat–Generating Plant / Heat and Power Station to cogenerate heat and electrical energy in Bogdanka", which covers the waste that is generated in connection with the heat-generating plant's activities changed into the decision No. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010 issued by the Lublin Marshal's Office in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.

issued by Poviat Starosty [county authorities] in Łęczna, ref. no. BAO 6140-24/10-6 of 17 August 2010 – recovery of waste in burning installation – Zawadów, valid until 30 June 2020.

The waste generated is as follows:

a) slags, furnace ashes, and dusts from the boiler house,
b) ash and slag mixtures from liquid waste discharge of combustion waste,
c) sediments from the liquid waste treatment plant in Bogdanka and Nadrybie,
d) screenings from the waste treatment plant,
e) used oil,
f) other solvents and solvent mixtures,
g) waste printer toner,
h) fluorescent and mercury lamps, monitors,
i) chemical reagent packaging,
j) non-seggregable municipal waste, plastic packaging,
k) used cleaning materials and sorbent,
l) steel and cast iron scrap,
m) non ferrous metals scrap,
n) insulation materials other than mentioned above (mineral wool, glass wool, tar board).
o) concrete waste and concrete rubble from demolished structures and repairs,
p) brick rubble,
q) glass,
r) packaging containing remainders of hazardous waste or polluted with hazardous waste,
s) used electronic devices (computers etc.).

The Company hands over the waste that it generates to business entities that hold the relevant waste management decisions issued by appropriate local government authorities pursuant to the Waste Act of 27 April 2001.

Financial charges for the economic use of the environment

Fees of Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment over the last three years are presented in the table below.

Table 26 Fees paid by Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment

Item [PLN]	**2009**	**2010**	**2011**
Emissions of boiler house pollutions:			
–in Bogdanka	337,767.46	389,045.09	222,303.82
–in Łęczna	-	-	-
–in Zawadów	1,522.94	1,736.80	1,193.25
–in Ostrów Lubelski	10,590.94	12,995.36	7,237.19
– in Milejów	73,169.89	34,879.09	-

Item [PLN]	2009	2010	2011
For underground water uptake and liquid waste disposal in Bogdanka, Nadrybie and Stefanów	23,432.00	27,509.00	33,629.00
TOTAL	446,483.23	466,165.34	264,363.26

In the financial year 2011 the aggregate charge for business use of the environment was lower than in previous years, mostly due to the fact that in the course of the financial year a new dust removal and exhaust gas desulphurisation installation was put to use, which resulted in the change in the manner environmental charges are calculated and, consequently, led to their decrease.

Another important reason for the drop in the charges for business use of the environment in 2011 was the decommissioning of the boiler houses in Milejów and Ostrów Lubelski.

In the years 2009-2011 no fines were imposed on the Company for exceeding the prescribed norms.

The volume of CO_2 emissions stood at 42 685 Mg. There are 7 597 Mg CO_2 left from the allocated limit. The final volume of emissions will have been verified by a third party by the end of March 2012.

8. PROCEEDINGS PENDING BEFORE COURT, AUTHORITY IN CHARGE FOR ARBITRATION PROCEEDINGS OR PUBLIC ADMINISTRATION AUTHORITY

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.

More information regarding proceedings in which LW BOGDANKA S.A. was one of the parties is available in the Directors' Report on Operation of LW BOGDANKA S.A. for the period from 1 January 2011 to 31 December 2011.

9. OTHER SIGNIFICANT EVENTS AFFECTING THE LW BOGDANKA GROUP'S OPERATIONS, THAT OCCURRED IN THE FINANCING YEAR AND IN THE FOLLOWING PERIOD BY THE DATE OF THE APPROVAL OF THE FINANCIAL STATEMENTS

9.1. 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 is 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 will be 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 introduced 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.

9.2. Production launched in Stefanów

On 1 October 2011, Saturday, the test start-up of mining panel in the Stefanów Field was launched. The day before, 30 September 2011, Friday, 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.

9.3. 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:

- Continued creation of company image as leader of the mining industry in the Polish and European market;
- 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;
- Manifesting the success of the enterprise, confirming its credibility in the eyes of current and future contractors and investors;
- 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;
- 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 2010 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 27 Advertising budget execution in 2011 [in PLN]

Advertising budget item	Execution in 2011
Promotion of the BOGDANKA corporate brand	794,497
Promotion of the EkoKLINKIER associated brand	604,820
Advertising sponsorship, sports	7,932,500
Advertising sponsorship, other	24,000
TOTAL	**9,355,817**

9.4. 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.

9.5. 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.

10. 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 28 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

11. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

11.1. 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.

11.2. The main characteristics of internal audit and risk management systems used by the LW BOGDANKA Group 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.

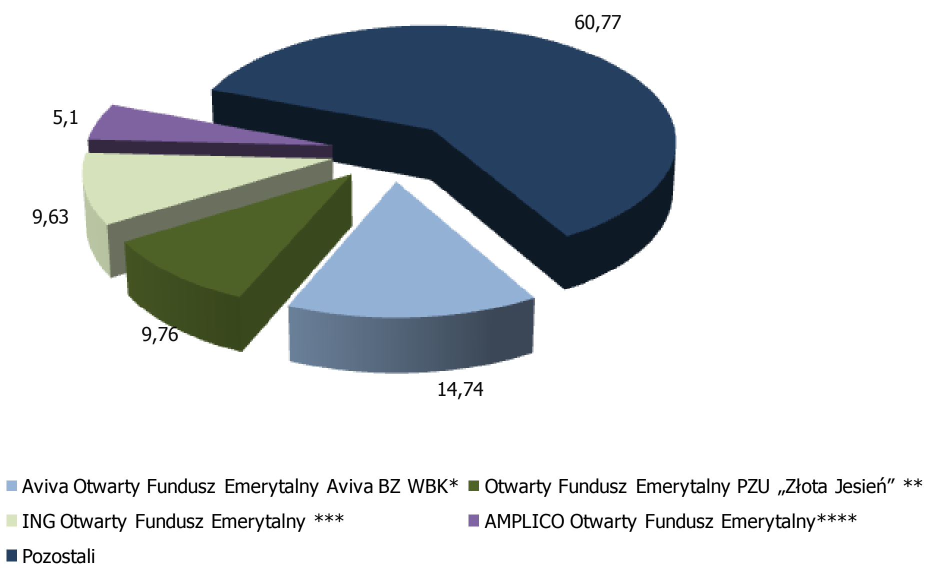
11.3. Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A.

Table 28 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.



11.4. 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.

11.5. 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.

11.6. 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.

11.7. 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.

11.8. The Companies' governing bodies

11.8.1. Management Boards

11.8.1.1. Description of rules regarding appointment and dismissal of management officers in the Parent Undertaking, 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.

11.8.1.2. Composition of the Management Boards

<u>LW BOGDANKA S.A.</u>

<u>Management Boards of - 7th term of office</u>

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

Lech Tor — Member of the Management Board elected by the employees

11.8.1.3. Description of the operations of the Management Board of the Parent Undertaking 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.

Performing other duties imposed by the resolutions of the Management Board.

11.8.1.4. Information on powers of proxy granted and revoked in LW BOGDANKA S.A.

In 2011, there was no change in the proxies granted by the Management Board of Lubelski Węgiel BOGDANKA.

11.8.1.5. The composition of the Management Board of the Łęczyńska Energetyka Sp. z o.o. Subsidiary

As at 31 December 2010, 31 December 2011 and at the day of submitting the Report, the composition of the Management Board of the Subsidiary was as follows:

1. Marek Martyn - President (pursuant to the resolution of the Supervisory Board of Łęczyńska Energetyka of 29 October 2007)

2. Stanisław Misterek - Vice-President of the Management Board, Economic and Financial Affairs (pursuant to the resolution of the Supervisory Board of Łęczyńska Energetyka of 30 April 2008)

11.8.2. The Companies' Supervisory Boards

11.8.2.1. Composition

In 2011 the Supervisory Board for the 7th term of office operated in LW BOGDANKA S.A. 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.

In 2011 the Supervisory Board operated in the Subsidiary, which as at 31 December 2011 and as at the day of submitting the Report consisted of:

1.	Zbigniew Stopa	- Chairman
2.	Włodzimierz Czórnóg	- Vice-Chairman
3.	Teodor Kosiarski	- Secretary
4.	Mirosław Taras	- Member
5.	Krzysztof Zborowski	- Member

The above mentioned composition of the Supervisory Board was appointed for a three-year term for financial years from 1 January 2011 to 31 December 2013, pursuant to a resolution of the General Shareholders Meeting of Łódzka Energetyka Spółka z o.o. of 9 June 2011.

11.8.2.2. Description of activities of the Management Board of the Parent Undertaking

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.

1. 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;

1. 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.

11.8.2.3. Audit Committee of LW BOGDANKA S.A.

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.

11.8.3. General Shareholders Meeting of LW BOGDANKA S.A.

11.8.3.1. 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.

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