The Lubelski Węgiel Bogdanka S.A. Group

ABRIDGED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

for the period of six months ended 30 June 2011

Contents of the Consolidated Interim Financial Statements

(All amounts in the tables are in PLN thousand, unless otherwise specified)

Consolidated Statement of Financial Position (Balance Sheet)

	Note	30 Jun. 2011	31 Dec. 2010
Assets			
Fixed assets			
Tangible fixed assets	5	2,379,640	2,101,245
Intangible fixed assets	6	10,532	10,955
Investments in associated undertakings	7	-	18
Trade debtors and other receivables		643	845
Cash and cash equivalents		52,673	50,909
		2,443,488	2,163,972
Current assets			
Stock		43,029	60,810
Trade debtors and other receivables		137,832	126,858
Overpaid income tax		533	4,304
Cash and cash equivalents		261,271	472,101
		442,665	664,073
TOTAL ASSETS		**2,886,153**	**2,828,045**
Shareholders' equity			
Shareholders' equity attributable to shareholders of the Parent Undertaking			
Ordinary shares	8	301,158	301,158
Other capitals	9	1,261,013	1,081,298
Retained profits		411,910	577,309
		1,974,081	1,959,765
Non-controlling interests		**9,482**	**9,254**
Total shareholders' equity		**1,983,563**	**1,969,019**
Liabilities			
Long-term liabilities			
Loans and borrowings	10	190,000	200,000
Deferred income tax liabilities		53,353	54,732
Employee benefits liabilities	11	115,757	108,582
Provisions for other liabilities and charges	12	70,675	67,314
Subsidies		19,355	19,451
Trade creditors and other liabilities		4,985	5,808
		454,125	455,887
Short-term liabilities			
Loans and borrowings	10	54,000	50,000
Employee benefits liabilities	11	22,043	29,709
Provisions for other liabilities and charges	12	84,834	82,689
Trade creditors and other liabilities		239,969	240,741
Dividend payable	16	47,619	-
		448,465	403,139
Total liabilities		**902,590**	**859,026**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2,886,153**	**2,828,045**

(All amounts in the tables are in PLN thousand, unless otherwise specified)

Consolidated Statement of Comprehensive Income

	Note	**For 6 months ended 30 June**	
		2011	**2010**
Revenue on sales		582,081	578,099
Costs of products, goods and materials sold		(460,465)	(394,996)
Gross profit		**121,616**	**183,103**
Selling costs		(19,469)	(19,418)
Administrative costs		(37,062)	(32,203)
Other income		7,951	2,251
Other costs		(514)	(1,745)
Other losses - net		(2,113)	(5,350)
Profit on operating activities		**70,409**	**126,638**
Financial income		9,444	12,869
Financial expenses		(2,806)	(6,664)
Net financial income		6,638	6,205
Share in profits/(losses) of associated undertakings	7	(18)	(24)
Profit before taxation		**77,029**	**132,819**
Income tax	14	(14,866)	(25,899)
Net profit for the financial year		**62,163**	**106,920**
including:			
- attributable to shareholders of the Parent Undertaking	15	61,935	106,208
- attributable to non-controlling interests		228	712
Total income for the period		**62,163**	**106,920**
including:			
- attributable to shareholders of the Parent Undertaking	15	61,935	106,208
- attributable to non-controlling interests		228	712
Earnings per share attributable to the shareholders of the Parent Undertaking during the year (in PLN per share)			
- basic		1.82	3.12
- diluted		1.82	3.12

(All amounts in the tables are in PLN thousand, unless otherwise specified)

Consolidated Statement of Changes in Shareholders' Equity

	Attributable to shareholders of the Parent Undertaking					
	Ordinary shares	**Other capitals**	**Retained profits**	**Total**	**Non-controlling interests**	**Total shareholders' equity**
As at 1 January 2010	**301,158**	**890,456**	**538,340**	**1,729,954**	**8,943**	**1,738,897**
Total income for the accounting period	-	-	106,208	106,208	712	106,920
Transfer of the result for 2009	-	192,053	(192,053)	-	-	-
As at 30 June 2010	**301,158**	**1,082,509**	**452,495**	**1,836,162**	**9,655**	**1,845,817**
As at 1 January 2011	**301,158**	**1,081,298**	**577,309**	**1,959,765**	**9,254**	**1,969,019**
Total income for the accounting period	-	-	61,935	61,935	228	62,163
Dividends concerning 2010 (Note 16)	-	-	(47,619)	(47,619)	-	(47,619)
Transfer of the result for 2010	-	179,715	(179,715)	-	-	-
As at 30 June 2011	**301,158**	**1,261,013**	**411,910**	**1,974,081**	**9,482**	**1,983,563**

(All amounts in the tables are in PLN thousand, unless otherwise specified)

Consolidated Cash Flow Statement

	Note	For 6 months ended 30 June 2011	2010
Operating cash flow			
Operating cash inflow	17	180,386	190,830
Interest paid		-	(5,192)
Income tax paid		(12,434)	(25,245)
Net cash flows from operating activities		**167,952**	**160,393**
Investing cash flow			
Acquisition of tangible fixed assets		(378,672)	(275,245)
Acquisition of intangible fixed assets		(393)	(55)
Inflow from the sale of tangible fixed assets		55	15
Interest received		7,992	11,596
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(1,764)	(1,193)
Net investing cash flow		**(372,782)**	**(264,882)**
Financing cash flow			
Loans and borrowings repaid		(6,000)	-
Net financing cash flow		**(6,000)**	**-**
Decrease in cash and cash equivalents		(210,830)	(104,489)
Cash and cash equivalents at beginning of period		472.101	681,659
Cash and cash equivalents at end of period		**261,271**	**577,170**

Notes on the Abridged Consolidated Interim Financial Statements

1. General information

1.1. The composition of the Capital Group and the object of the Group's business

The Lubelski Węgiel Bogdanka S.A. Group (hereinafter referred to as the "Group") is composed of the following companies:

Parent Undertaking - Lubelski Węgiel Bogdanka S.A., with registered office in Bogdanka, 21-013 Puchaczów.

Lubelski Węgiel Bogdanka S.A. is a joint stock company, operating under the laws of Poland. The Company was created as a result of the restructuring of the state enterprise Kopalnia Węgla Kamiennego Bogdanka with registered office in Bogdanka, under the Act on the Privatisation of State Enterprises of 13 July 1990.

The deed of transformation of a state enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A. was drawn up on 1 March 1993 (Rep. A No. 855/1993) by Notary Public Jacek Wojdyło maintaining a Notarial Office at ul. Kopernika 26, Katowice.

The Company was entered in Section B of the Commercial Register of the District Court in Lublin, VIII Commercial Division, under No. H - 2993, on the basis of a valid decision of that Court issued on 30 April 1993 (file ref. No. HB - 2993, Ns. Rej. H 669/93).

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

On 22 June 2009, pursuant to the decision of the Polish Financial Supervision Authority, Series A and C Shares and Rights to Series C Shares were admitted to public trading on the WSE main market. On 25 June 2009, the Company made its debut on the WSE by introducing Rights to Series C Shares to trading. Share capital of the Company was increased, which has been described in detail in Note 8. As a result of transactions effected in 2010 regarding the disposal of shares effected by the State Treasury, represented by the Minister of the State Treasury as well as transfer of shares on the basis of contracts on a free-of-charge disposal of shares for the benefit of eligible employees under the Act on Commercialisation and Privatisation, Lubelski Węgiel Bogdanka Spółka Akcyjna has lost the status of the Company owned by the State Treasury.

The Company's core business activities, pursuant to the European Classification of Activity (EKD 0510Z), are mining and agglomeration of hard coal.

The subsidiary - Łęczyńska Energetyka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów.

As at 30 June 2011, the Parent Undertaking held 88.70% of shares in the capital of the subsidiary undertaking Łęczyńska Energetyka Sp. z o.o.

Łęczyńska Energetyka Sp. z o.o. provides services to mines involving supplying heat energy and conducts water/wastewater management. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations.

The Group's associated undertakings are:

The associated undertaking - EKSPERT Sp. z o.o. with registered office in Bogdanka, 21-013, Puchaczów.

As at 30 June 2011, Łęczyńska Energetyka Sp. z o.o. held 50% of shares in the capital of the associated undertaking EKSPERT Sp. z o.o.

1.2. Assumption of the Group going concern

The abridged consolidated interim financial statements were prepared under the assumption of continued business activity in the foreseeable future and that there are no circumstances indicating any risk to the continuation of the Group's activities.

In the opinion of the Management Board of Lubelski Węgiel BOGDANKA S.A., there are currently no circumstances indicating any risk to continuation of the Group's activities.

2. Description of key accounting principles applied

These abridged consolidated interim financial statements follow the same accounting principles (policies) and calculating methods as the latest annual consolidated financial statements.

2.1. Basis for preparation

These abridged consolidated interim financial statements of the LW Bogdanka S.A. Group for the first half of 2011 have been prepared in compliance with the provisions of the International Accounting Standard 34 – "Interim Financial Reporting" as well as the Regulation of the Polish Council of Ministers of 19 February 2009 on current and periodic information furnished by the issuers of securities (Dz. U. dated 28 February 2009).

These abridged consolidated interim 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 Group's transition to the IFRS, i.e. 1 January 2005.

Drawing up the abridged consolidated interim financial statements in accordance with IAS 34 requires the use of certain significant accounting estimates. It also requires that the Management Board exercise its own judgement when applying the accounting principles adopted by the Group. The main estimates and judgements have not changed since the publication of the annual consolidated financial statements for 2010.

(a) *New standards and interpretations effective as of 1 January 2011*

- Amendments in IAS 24 "Related Party Disclosures"

  Amendments to IAS 24 "Related Party Disclosures" were published by the International Accounting Standards Board on 4 November 2009 and are effective for annual periods beginning on or after 1 January 2011 (endorsed by the EU on 19 July 2010). The amendments simplify the requirements for disclosure of information by entities related to state institutions and specify more precisely definitions of a related party.

  The amendments to the standards do not have any impact on the Group's abridged consolidated interim financial statements.

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

  IFRIC 19 was issued by the International Financial Reporting Interpretations Committee on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010 (endorsed by the EU on 23 July 2010). The interpretation explains the accounting principles applied in a situation where a liability is extinguished by the issue of equity instruments addressed to the creditor following renegotiation by the undertaking of the terms of its indebtedness. The interpretation requires the measurement of equity instruments at fair value and the recognition of a gain or loss equal to a difference between the liability carrying amount and the equity instrument fair value.

The interpretation does not have any impact on the Group's abridged consolidated interim financial statements.

- Improvements to IFRS 2010
  On 6 May 2010 the International Accounting Standards Board published "Improvements to IFRS 2010" amending 7 standards. The improvements include changes in the presentation, recognition and measurement, as well editorial and terminological changes. Most of the improvements are effective for annual periods beginning as of 1 January 2011 (endorsed by the EU on 18 February 2011).

  - IFRS 1 "First-time Adoption of International Financial Reporting Standards"

  - IFRS 3 "Business Combinations"

  - IFRS 7 "Financial Instruments - disclosures"

  - IAS 1 "Presentation of Financial Statements"

  - Transitional provisions referring to amendments resulting from the application of IAS 27 "Consolidated and Separate Financial Statements"

  - IAS 34 "Interim Financial Reporting"
  - IFRIC 13 "Customer Loyalty Programmes"

  The Group applied amendments to the IFRS pursuant to transitional provisions. The introduction of amendments does not have any significant impact on these abridged consolidated interim financial statements.

(b) Standards, revisions and interpretations of existing standards which are not yet mandatory and have not been previously applied by the Group.

As far as these abridged consolidated interim financial statements are concerned, the Group decided not to apply the following published standards or interpretations prior to their effective date:

- IAS 9 "Financial Instruments" published in November 2009. The Group will apply the standard from 1 January 2013.
- IAS 10 "Consolidated Financial Statements" published in May 2011. The Group will apply the standard from 1 January 2013.
- IAS 11 "Joint Ventures" published in May 2011. The Group will apply the standard from 1 January 2013.
- IAS 12 "Disclosure of Interest in Other Entities" published in May 2011. The Group will apply the standard from 1 January 2013.
- IAS 13 "Fair Value Measurement" published in May 2011. The Group will apply the standard from 1 January 2013.
- Amendments to IAS 1 "Presentation of Financial Statements" published in June 2011. The Group will apply the standard from 1 July 2012.
- Amendments to IAS 12 "Recovery of Underlying Assets" published in December 2010. The Group will apply the standard from 1 January 2012.
- Amendments to IAS 19 "Employee Benefits" published in June 2011. The Group will apply the standard from 1 January 2013.
- Amendments to IAS 7 "Transfer of Financial Assets" published in October 2010. The Group will apply the standard from 1 July 2011.

As at the date of drawing up these abridged consolidated interim financial statements, the abovementioned standards and amendments to standards have not been yet endorsed by the European Union.

(c) Existing standards, amendments and interpretations to the existing standards which are not applicable to the operations of the Group.

- IFRS 3 "Business Combinations"
- IFRS 8 "Operating Segments"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – "Eligible Hedged Items"
- IFRIC 12 "Service Concession Agreements"
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interact Project"
- IFRIC 15 "Agreements for the Construction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 "Distribution of Non-Cash Assets to Owners"
- IFRIC 18 "Transfers of Assets from Customers"
- IFRIC 13 "Customer Loyalty Programmes"
- Amendments to IFRS 1 "First-Time Adoption of IFRS"
- Amendments to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters" published in December 2010. The Group will apply the standard from 1 July 2011.

3. Information on business segments

IFRS 8 – "Operating Segments" is applicable for the purposes of preparing these abridged consolidated interim financial statements. That standard requires that financial statements of the undertaking present a series of data concerning individual segments, while the approach to segmentation of the undertaking presented in the financial statements should be consistent with the division into segments used for purposes of making strategic management decisions.

The Management Board does not apply division into segments for managing the Group since the Parent Undertaking mainly focuses its activities on the production and sale of coal. Revenue on sales of other products and services in the period between 1 January 2011 and 30 June 2011 amounted to PLN 45,800,000 (PLN 18,185,000 in the first half of 2010), which accounts for 7.87% and 3.15% of total revenue on sales, respectively.

The Group operates primarily in Poland. In the period between 1 January 2011 and 30 June 2011, revenue from foreign sales amounted to PLN 249,000, which accounts for 0.04% of total revenue on sales in the year in question. The Group does not hold assets or liabilities outside Poland.
Accordingly, the Group does not present its results by geographical segments.

4. Information regarding seasonality

The production is not seasonal, whereas seasonal character of sales can be noticed in the case of retail sales at a point of coal sale. Sales for individual customers account for 0.44% of the total sales. This has no significant effect on operating and financing activity of the Group.

(All amounts in the tables are in PLN thousand, unless otherwise specified)

5. Tangible fixed assets

	Land	**Buildings and structures (including mining excavations)**	**Technical equipment and machinery**	**Vehicles**	**Other tangible fixed assets**	**Tangible fixed assets in construction**	**Total**
As at 1 January 2010							
Cost or assessed value	3,101	1,391,301	723,819	93,171	15,203	296,905	2,523,500
Depreciation	-	(538,296)	(368,968)	(48,840)	(8,669)	-	(964,773)
Net book value	**3,101**	**853,005**	**354,851**	**44,331**	**6,534**	**296,905**	**1,558,727**
As at 30 June 2010							
Net book value at beginning of year	3,101	853,005	354,851	44,331	6,534	296,905	1,558,727
Increases*	1,262	72,299	178,288	4,408	166	351,474	607,897
Decreases*	-	(11,958)	(231)	(154)	-	(246,860)	(259,203)
Depreciation	-	(41,971)	(22,046)	(2,603)	(605)	-	(67,225)
Net book value	**4,363**	**871,375**	**510,862**	**45,982**	**6,095**	**401,519**	**1,840,196**
As at 30 June 2010							
Cost or assessed value	4,363	1,412,449	896,369	97,170	15,314	401,519	2,827,184
Depreciation	-	(541,074)	(385,507)	(51,188)	(9,219)	-	(986,988)
Net book value	**4,363**	**871,375**	**510,862**	**45,982**	**6,095**	**401,519**	**1,840,196**
As at 1 January 2011							
Cost or assessed value	3,169	1,487,336	922,696	99,634	15,641	621,849	3,150,325
Depreciation	-	(574,345)	(411,657)	(53,293)	(9,785)	-	(1,049,080)
Net book value	**3,169**	**912,991**	**511,039**	**46,341**	**5,856**	**621,849**	**2,101,245**
As at 30 June 2011							
Net book value at beginning of year	3,169	912,991	511,039	46,341	5,856	621,849	2,101,245
Increases*	924	299,057	123,983	3,788	1,109	355,864	784,725
Decreases*	(139)	(6,164)	(51)	(150)	(88)	(425,778)	(432,370)
Depreciation	-	(39,503)	(31,549)	(2,311)	(597)	-	(73,960)
Net book value	**3,954**	**1,166,381**	**603,422**	**47,668**	**6,280**	**551,935**	**2,379,640**
As at 30 June 2011							
Cost or assessed value	3,954	1,724,948	1,043,157	100,932	16,530	551,935	3,441,456
Depreciation	-	(558,567)	(439,735)	(53,264)	(10,250)	-	(1,061,816)
Net book value	**3,954**	**1,166,381**	**603,422**	**47,668**	**6,280**	**551,935**	**2,379,640**

* the item includes creating, releasing and using the write-offs revaluating tangible fixed assets

The “Decreases in tangible fixed assets in construction” item mainly consists of reclassifications of items to other categories of fixed assets, where the same values are disclosed in the “Increases” item.

(All amounts in the tables are in PLN thousand, unless otherwise specified)

6. Intangible fixed assets

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 January 2010					
Cost or assessed value	3,635	4,449	10,789	225	19,098
Amortisation	(2,624)	(894)	(3,302)	(79)	(6,899)
Net book value	**1,011**	**3,555**	**7,487**	**146**	**12,199**
As at 30 June 2010					
Net book value at beginning of year	1,011	3,555	7,487	146	12,199
Presentation adjustment	106	(62)	(26)	(28)	(10)
Increases	49	10	-	-	59
Amortisation	(97)	(95)	(586)	(68)	(846)
Net book value	**1,069**	**3,408**	**6,875**	**50**	**11,402**
As at 30 June 2010					
Cost or assessed value	3,603	4,262	11,235	59	19,159
Amortisation	(2,534)	(854)	(4,360)	(9)	(7,757)
Net book value	**1,069**	**3,408**	**6,875**	**50**	**11,402**
As at 1 January 2011					
Cost or assessed value	4,045	4,480	10,763	60	19,348
Amortisation	(2,823)	(1,043)	(4,513)	(14)	(8,393)
Net book value	**1,222**	**3,437**	**6,250**	**46**	**10,955**
As at 30 June 2011					
Net book value at beginning of year	1,222	3,437	6,250	46	10,955
Presentation adjustment	-	(41)	41	-	-
Increases	275	118	-	-	393
Amortisation	(125)	(102)	(577)	(12)	(816)
Net book value	**1,372**	**3,412**	**5,714**	**34**	**10,532**
As at 30 June 2011					
Cost or assessed value	4,266	4,293	11,235	46	19,840
Amortisation	(2,894)	(881)	(5,521)	(12)	(9,308)
Net book value	**1,372**	**3,412**	**5,714**	**34**	**10,532**

7. Share capital

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2010	34,014	170,068	131,090	301,158
As at 30 June 2010	34,014	170,068	131,090	301,158
As at 1 January 2011	34,014	170,068	131,090	301,158
As at 30 June 2011	34,014	170,068	131,090	301,158

All shares issued by the Parent Undertaking have been fully paid up.

8. Other capitals

Pursuant to the Articles of Association, the Parent Undertaking can create supplementary capital and other reserve capitals, the purpose of which is determined by provisions of law and resolutions of decision-making bodies.

9. Loans and borrowings

	30 Jun. 2011	31 Dec. 2010
Long-term:		
Bank loan	190,000	200,000
Short-term:		
Bank loan	54,000	50,000
	244,000	**250,000**

The bank loan matures on 31 December 2014 and bears interest equal to 3M WIBOR + bank margin. Details on maturity dates of the loan are presented below.

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
As at 30 June 2011				
Loans and borrowings	54,000	65,000	125,000	-

The fair value of the loan does not differ significantly from the carrying value.

The Parent Undertaking has taken out the loan in Polish zloty (PLN).

	PKO BP	Total
As at 31 December 2010	250,000	250,000
Repayment in the period	6,000	6,000
As at 30 June 2011	244,000	244,000

The Group does not have any unutilised credit lines as at 30 June 2011.

(All amounts in the tables are in PLN thousand, unless otherwise specified)

10. Employee benefits liabilities

	30 Jun. 2011	31 Dec. 2010
Liabilities as disclosed in the consolidated statement of financial standing		
- Retirement and disability benefits	29,801	30,460
- Long service awards	39,422	39,909
- Coal allowances in kind	65,646	62,752
- Other benefits for employees	2,931	5,170
	137,800	**138,291**
Including:		
Long-term	115,757	108,582
Short-term	22,043	29,709

11. Provisions for other liabilities and charges

	Mine closure	Mining damage	Legal claims	Total
As at 1 January 2010	**63,079**	**6,680**	**56,916**	**126,675**
Including:				
Long-term	63,079	-	-	63,079
Short-term	-	6,680	56,916	63,596
Recognition in the consolidated statement of comprehensive income				
- Creation of additional provisions	896	1,602	6,825	9,323
- Release of an unused provision	-	(946)	(647)	(1,593)
- Interest	-	-	2,269	2,269
- Discount settlement	1,170	-	-	1,170
As at 30 June 2010	**65,145**	**7,336**	**65,363**	**137,844**
Including:				
Long-term	65,145	-	-	65,145
Short-term	-	7,336	65,363	72,699
As at 1 January 2011	**67,314**	**7,095**	**75,594**	**150,003**
Including:				
Long-term	67,314	-	-	67,314
Short-term	-	7,095	75,594	82,689
Recognition in the consolidated statement of comprehensive income				
- Creation of additional provisions	1,714	-	6,941	8,655
- Release of an unused provision	-	(2,062)	(2,376)	(4,438)
- Interest	-	-	705	705
- Discount settlement	1,647	-	-	1,647
- Provisions used during a year	-	(1,058)	(5)	(1,063)
As at 30 June 2011	**70,675**	**3,975**	**80,859**	**155,509**

(All amounts in the tables are in PLN thousand, unless otherwise specified)

Including:				
Long-term	70,675	-	-	70,675
Short-term	-	3,975	80,859	84,834

(a) Liquidation of mines

The Group establishes a provision for expenses related to closure of a mining plant, as required under applicable provisions.

(b) Removing mining damage

Given the need to remove mining damage, the Parent Undertaking creates a provision for mining damage. As at 30 June 2011, the estimated value of works necessary for damage removal is: PLN 3,975,000.

(c) Legal claims

The amounts disclosed constitute:

- a provision for certain legal claims filed against the Group by customers and suppliers. The amount of the provision is disclosed in the consolidated statement of comprehensive income under the "cost of products, goods and materials sold" item. In the Management Board's opinion, supported by an appropriate legal opinion, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 30 June 2011.
- a provision for real property tax. While preparing statements for real property tax, the Parent Undertaking (like other mining companies in Poland) does not take into account the value of buildings and equipment located in mining excavations for the purpose of calculating this tax. In the case of the Puchaczów Commune, on 23 December 2009 the Parent Undertaking filed an application for suspension of the execution of the decision of the Head of the Puchaczów Commune regarding stipulation of the amount of property tax liability for 2003. By virtue of the decision of 10 March 2010, the Local Government Appellate Court in Lublin suspended the execution of the aforementioned decision of the Head of the Puchaczów Commune until a final decision is issued. On 30 June 2010, the Local Government Appellate Court in Lublin overturned the challenged decision of the Head of the Puchaczów Commune of 23 December 2008 in full, and sent the case back for re-examination to the authority of first instance. By virtue of the decision of 12 January 2011, the Head of the Puchaczów Commune specified for the Parent Undertaking the amount of property tax liability for 2003 in the amount of PLN 8,346,800, including an overdue property tax liability in total for all months of that year in the amount of PLN 3,851,000. The Parent Undertaking filed an appeal against the above decision to the Local Government Appellate Court in Lublin. Currently, the case is being examined by the Local Government Appellate Court. By virtue of the decision of 8 June 2011, the Local Government Appellate Court in Lublin informed the Parent Undertaking about a new date of examining the case, i.e. 14 August 2011. In 2010, the communes where the Parent Undertaking extracts coal conducted clarification proceedings regarding mining pits released for mining in 2005. Proceedings to determine the amount of property tax liability for 2005 were completed with the issuance of decisions by the Head of the Puchaczów Commune and the Head of the Ludwin Commune on 20 October 2010, and by the Head of the Cyców Commune – on 19 October 2010. The decisions are immediately enforceable as of 12 November 2010. In performance of the above, on 16 November 2010 and 19 November 2010, the Parent Undertaking paid to the bank accounts of three communes the total amount of PLN 7,416,100. The amount comprised: property tax in the amount of PLN 5,947,600 and interest in the amount of PLN 1,468,500. The decision on specifying the property tax liability for 2005 was appealed against by the Parent Undertaking to the Local Government Appellate Court in Lublin. On 19 April and 20 April 2011, the Local Government Appellate Court in Lublin overturned the decision of the Head of the Ludwin Commune and the Head of the Cyców Commune in full, and dismissed the proceedings regarding the specification of the Parent Undertaking's tax liabilities for 2005 due to the expiration of the tax statute of limitations. An

(All amounts in the tables are in PLN thousand, unless otherwise specified)

appeal against the Head of the Puchaczów Commune will be examined at a later date. As at the date of publishing these abridged consolidated interim financial statements, the Parent Undertaking has not received from the aforementioned Communes a return of the tax paid in the amount of PLN 1,557,000 as well as the interest paid in the amount of PLN 917,000. In accordance with the decision of the Local Government Appellate Court, the Parent Undertaking is also entitled to interest on amounts paid from 16 November 2010. As at 30 June 2011, the amount of interest receivable was PLN 195,000. In the first half of 2011, the communes where the Parent Undertaking extracts coal started conducting, and are currently conducting, clarification proceedings regarding mining pits released for mining in 2006.

Based on the above, as well as given the fact that other mining communes in Poland have taken actions aimed at charging mining companies such a tax, the Parent Undertaking also calculated an amount of arrears on account of property tax for other periods not covered by statute of limitations and for all communes in which it conducts mining activities. The provision so estimated in the amount of: PLN 72,759,000 is recognised in books as at 30 June 2011 (as at 30 June 2010: PLN 63,553,000).

12. Unusual events affecting the financial result

In the period of six months of 2011, no unusual events occurred that would seriously affect the financial position of the Group.

13. Income tax

	1 Jan. 2011-30 Jun. 2011	**1 Jan. 2010-30 Jun. 2010**
Current tax	16,150	29,600
Deferred tax	(1,284)	(3,701)
	14,866	**25,899**

Income tax in the abridged consolidated interim financial statements was established pursuant to the expected tax rate for 2011 of 19.3% (2010: 19.5%). The effective tax rate applied was determined after conducting an analysis of permanent and temporary differences in income tax for previous years.

The regulations concerning value added tax, real property tax, corporate income tax, personal income tax and social security contributions are frequently changed. As a result, there is sometimes no reference to established regulations or legal precedents. The applicable regulations also contain ambiguities which result in differences in opinions regarding the legal interpretation of tax regulations, both between state authorities and between state authorities and businesses.

Such interpretational doubts concern, for example, tax classification of outlays on creating certain mining excavations. The practice currently applied by the Group and other coal sector companies consists of recognising costs related to the creation of “exploitation excavations”, i.e. excavations which are not part of permanent underground infrastructure of a mine, directly in the tax costs of the period.

However, in light of applicable tax regulations, it is possible that such costs could be classified for the purpose of corporate income tax in a way that differs from the classification presented by the Group, which could potentially result in adjustments in corporate income tax settlements and the payment of an additional amount of tax. Such amount would be significant.

Tax and other settlements (e.g. customs or foreign currency settlements) can be inspected by the authorities which are entitled to impose heavy fines, and additional amounts of liabilities established as a result of an inspection must be paid with high interest. As a result, the tax risk in Poland is greater than that which usually exists in countries with more advanced tax systems. Tax settlements can be inspected within a five-year period. As a result, amounts disclosed in the abridged consolidated interim financial statements might be changed after their amount has been finally determined by the tax authorities.

14. Earnings per share

(a) Basic

Basic earnings per share are calculated as the quotient of the profit attributable to the shareholders of the Parent Undertaking and the weighted average number of ordinary shares during the year.

	1 Jan. 2011-30 Jun. 2011	1 Jan. 2010-30 Jun. 2010
Earnings attributable to shareholders of the Parent Undertaking	61,935	106,208
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN per share)	**1.82**	**3.12**

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. The Parent Undertaking does not have instruments causing dilution of potential ordinary shares. Diluted earnings per share are therefore equal to basic earnings per share of the Parent Undertaking.

15. Dividend per share

In the first half of 2011 and in the same period of 2010, the Parent Undertaking did not pay any dividend to Shareholders. The payment of dividend for 2010, in the amount of PLN 47,619,000, took place on 26 August 2011. In compliance with Resolution No. 24 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 10 May 2011, the profit for 2010 in the amount of PLN 47,619,000 has been distributed among the Parent Undertaking’s shareholders. The dividend rate due to shareholders of the Parent Undertaking is presented in the table below.

	1 Jan. 2011-30 Jun. 2011	1 Jan. 2010-30 Jun. 2010
Dividend due	47,619	-
Weighted average number of ordinary shares ('000)	34,014	34,014
Dividend per share (in PLN per share)	**1.40**	**-**

The dividend rate per share is calculated as the quotient of the dividend attributable to the shareholders of the Parent Undertaking and the number of ordinary shares as at the dividend date.

16. Supplementary information to cash flow

	Note	30 Jun. 2011	30 Jun. 2010
Profit before taxation		77,029	132,819
- Depreciation of tangible fixed assets	5	73,960	67,225
- Amortisation of intangible fixed assets	6	816	846
- Profit on sale of tangible fixed assets		3,368	979
- Net financial income		(6,638)	(6,205)
- Share in losses of affiliated undertakings	7	18	24
- Change in employee benefits liabilities		(491)	5,040
- Changes in provisions		3,859	9,999
- Creating revaluation write-offs for tangible fixed assets		139	-
- Other flows		216	(356)
Changes in working capital			
- Stock		17,781	(11,561)

(All amounts in the tables are in PLN thousand, unless otherwise specified)

- Trade debtors and other receivables		(10,734)	(13,349)
- Trade creditors and other liabilities		21,063	5,369
Operating cash inflow		**180,386**	**190,830**
Balance-sheet change in accounts receivable		10,772	14,397
Change in accrued interest		(38)	(1,048)
Change in accounts receivable for the purposes of the consolidated cash flow statement		**10,734**	**13,349**
Balance-sheet change in liabilities		45,928	79,580
Change in investment liabilities		22,697	(74,095)
Liabilities on account of dividend concerning the previous year	16	(47,619)	-
Change in subsidies received		(96)	-
Change in interest		153	(116)
Change in liabilities for the purposes of the consolidated cash flow statement		**21,063**	**5,369**
Increase in tangible fixed assets		350,220	349,340
Capitalised borrowing costs		5,755	-
Change in investment liabilities		22,697	(74,095)
Acquisition of tangible fixed assets		**378,672**	**275,245**

17. Contingent items

The Group has contingent liabilities on account of legal claims arising in the normal course of its business activities and on account of potential real property tax arrears.
No significant liabilities are expected to arise on account of these contingent liabilities, apart from those for which provisions were created (Note 12).

In connection with the conclusion of the long-term loan agreement with PKO Bank Polski S.A. on 27 May 2008, the Parent Undertaking issued a blank promissory note with declaration, covering the amount corresponding to the amount of debt under the loan plus interest and other Bank's costs, for the purpose of securing the repayment of the abovementioned loan. The value of the used portion of the loan as at 30 June 2011 amounted to PLN 244 million and has been disclosed as liability in the consolidated statement of financial position of the Parent Undertaking. Further, the loan agreement provides for a collateral in the form of deduction from the Parent Undertaking's bank account and transfer of receivables from the sale of coal up to the amount of liability under the loan plus interest.

18. Future contractual liabilities

Investment liabilities

Contractual investment liabilities incurred as at the balance-sheet date, but still not disclosed in the consolidated interim statement of financial standing, amount to:

	30 Jun. 2011	**31 Dec. 2010**
Tangible fixed assets	413,034	346,844

19. Information on remuneration of the Management Board and the Supervisory Board

(All amounts in the tables are in PLN thousand, unless otherwise specified)

	30 Jun. 2011	31 Dec. 2010	30 Jun. 2010
Remuneration of Management Board members	2,321	2,785	730
Remuneration of the Supervisory Board members	174	299	126

20. Events after the balance-sheet date

The presented financial results for the first half of 2011 refer to the events, identified by the Group that occurred in this period. After the balance-sheet date no events affecting the financial results occurred that would not be disclosed in these abridged consolidated interim financial statements.

21. Approval of the Abridged consolidated Interim Financial Statements

The Management Board of Lubelski Węgiel Bogdanka S.A. declares that as of 29 August 2011, it approves these abridged consolidated interim financial statements of the Group for the period from 1 January to 30 June 2011 for publication.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Mirosław Taras	President of the Management Board
Krystyna Borkowska	Vice-President of the Board for Economic and Financial Affairs – Chief Accountant
Waldemar Bernaciak	Vice-President of the Management Board for Sales and Logistics
Zbigniew Stopa	Vice-President of the Board for Technical Affairs
Lech Tor	Member of the Management Board elected by the employees