DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2011 to 30 June 2011

BOGDANKA, AUGUST 2011

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1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure of the Lubelski Węgiel BOGDANKA Group

As at 30 June 2011, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the Parent Undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. as the subsidiary undertaking.

The associated undertaking is EKSPERT Sp. z o.o. held in 50% by Łęczyńska Energetyka Sp. z o.o. EKSPERT Sp. z o.o. undergoes currently the initial phase of a liquidation procedure in connection with the Resolution adopted by the Shareholders Meeting of the aforementioned Company.

As at the date of submitting this Report (31 August 2011), LW BOGDANKA S.A. also held 24.41% of the shares of the bankrupt company Kolejowe Zakłady Maszyn KOLZAM S.A., with a total par value of PLN 168,050.00. The ownership title to the shares was transferred to LW BOGDANKA S.A. as security for settlements for performing transportation services. That company has not been included in the consolidation.

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

The subsidiary ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. was included in the abridged consolidated interim financial statements of the LW BOGDANKA Group for the first half of 2011 (the "Consolidated Interim Financial Statements") by the full consolidation method.
The Group's associated undertaking – EKSPERT Sp. z o.o. was included in the Consolidated Interim Financial Statements of the LW BOGDANKA Group by the equity method.

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

Parent Undertaking of the LW BOGDANKA Group:

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

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.	(81) 462 51 00, (81) 462 51 01
Fax:	(81) 462 51 91
Website:	www.lw.com.pl
e-mail:	bogdanka@lw.com.pl
industry identification number (REGON):	430309210
tax registration number (NIP):	713-000-57-84

Business activities:

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

According to the Company's Articles of Association, the business activities of Lubelski Węgiel

BOGDANKA S.A. are:

a) agriculture, forestry, hunting and fishery (Section A),
b) mining and production (Section B),
c) industrial processing (section C);
d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D),
e) water supply; liquid and solid waste management; activities related to reclamation (Section E),
f) construction (Section F),
g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G),
h) transport and warehouse management (Section H),
i) activities related to lodging and catering (Section I),
j) information and communications (Section J),
k) financial 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).

The Company's supplementary activities

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EkoKLINKIER Construction Ceramics Plant. In September 2007, its building materials production business was discontinued as a result of a fire at ZCB EkoKLINKIER. From 2008 until September 2009, intensive works were continued in connection with reconstruction of the manufacturing buildings and process line. Production was re-commenced in the fourth quarter of 2009.

1.2.2 Information on the subsidiary and associated undertakings

Direct subsidiary undertaking:

Łęczyńska Energetyka sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów, Lublin Province
Tel. (81) 443 11 02, (81) 462 55 53
Fax: (81) 443 11 01
Website: www.lebog.com.pl
e-mail: biuro@lebog.com.pl
industry identification number (REGON): 004164490
tax registration number (NIP): 713-020-71-92

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

Share capital

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

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

Łęczyńska Energetyka Sp. z o.o. provides services to mines involving supplying heat energy and conducts water/wastewater management.

The Group's 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 August 2011): PLN 50,000.00, divided into 100 shares of PLN 500.
The share of Łęczyńska Energetyka Sp. z o.o. in the share capital and votes at the Shareholders Meeting: 50,00 %.

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

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

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

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

2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN THE FIRST HALF OF 2011

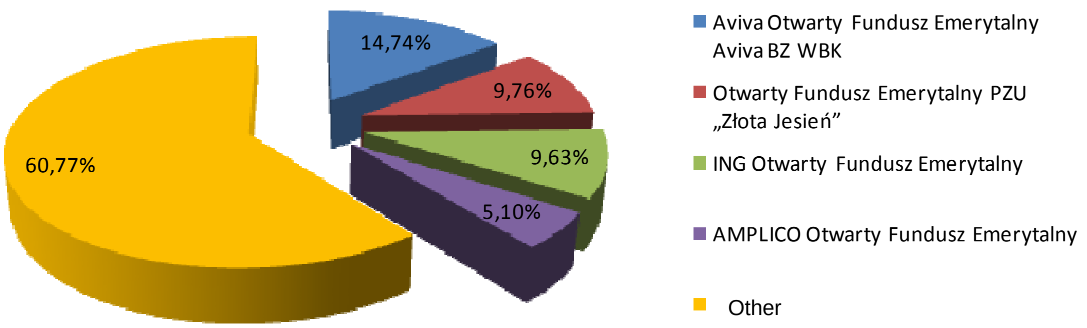
2.1 Shareholders holding at least 5% of the total number of votes at the General Shareholders Meeting (the "GSM"), either directly or indirectly through subsidiaries, as at the date of submitting the semi-annual report, and changes in the ownership structure of substantial shareholdings in the period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

Table 1 The shareholding structure of LW BOGDANKA S.A. as at 12 May 2011 and 31 August 2011

Shareholder	12 May 2011		31 August 2011	
	Number of shares/ Number of votes at the GSM	The share in the share capital and the share in the total number of votes at the GSM. (%)	Number of shares/ Number of votes at the GSM	The share in the share capital and the share in the total number of votes at the GSM. (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,014,644	14.74	5,014,644	14,74
Otwarty Fundusz Emerytalny PZU "Złota Jesień" **	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny***	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10
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.

The shareholding structure of LW BOGDANKA S.A. as at 31 August 2011

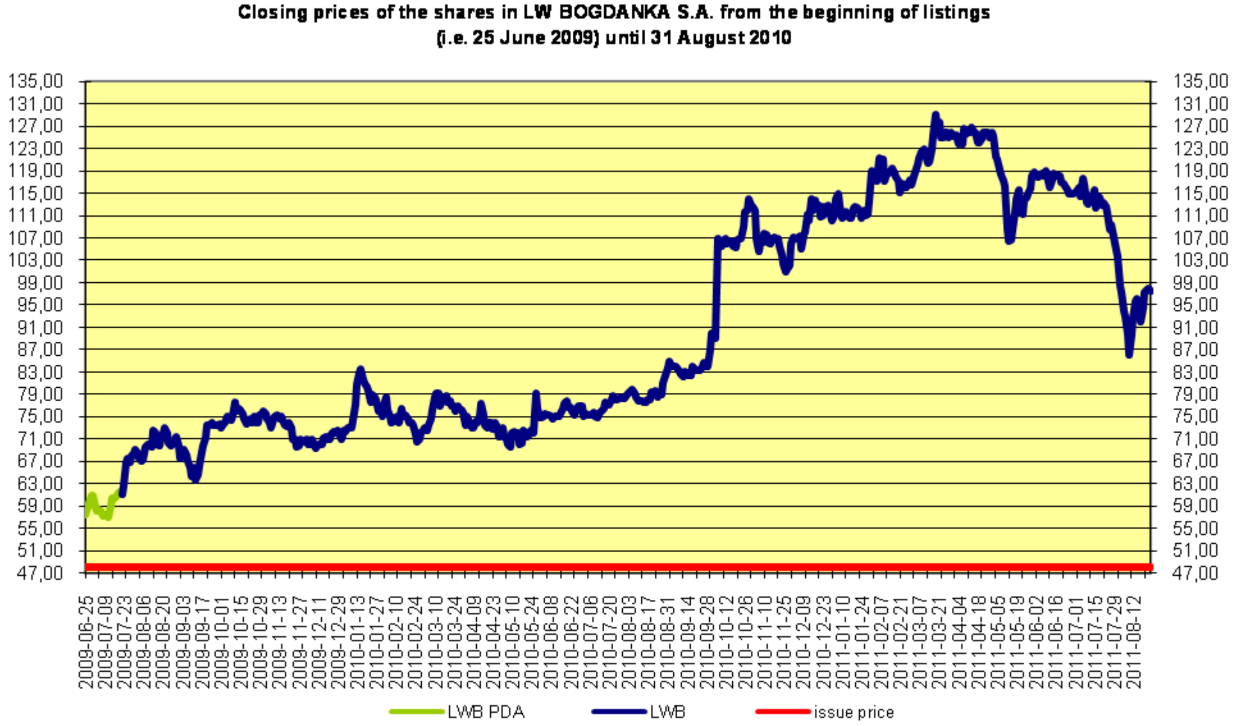


2.2 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them (options) by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the semi-annual report, and changes in shareholdings in the period from the publication of the last quarterly report, separately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

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

	Number of shares as at the date of submitting the Report for Q1 2011 (12 May 2011)	Number of shares as at the date of submitting the Report for H1 2011 (31 August 2011)
Management Board		
Mirosław Taras	2,737	2,737
ystyna Borkowska	1,299	1,299
Zbigniew Stopa	3,834	5,703
Waldemar Bernaciak	2,162	2,162
Lech Tor	1,124	1,124
The Supervisory Board		
Eryk Karski	0	0
Andrzej Lulek	0	0
Ewa Pawluczuk	0	0
Stefan Kawalec	0	0
Jadwiga Kalinowska	1,024	1,024
Adam Partyka	1,024	1,024
Total	**13,204**	**15,073**

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



3. PRINCIPLES OF DRAWING UP THE ABRIDGED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Group draws up its financial statements on the basis of the International Financial Reporting Standards. 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 abridged consolidated interim financial statements of the LW BOGDANKA Group for the first half of 2011 were drawn up in accordance with International Accounting Standard 34 – "Interim Financial Reporting", applying the same accounting standards for the current and comparable period.

The Group's abridged consolidated interim financial statements were drawn up in accordance with the historical cost principle, taking into account a valuation at fair value of certain tangible fixed assets in connection with the adoption of fair value as a presumed cost, which was carried out on the date of the 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.

4. ANALYSIS OF AND INFORMATION ON THE BASIC ECONOMIC AND FINANCIAL VALUES DISCLOSED IN THE CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST HALF OF 2011, I.E. FROM 1 JANUARY 2011 TO 30 JUNE 2011

This section presents selected ratios characterising the Group's financial position for the period from 1 January 2011 to 30 June 2011, calculated on the basis of the financial data included in the Group's abridged consolidated interim financial statements, prepared in compliance with the International Financial Reporting Standards endorsed by the European Union.

4.1 Selected financial information

Table 3 Selected financial information of the Group [PLN '000]

Item	Q2 2011	Q2 2010	Change 2011/2010 [%]	2Qs 2011	2Qs 2010	Change 2011/2010 [%]
Revenue on sales	272,120	284,003	-4.18	582,081	578,099	0.69
Gross profit	48,798	87,431	-44.19	121,616	183,103	-33.58
EBITDA	67,279	99,431	-32.34	145,185	194,709	-25.43
EBIT (Operating profit)	26,711	64,474	-58.57	70,409	126,638	-44.40
Profit before taxation	32,194	67,021	-51.96	77,029	132,819	-42.00
Net profit	26,205	54,150	-51.61	62,163	106,920	-41.86
Operating cash flow	90,390	-43,423	-	167,952	160,393	4.71
Investing cash flow	-183,720	-23,010	698.44	-372,782	-264,882	40.74
Financing cash flow	-3,000	-	-	-6,000	-	-

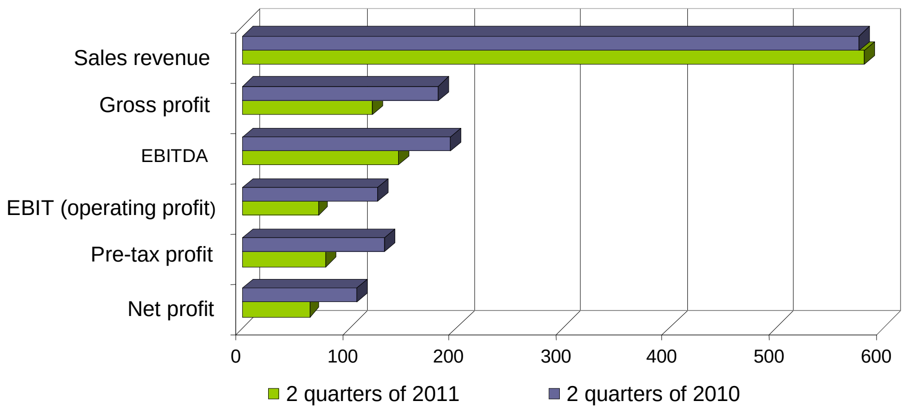
Table 4 Selected financial information of the Group - continued [PLN '000]

Item	30 Jun. 2011	31 Dec. 2010	Change (2011/2010) [%]
Total assets	2,886,153	2,828,045	2.05
Fixed assets	2,443,488	2,163,972	12.92
Current assets	442,665	664,073	-33.34
Shareholders' equity	1,983,563	1,969,019	0.74
Liabilities	902,590	859,026	5.07

The financial statements prepared for the period from 1 January 2011 to 30 June 2011 show that the Lubelski Węgiel BOGDANKA S.A. Group's revenue on sales was PLN 582,081,000, which is an increase of 0.69%, or by PLN 3,982,000, compared to the same period of the previous year. Only in the second quarter of 2011 the Group's revenue amounted to the level of PLN 272,120,000, i.e. 4.18% lower than in the analogous period of the previous year.

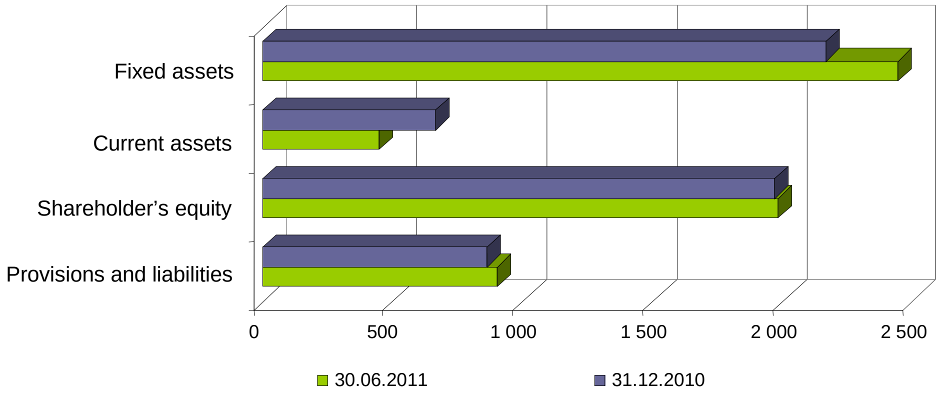
In the first half of 2011 the Group's operating profit decreased from PLN 126,638,000 to PLN 70,409,000 (-44.40% on a year-to-year basis). EBITDA (operating profit increased by depreciation/amortisation) was PLN 145,185,000 for the period from 1 January 2011 to 30 June 2011 as compared to PLN 194,709,000 for the same period of 2010. A decrease in operating profit results from the larger scope of works at the Stefanów Field with the simultaneous lack of significant level of extraction in that field. The decrease in profit was also caused by lower average level of commercial coal extraction as compared to the similar level of gross extraction in the first half of 2010.

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



The net profit for the first half of 2011 was PLN 62,163,000, compared to PLN 106,920,000 for the same period of 2010, which means a decrease by 41.86%, or by PLN 44,757,000. The net profit for the second quarter of 2011 was PLN 26,205,000 compared to PLN 54,150,000 for the second quarter of 2010 (a decrease by 51.61%).

Analysis of the statement of financial position (PLN million)



The consolidated statement of financial position prepared as of 30 June 2011 shows an increase in the balance sheet total up to PLN 2,886,153,000, or by PLN 58,108,000, compared to the value of assets and liabilities as of 31 December 2010. The value of fixed assets increased from PLN 2,163,972,000 (31 December 2010) to PLN 2,443,488,000 (31 June 2011) – such an increase (+12.92%) results primarily from the investment programme of development of the Stefanów Field implemented by the Group. In the period under analysis the value of the current assets fell from PLN 664,073,000 to PLN 442,665,000 (PLN -221,408,000 or -33.34%), which is mostly a consequence of a decrease in cash held by the Group (resulting from expenditure on the implemented investment programme).On the equity and liabilities side, shareholders' equity increased to PLN 1,983,563,000 (i.e. by 0.74%), which is a result of recalculating of the result for Q1 2011 under retained profit with a simultaneous decrease thereof by the level of dividend paid in August (disclosed in the balance sheet as a short-term liability). In the analysed period the Group's total provisions and liabilities grew by PLN 43,564,000, as a result of:

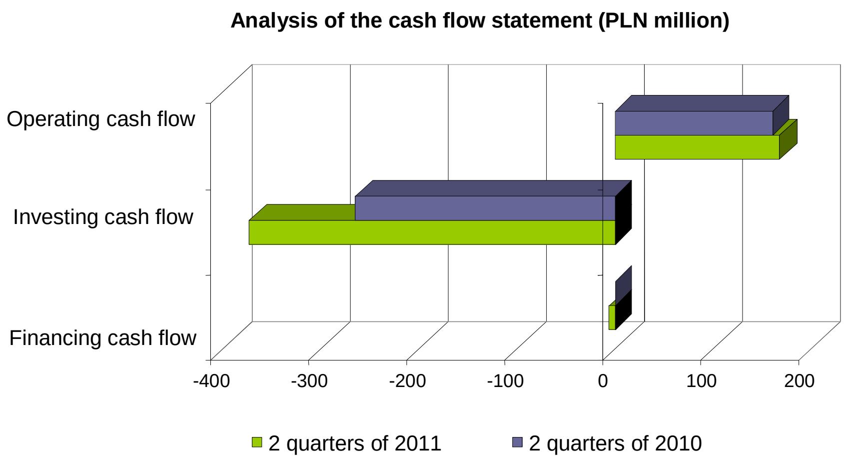
- a decrease in long-term liabilities by PLN 1.762,000 (to PLN 454,125,000),
- an increase in short-term liabilities by PLN 45,326,000 (to PLN 448,465,000).

Among short-term obligations, the value of credits and loans increased by PLN 4,000 – this change did not result from incurring new obligations by the Group, but from the reclassification of a part of an operating credit held by the Parent Undertaking from short-term to long-term (with maturity of less than 12 months).

According to the schedule attached as appendix to the loan agreement, an amount of PLN 44,000,000 is planned to be repaid by 31 December 2011, and an amount of PLN 10,000,000 - in the first half of 2012.

Equity accounted for 68.73% and 69.62% of the equity and liabilities as of 30 June 2011 and 31 December 2010, respectively.

In the first half of 2011, the Group financed its activities with operating cash flow and cash accumulated in the previous years. The net operating cash flow increased from PLN 160,393,000 (for H1 2010) to PLN 167,952,000 (for H1 2011).



Investing cash flow in the first half 2011 amounted to PLN -372,782,000 and was higher by PLN 107,900,000 as compared to the analogous period in 2010 - an increase was caused by different scope of works executed within the framework of the investment process in individual periods under analysis.

In the period from January to June 2011 the Group generated net financing cash flow in the amount of PLN -6,000,000 (repayment of two instalments of the working capital loan), whilst in the previous year the Group did not show changes in financing cash flow.

As at 30 June 2011, the value of cash at hand and in banks amounted to PLN 261,271,000 and was lower by PLN 315,899,000 with respect to the analogous data of the previous year.

4.2 Information on the current financial position of the Group

4.2.1 Coal production and sales

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

Table 5 Production capacity of LW BOGDANKA in H1 2011 and H1 2010 ['000 tonnes]

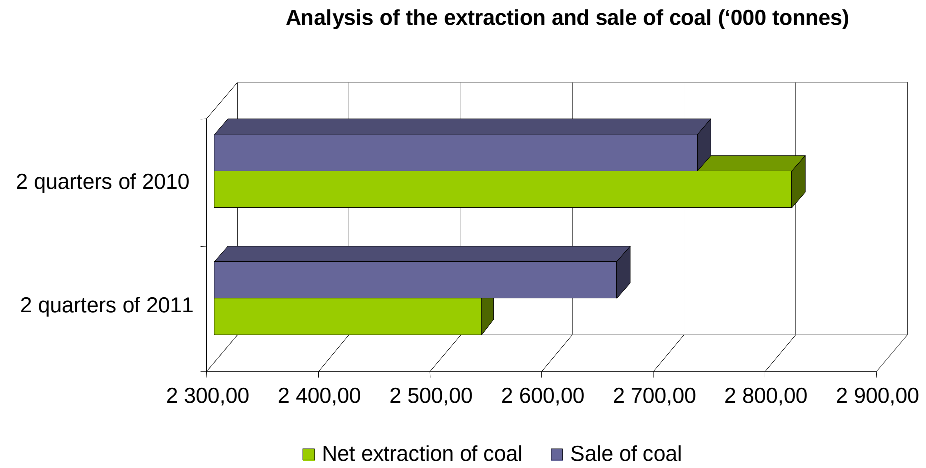
2 Qs 2010	2 Qs 2010	2 quarters 2011 / 2 quarters 2010 [%]
2,537.68	2,815.86	-9.88%

During the first half of 2011, as compared to the analogous period of 2010, the extraction of commercial coal decreased by 9,88% and amounted to 2,537,680 tonnes, compared to the level of 2,815,860 tonnes extracted in the previous year. A decrease in the extraction of commercial coal with an increase in the gross extraction by above 1% results from intensified preparatory works (in the first half of 2011, nearly 15% more galleries were made than in the analogous period of 2010) as well as worse geological characteristics of the deposit currently explored, which had a significant impact on the recorded output ratio. Given the improving geological and mining conditions of the deposit, the net output ratio should be expected to improve in the next reporting periods. The LW BOGDANKA S.A. strives to maximise the value of the output ratio in the explored deposit.

Table 6 Sale of coal of LW BOGDANKA for H1 2011 and H1 2010 ['000 tonnes]

2 Qs 2011	2 Qs 2010	Change (2011/2010) [%]
2,659.57	2,731.57	-2.64%

In the period from 1 January to 30 June 2,64% (72,000 tonnes) less coal was sold as compared to the analogous period of the previous year. A decrease in possessed stock of commercial coal to 14,840 tonnes was a consequence of a decrease in coal sales with lower coal extraction. The graph below shows the figures for production and sales of commercial coal for the periods under analysis.

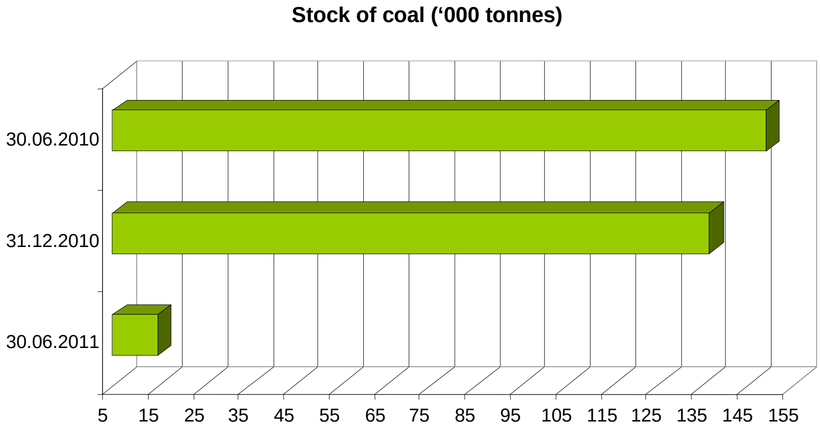


4.2.2 Stock

As at 30 June 2011 stock of commercial coal of the Group amounted to 14,839.21 tonnes, which means that the level of stock fell by 121,891.47 tonnes (-89.15%) as compared to the level of 31 December 2010 and by 134,184.83 tonnes (-90.04%) compared to the level of 30 June 2010.

Table 7 Stock of coal [tonnes]

Item	30 Jun. 2011	31 Dec. 2010	30 Jun. 2010	Change (30 Jun. 2011 – 31 Dec. 2010) [%]	Change (30 Jun. 2011 – 30 Jun. 2010) [%]
Stock of coal	14,839.21	136,730.68	149,024.04	-89.15%	-90.04%



4.2.3 Revenue on sales

In the first half of 2011, the LW BOGDANKA Group's sales revenue was PLN 582,081,000, up by PLN 3,982,000 compared to the sales revenue figure for the first half of 2010.

Lubelski Węgiel BOGDANKA S.A. Group has four sources of revenue: sales of coal, sales of ceramics, other operations (including the revenues of the subsidiary, Łęczyńska Energetyka) and sales of goods and materials.

The main source of LW BOGDANKA Group's revenue on sales in the first half of 2011 (and in 2010) was the production and sale of power coal. From 1 January to 30 June 2011, sales of power coal generated 92.13% of the LW BOGDANKA Group's sales revenue (96.85% in the same period of the previous year). A drop in revenue on coal sales was caused by a lower amount of coal sold (-2.64%), at a higher unit sale price. Additionally, in the financial statement published by the Group for presentation purposes, the data in the profit and loss account associated with revenue on sales of coal and costs of products, goods and materials sold are adjusted (*downwards*) by the value of the coal sold, which was extracted while drilling the headings. Bearing in mind the above, the value indicated in the consolidated profit and loss account was adjusted in the first half of 2011 by PLN 54,163,900, while in the first half of 2010 – by PLN 40,061,500.

Approximately 85% of coal sales (in terms of value) realised in the period from 1 January to 30 June 2011 (as well as in the same period of the previous year) were carried out on the basis of long–term commercial agreements between LW BOGDANKA and Elektrownia Kozienice S.A., GDF Suez Energia S.A., Elektrownia Ostrołęka S.A. and Grupa Ożarów S.A.

The revenue on sale of goods and materials increased in the period in question by 340.15%, i.e. by PLN 13,436,000. This amount includes power coal, bought by the Group for the purpose of its resale to one of the customers.

The revenue from other activities accounted for 4.08% of the total revenue in the period from 1 January 2011 to 30 June 2011, compared to 1.85% a year earlier; a significant share in that group of revenue was the revenue connected with the services of coal transport provided for the benefit of one of the customers.

The share of revenue from the sale of ceramics in total revenue on sales increased from 0.61% to 0.80% of the Group's total revenue.

Table 8 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group [PLN '000]

Item	2 Qs 2011	2 Qs 2010	Change (2011/2010) [%]
Sales of coal	536,281	559,914	-4.22
Sales of ceramics	4,649	3,535	31.51
Other activities	23,765	10,700	122.10
Sales of goods and materials	17,386	3,950	340.15
Total revenue on sales	582,081	578,099	0.69

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

Item	2 Qs 2011	Share [%]	2 Qs 2010	Share [%]
Sales of coal	536,281	92.13	559,914	96.85
Sales of ceramics	4,649	0.80	3,535	0.61
Other activities	23,765	4.08	10,700	1.85
Sales of goods and materials	17,386	2.99	3,950	0.69
Total revenue on sales	582,081	100	578,099	100

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

Table 10 Geographical structure of revenue on sales of the LW BOGDANKA Group [PLN '000]

Item	2 Qs 2011	Share [%]	2 Qs 2010	Share [%]
Domestic sales	581,832	99.96	577,695	99.93
Foreign sales	249	0.04	404	0.07
Total revenue on sales	582,081	100.00	578,099	100.00

4.2.4 Statement of comprehensive income of the Group

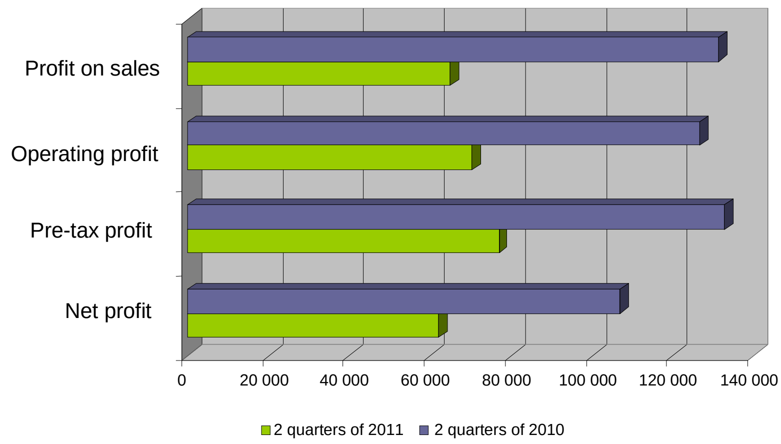
In the first half of 2011, revenue on sales of the LW BOGDANKA Group, as compared to the same period of the previous year, increased by 0.69% up to the level of PLN 582,081,000. In the same period the Group's costs (costs of products, goods and materials sold along with cost of sales and administrative expenses) increased by 15.76% up to the level of PLN 516,996,000. Such dynamics in costs and revenue led to the profit on sales decreasing by 50.50%, i.e. PLN 65,085,000 for 6 months of 2011 as compared to PLN 131,482,000 for the same period of 2010.

Table 11 Selected items of the statement of comprehensive income of the LW BOGDANKA Group [PLN '000]

Item	2 Qs 2011	2 Qs 2010	Change (2011/2010) [%]
Revenue on sales	582 081	578,099	0.69
Cost of products, goods and materials sold, cost of sales, administrative expenses	516,996	446,617	15.76
Profit on sales	65,085	131,482	-50.50
Other income	7,951	2,251	253.22
Other costs	514	1,745	-70.54
Other net profit/loss	-2,113	-5,350	-60.50
Profit on operating activities	70,409	126,638	-44.40
Financial income	9,444	12,869	-26.61
Financial expenses	2,806	6,664	-57.89
Share in (losses)/profits of associated undertakings	-18	-24	-25.00
Profit before taxation	77,029	132,819	-42.00

Income tax	14,866	25,899	-42.60
Net profit	62,163	106,920	-41.86
- attributable to shareholders of the Parent Undertaking	61,935	106,208	-41.69

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



<u>Other income</u>

For the first 6 months of 2011, other operating income amounted to PLN 7,951,000 compared to PLN 2,251,000 for the same period of the previous year – this means an increase in their value by 253.22%. An amount of PLN 7,951,000 was recorded as income resulting from non-recurring events (primarily released special-purpose provisions).

<u>Other expenses and other net profit/loss</u>

Other expenses for the first 6 months of 2011 were PLN 514,000, compared to PLN 1,745,000 for the same period of 2010, which means a decrease by 70.54%. In the analysed period of 2011, other net profit/loss amounted to PLN -2,113,000 compared to PLN -5,350,000 in the analogous period of 2010.

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

Adjusted for profit on sales, other revenue, other expenses and other net profit/loss, the net operating profit (EBIT) for the first half of 2011 is at the level of PLN 70,409,000, down by 44.40%, i.e. PLN 56,229,000 compared to the result a year earlier.

<u>Financial income</u>

Financial income for the first 6 months of 2011 was PLN 9,444,000, compared to PLN 12,869,000 a year earlier (a fall by 26.61%). Change in the financial income is a result of lower average annual level of cash in the Group.

<u>Financial expenses</u>

Financial expenses in the first half of 2011 amounted to PLN 2,806,000, compared to PLN 6,664,000 a year earlier (PLN -3.858,000, i.e.-57.89%) That fall is a result of the fact that a part of the accrued interest increased the value of outlays for tangible fixed assets in construction, and was not included in the tax-deductible costs of the given period.

The pre-tax earnings for 6 months of 2011 were lower by 42.00% than in the previous year - the pre-tax profit for the first half of 2011 amounted to PLN 77,029,000 as compared to PLN 132,819,000 for the first half of 2010.

Adjusted for obligatory corporate tax paid by the Lubelski Węgiel Bogdanka S.A. Group, net profit of the financial year for the period from 1 January 2011 to 30 June 2011 was PLN 62,163,000, compared to PLN 106,920,000 for the same period of 2010 – down by 41.86% on a year-to-year basis.

4.2.5 The Group's profitability

Table 12 Profitability ratios of the LW BOGDANKA Group

Item	2 Qs 2011	2 Qs 2010	Change 2011/2010 [p.p.]	Change 2011/2010 [%]
Gross margin on sales	20.89%	31.67%	-10.78%	-34.04
EBITDA	24.94%	33.68%	-3.74%	-11.10
EBIT	12.10%	21.91%	-9.81%	-44.77
Gross margin	13.23%	22.98%	-9.75%	-42.43
Net margin	10.68%	18.50%	-7.82%	-42.27
Return on Assets	2.18%	4.16%	-1.98%	-47.60
Return on Equity	3.15%	5.97%	-2.82%	-47.24

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

Gross margin on sales of the LW BOGDANKA Group decreased from 31.67% (H1 2010) to 20.89% (H1 2011). The decrease in that ratio resulted from a higher dynamics of products, goods and materials sold relative to the dynamics of revenues.

In the analysed period the profitability of EBIT (operating profit) amounted to 12.10%, which means a decrease by 9.81 p.p. in comparison to the same period in the previous year, whereas EBITDA fell from 33.68% (H1 2010) to 24.94% (H1 2011). The change in value of both above ratios is caused by higher costs of products, goods and materials sold, which result from a greater scope of works at the Stefanów Field.

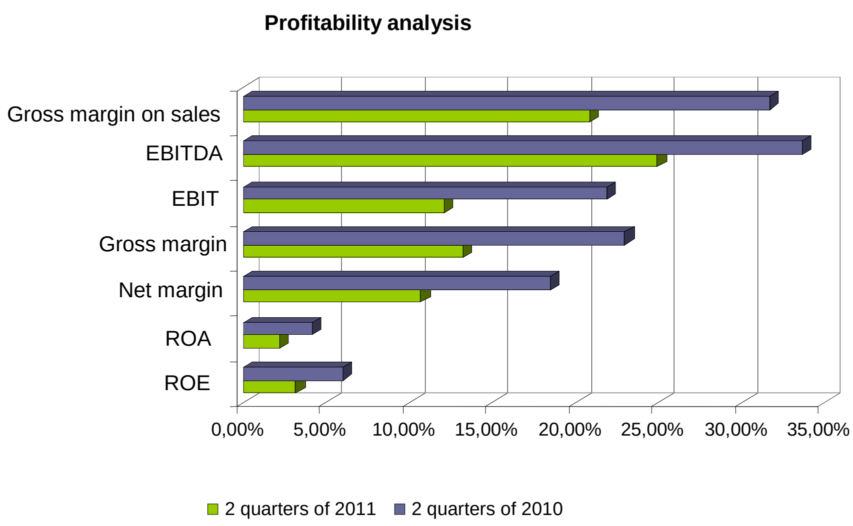
Gross margin for the first half of 2011 amounted to 13.23% and was lower than the gross profitability for the first half of 2010 (by 9.75 p.p.).

Net margin on the Lubelski Węgiel Bogdanka S.A. Group's operations amounted to 10.68% for the first half of 2011, compared to 18.50% for the first half of 2010.

The decrease in ROA (from 4.16% to 2.18%) is a result of lower net profit and a great investment process implemented by the Parent Undertaking (including extension of the Stefanów Field) – currently the Group generates assets which will bring profits in the future. The Company's ROA should be expected to fall until all the assets under construction are put into operation.

Similarly to the profitability of assets, the drop in the ROE was caused by a drop of the net profit generated by the Group (-41.86%). The effects of using equity capital for financing Group's activities will be visible in the forthcoming years.

The Company's ROE should be expected to fall until all the assets under construction are put into operation.



4.2.6 Indebtedness and financing structure of the LW BOGDANKA Group

Table 13 Debt ratios of the LW BOGDANKA Group

Item	30 Jun. 2011	31 Dec. 2010	Change (2011/2010) [%]
Overall debt ratio	31.27%	30.38%	2.93
Debt to equity ratio	45.50%	43.63%	4.29
Fixed capital to fixed assets ratio	96.87%	108.95%	-11.09
Short-term debt ratio	15.54%	14.26%	8.98
Long-term debt ratio	15.73%	16.12%	-2.42

As of 30 June 2011, the share of liabilities in the financing of the LW BOGDANKA Group, measured with the overall debt ratio, amounted to 31.27% and, respectively, 30.38% as of 31 December 2010. In the period covered by the abridged consolidated financial statements for the first half of 2011, the debt of the LW BOGDANKA Group did not pose a threat to its activities or the ability to meet its obligations in a timely manner.

In the analysed period, the debt to equity ratio increased from 43.63% (as at 31 December 2011) to 45.50% (as at 30 June 2011) – which is a result of an increase by PLN 14,544,000 in equity with a simultaneous increase in the Group's total liabilities by PLN 43,564,000.

The fixed capital to fixed assets ratio is slightly below 100%. This is caused by a book entry creating liabilities on account of dividend (this decreased shareholders' equity, and as a consequence, triggered a decrease in the value of Group's fixed capitals), as well as by an increase in the value of fixed assets (on account of the investment programme pursued).

Table 14 Liquidity ratios of the LW BOGDANKA Group [days]

Item	30 Jun. 2011	31 Dec. 2010	Change (2011/2010) [%]
Current liquidity ratio	1.22	2.07	-41.06
Quick liquidity ratio	1.10	1.88	-41.49

In the period covered by the consolidated interim financial statements, the liquidity ratios of the LW BOGDANKA Group remained at a safe level, and the Group is not having any difficulties in settling its liabilities. A high level of the liquidity ratios (both as at 30 June 2011 and 30 June 2010) results from the value of cash injected to the Parent Undertaking as a result of the share capital increase (debut at the Warsaw Stock Exchange). Due to the pursued investment plan, the expected partial repayment of working capital loan, as well as payment of dividend for 2010, a drop in values of these ratios should be expected.

Table 15 Turnover rates of the LW BOGDANKA Group [days]

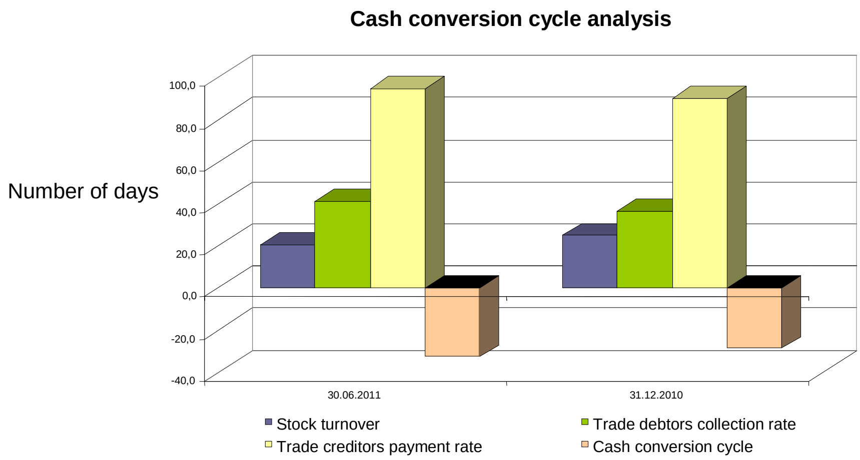
Item	30 Jun. 2011	31 Dec. 2010	Change 2011/2010 [%]
Stock turnover	20.4	24.7	-17.41
Trade debtors collection rate	41.2	36.2	13.81
Trade creditors payment rate	94.5	89.8	5.23
Operating cycle (1+2)	61.6	60.9	1.15
Cash conversion cycle (4-3)	-32.9	-28.9	13.84

In the reporting period, the stock turnover rate was down compared to its level as of 31 December 2010, i.e. 24.7 days against 20.4 days - with a decrease in the average stock level (as compared to 31 December 2010) and an increase in cost of products, goods and materials sold.

Trade debtors collection rate amounted to 41.2 days (as at 30 June 2011) and 36.2 (as at 31 December 2010). The decrease in the value of that ratio results from an increase in the average level of trade debtors.

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) in the analysed period was at 61.6 days, as compared to 60.9 days as at 31 December 2010 – which indicates that current assets are transferred into cash on average 0.7 day slower.

The trade creditors payment rate increased in the period covered by the financial information from 89.8 days as at 31 December 2010 to 94.5 days as at 30 June 2010.



As a result of the trends described above, a cash conversion cycle of -32.9 days was achieved as at 30 June 2011, compared to -28.9 as at 31 December 2010. The negative value of the cash conversion cycle ratio indicates that the Lubelski Węgiel Bogdanka S.A. Group uses non-interest-bearing borrowed capital.

4.3 Information on financial instruments

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

The Group is of the opinion that the risk associated with trade debtors is limited as the Group transacts only with customers of confirmed credit ratings (major customers are entities of stable financial situation). Further, the Group continuously monitors its customers' arrears in settling their payments.

The Group is of the opinion that the risk associated with trade creditors is limited as the Group continuously analyses inflows and outflows, and knows in advance what amounts will be due. Further, the current debt of the Company is very low and its cooperation with banks - very good, which allows it to obtain financing quickly and easily in the event of payment gridlocks.

4.4 Costs by type and function of the Parent Undertaking, LW BOGDANKA S.A.

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

4.4.1 Costs by type

In the first half of 2011, LW BOGDANKA S.A.'s costs with respect to type amounted to PLN 651,187,000 compared to PLN 594,686,000 in the first half of 2010, which means that the costs increased by 9.5% (PLN 56,501,000). The above nominal increase in costs was largely the result of higher costs of external services, costs of materials and energy consumption as well as depreciation/amortisation costs. After adjustment of costs by type by change in stocks and the cost of own work capitalised yields and after including costs of goods and materials sold, the own cost of sales is obtained, which in the first half of 2011 amounted to PLN 508,971,000 (increased by 14.6%, i.e. by PLN 64,920,000 as compared to the first half of 2010).

Table 16 Costs by type of LW BOGDANKA S.A. [PLN '000]

Item	6 months of 2011	6 months of 2010	Change (%)	Change (PLN '000)
Amortisation/depreciation	72,965	66,401	9.9%	6,564
Materials and energy used	203,345	177,210	14.7%	26,135
Contracted services	162,487	132,955	22.2%	29,532
Employee benefits	182,773	188,702	-3.1%	-5,929

Item	6 months of 2011	6 months of 2010	Change (%)	Change (PLN '000)
Entertainment and advertising expenses	6,049	8,100	-25.3%	-2,051
Taxes, fees and charges	10,762	10,455	2.9%	307
Other costs	12,806	10,863	17.9%	1,943
TOTAL COSTS BY TYPE	**651,187**	**594,686**	**9.5%**	**56,501**
Change in products	32,538	-23,190	-240.3%	55,728
Operating expenses	**683,725**	**571,496**	**19.6%**	**112,229**
Activities for own needs	190,670	131,208	45.3%	59,462
Cost of goods and materials sold	15,916	3,764	322.8%	12,152
Cost of sales	**508,971**	**444,051**	**14.6%**	**64,920**

Analysing the increase in costs of materials and energy used as well as costs of external services it must be indicated that this change was the result of a greater scope of preparatory and deposit-opening work connected with the Company's development strategy compared to last year, which involved the completion of over 1,708 running metres of galleries more than in the analogous period of the previous year (up by approx. 14.6%) An increase in executed preparatory works is connected with larger volume of stone subject to utilisation, which also caused an increase in costs of external services in connection thereto. Additionally, the scope of works commissioned for holidays was also higher due to workload in the Stefanów Field. An analysis of the increase in costs of materials and energy consumption shows that the increase in the cost of materials used amounted to 16.1% and the energy used -9.7%.

The employee benefits item in the cost accounting by type of expenditure shows a drop in comparison with the analogous period of the previous year, at 3.1%. This results from the way of making additional payments that burden labour costs, i.e. the so-called "the Barbórka salary" and "the Fourteenth salary" in the current year.

In the first half of 2010, "the Barbórka salary" and "the Fourteenth salary" were paid in instalments in June and in December. The first instalment (paid in June) burdened the remuneration and was reflected in the costs item of the cost accounting by type of expenditure, and burdened the cost of manufacturing of the goods sold. In turn, in the current year, the payment of "the Barbórka salary" and "the Fourteenth salary" in instalments at the end of June (first half of 2011) was abandoned. The costs to make the above-mentioned payments burdened the cost of generating the goods sold in correspondence to the passive costs that are balanced periodically, at PLN 27,722, which was reflected in the "Change in products" item (PLN 32,538 as of 30 June 2011, which, among others, took into account the change in the level of coal stocks).

The 9.9% increase of depreciation costs is associated with the gradual process of putting the Stefanów Field into operation.

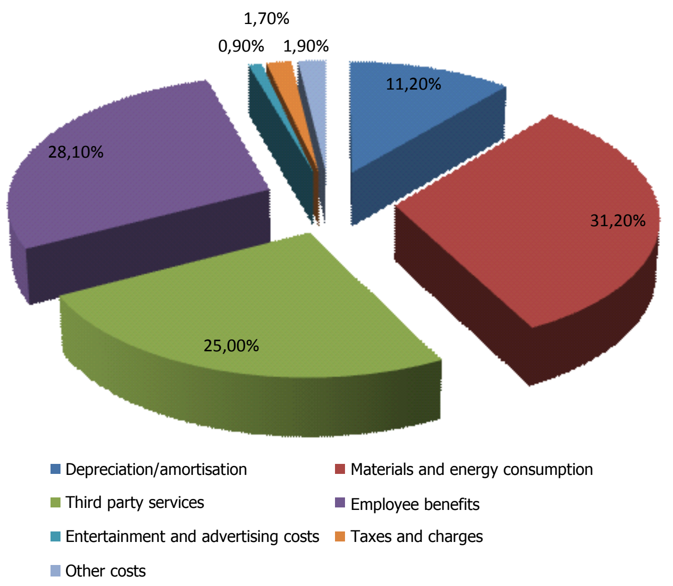
Recorded increase in costs of goods and materials sold is connected with the purchase of coal intended for resale to one of the Company's customers.

The presented changes in costs by type had only a slight impact on the structure of costs by type. In the analysed period, as was the case a year earlier, the most significant position remained the costs of materials and energy used and their share increased to the level of 31.2%. The share of employee benefits costs fell by 3.6 p.p. and it currently makes 28.1% of the total costs by type (explanation of the decrease is as presented above). The share of external services costs increased by 2.6 p.p. and their share at the end of H1 2011 amounted to 25.0%. It should be noted that the above cost items (materials and energy, employee benefits, external services) accounted for 84.3% of the total costs incurred by the Company in the first half of 2011 (in the analogous period of the previous year it was 83.9%).

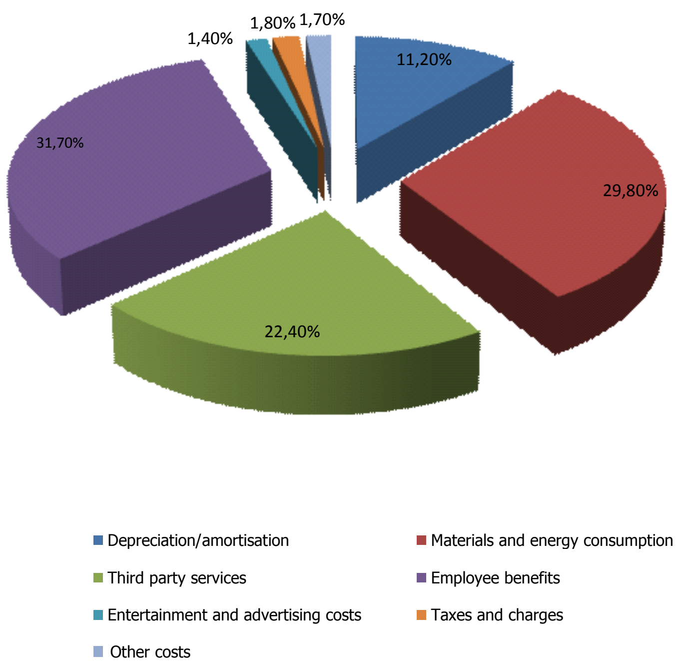
Table 17 Structure of costs by type at LW BOGDANKA S.A.

Item	6 months of 2011	6 months of 2010	Change (%)
Amortisation/depreciation	11.2%	11.2%	0.0%
Materials and energy used	31.2%	29.8%	4.7%
Contracted services	25.0%	22.4%	11.6%
Employee benefits	28.1%	31.7%	-11.4%
Entertainment and advertising expenses	0.9%	1.4%	-35.7%
Taxes, fees and charges	1.7%	1.8%	-5.6%
Other costs	1.9%	1.7%	11.8%
TOTAL	**100.0%**	**100.0%**	

Costs by type for 6 months of 2011



Costs by type for 6 months of 2010



4.4.2 Costs by function

In the first half of 2011 Lubelski Węgiel Bogdanka S.A.'s cost of products sold amounted to PLN 508,971,000, which means an increase by PLN 64,920,000, or 14.6%, compared to the analogous period in 2010. An analysis of the different components of the cost of sales shows that the increase is largely attributable to an increase in the cost of products, goods and materials sold (+15.4%), which is a result of an increase in coal sales by recorded in the first half of 2011 as well as an increase in operating costs connected with the implemented development strategy (materials and energy, employee benefits, external services, amortisation/depreciation). An increase in administrative costs (+14.1%) was also recorded, which was caused mainly by higher personnel expenses and costs connected with insurance, maintenance and protection of the Company's assets. Selling costs were almost at the same level as in the previous year (a decrease by 0.9%).

Table 18 Costs of LW BOGDANKA S.A. by function [PLN '000]

Item	6 months of 2011	6 months of 2010	Change [%]	Difference (2011-2010)
Costs of products, goods and materials sold	453,976	393,285	15.4%	60,691
Selling costs	19,413	19,589	-0.9%	-176
Administrative costs	35,582	31,177	14.1%	4,405
Cost of sales	**508,971**	**444,051**	**14.6%**	**64,920**

Due to a significant increase in the costs of products, goods and materials sold, the cost of sales increased and simultaneously its structure changed, while the share of selling costs decreased and cost of products, goods and materials sold increased.

The share of costs of products, goods and materials sold increased from 88.6% in the first half of 2010 to 89.2% in the first half of 2011. The share of other costs groups decreased or remained unaltered; i.e. the share of selling costs amounts to 3.8%, and administrative costs - 7.0%.

Table 19 Costs of LW BOGDANKA S.A. by function - structure

Item	6 months of 2011	6 months of 2010	Change [%]
Costs of products, goods and materials sold	89.2%	88.6%	0.7%
Selling costs	3.8%	4.4%	-13.6%
Administrative costs	7.0%	7.0%	0.0%
Cost of sales	**100.0%**	**100.0%**	**x**

4.5 Assessment of the Company's possibilities to perform its investment plans

The Company plans that the structure of financing its property investment expenses will remain unaltered, i.e. they will mainly be financed using its own funds (funds generated from operating activity) and external funds by increasing the value of interest-bearing debt. As at the date of drafting the Report, the Company sees no threat as to the possibility to acquire its additional financing in the form of debt. As at 30 June 2011 the Company's current loan in the amount of PLN 244 million constituted approx. 12.4% of the shareholders' equity (PLN 1,971.04 million) and approx. 8.5% of the balance-sheet total.

LW BOGDANKA S.A. does not plan for 2011 any capital expenditure in unrelated undertakings.

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

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

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

Investments associated with completing the construction of the Company's technical infrastructure enabling new production capacities to be started up include the following objectives, as described in the Issue Prospectus:

- Building the excavation and ventilation shaft 2.1,
- Extension Mechanical Coal Processing Plant, including:
  a) Increasing the processing capacity of the Mechanical Coal Processing Plant from the current level of 1,200 t/h to 2,400 t/h;
  b) Construction of a system for transporting excavated material from the Stefanów Field to the Mechanical Coal Processing Plant;
  c) Coal storage area extension.
- Other investments in the Stefanów Field's technical infrastructure, including:
  a) Construction of structures in the Stefanów Field,
  b) Air-conditioning of the underground part of the Mine,
- Extension of the Bogdanka station's track system.

In connection with the issue of series C shares in June 2009, the Company obtained proceeds of PLN 528,000,000 (after deducting the costs of issue, LW BOGDANKA S.A.'s proceeds amounted to PLN 521,051,000). The proceeds from the issue of the Company shares will allow it to finance, except for investment tasks specified in the Issue Prospectus (objectives of the issue), additional projects, i.e. performance of mining excavations in the Stefanów Field, construction of storage silos in the Stefanów Field as well as the purchase of a coal mine face complex.

In the first half of 2011, the Company used a total of PLN 118,130,000 from the proceeds from the issue of series C shares to perform the following investment tasks:

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

5.2 Material investments of the LW BOGDANKA Group in the first half of 2011

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

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

Table 20 Key investment expenses incurred in the 6 months of 2011 and 6 months of 2010 [PLN '000]

Item	01.01.2011 - 30 Jun. 2011	01.01.2010 – 30 Jun. 2010
Investment expenses on acquisition of tangible fixed assets	378 672	275 245
Investment expenses on acquisition of intangible fixed assets	393	55

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

In the first half of 2011, due to investment execution the outlays on tangible fixed assets in construction amounted to PLN 355.864,000. These outlays concern the following investment groups:

Table 21 Key material investments of the LW BOGDANKA Group in the 6 months of 2011 and the 6 months of 2010 [PLN '000]

Key material investments	Outlays incurred from 1 January 2011 to 30 June 2011	Outlays incurred from 1 January 2010 to 30 June 2010
Construction and assembly work	252,556	158,213
Completion of deliveries and purchases of finished goods	102,213	192,118
Other	1,055	1,104
Prepayments for fixed assets under construction	40	39
Total	**355,864**	**351,474**

The basic goal of the investment plan for the first half of 2011 was to complete the commenced tasks aiming at doubling the extraction in 2014. The existing plan implementation will allow the excavation works using shaft 2.1 in the Stefanów Field to be started in Q3 2011.

The plan for the first half of 2011 includes:

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

Building the excavation and ventilation shaft 2.1 in the Stefanów Field

In the first half of 2011 the following works were performed:

1. Hoist tower together with the lift machinery room building for shaft 2.1:
   a) The steel structure of the tower together with the installation shaft to the target height, i.e. 74 m, has been completed;
   b) The assembly of the lift machinery room building has been completed;

c) Hoist tower and lift machinery room building: finishing works are in progress, including those aimed at gaining a depression necessary for starting up the main fans;

d) Roads, plots and tracks of the Stefanów Field around shaft 2.1 – 80% of completion;

2. Lifting equipment of shaft 2.1:

a) The drive unit of the lifting machine was started up to the extent which enables the placement of ropes and tubs, and the adjustment of the lifting equipment;

b) Directional rope pulleys have been delivered and assembled on the tower;

c) Hoisting tubs have been delivered (4 skipping tubs and a cage for the emergency-inspection lifting facility);

d) The ropes and hoisting tubs for the skipping, mining shaft hoist;

3. Shaft and loading equipment:

- The "boxes" have been developed for unit measurement (loading) and discharge (skip unloading) reservoirs without equipment;
- Poles under the conveyor at 1040 level and in the descending gallery to the receiving pit of shaft 2.1;
- A switchhouse for shaft equipment - level 1025 –assembly in progress;

4. Construction of storage reservoirs in the Stefanów Field – the construction of the 2fS storage reservoir was completed, the 1fS storage reservoir – 80%, 3fS storage reservoir – started;

Extension of the Mechanical Coal Processing Plant

In the first half of 2011 the following works were performed:

1. Task 2 - Extension of the MCPP processing capacity from its current level of 1200 up to 2400 t/h:
   - Currently, the stage of preparing working designs is almost finished.
   - Foundation works have been completed.
   - The steel framework assembly, and the ferroconcrete works of construction facilities are in progress.
   - The process of equipping the facilities with devices and installations has been started.

According to a new timetable provided by Mostostal Warszawa, the investment contractor, the first stage of works will have been completed by 24 September 2011, and the final commissioning of the investment will take place in August 2012 (formerly scheduled for 31 December 2011).

2. Task 1 – Construction of the excavated material haulage system from the Stefanów Field to the MCPP.
   - Construction facilities have been commissioned and a permit has been obtained for using the construction facilities.
   - The start-up and commissioning of machines, devices and installations in construction facilities are in progress.
   - Installation of the central heating system in the conveyor belt (facilities 207.2, 206.2 and 205.3). The trial start-up of the installation is under way.
3. Coal storage area extension.
   - The concept for extension of the existing commercial coal storage area is complete.

- Geotechnical examinations of the ground under the tracks for the stacker-loader have been performed.

Construction of buildings in the Stefanów Field

In the first half of 2011 the following works were performed:

1. The lifting machine room building – 21 March 2011 - a permit for its occupancy was obtained;
2. The main fan station at shaft 2.1 – construction works have been completed, submitted for commissioning to the Mining Authority for Monitoring Inspections of Energomechanical Devices in Katowice;
3. The assembly of mechanical and electrical parts of 2 items of WPK fans – 3.9;
4. The lifting machine supply switch room of shaft 2.1 – switch room 6 kV, 500 V and 400 V were completed and commissioned in (March 2011).
5. The assembly of 110 kV equipment of the field was completed and commissioned in (March 2011).

Central air-conditioning system of the Stefanów Field

In the first half of 2011, the construction of the basic part of the air-conditioning station was completed – a certificate of occupancy for the air-conditioning station was obtained. Main face air-conditioning devices were delivered in 100%. The pipelines in the shaft and in underground headings have been assembled and commissioned. The cooling installation has been commissioned and started up.

Extension of the Bogdanka station's track system

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

Making coal seams in the Stefanów Field available

In the first half of 2011 the following works were performed:

1. Workings at a level of 990 in the Stefanów Field – drilling works of all workings at a level of 990 were completed. The rebuilding of detour W and of the loading heading was under way, as well as the development of transportation systems for floor-mounted and suspended creepers. In the first half of 2011 the construction of the main conveyor to storage reservoirs was completed.
2. Ventilation and transport workings - basic ventilation and transport workings will be completed in 2011. In the first half – the drilling of the 1/VIII/385 haulage heading and 1/VIII/385 ventilation heading for the purpose of starting the drilling of longwall headings for the 1/VIII/385 panel was in progress.
3. Workings in seam 385/2 to start up the first panel 7/VII in the Stefanów Field – drilling the longwall gate roads and panel cross-heading was completed. Works connected with panel reinforcement were conducted and the development of the conveyor haulage from the panel to storage reservoirs was competed.
4. Workings in seam 385/2 field VII – under way is the drilling of under-panel heading 5/VII/ - 2,421.0 m, under-panel heading 6/VII – 2,488.0 m. Also technological cross-heading 5/VII was completed.
5. Workings in seam 385/2 field VIII - under way are: the under-panel heading 1/VIII/385 – 2,287.5 m, for the second wall in the Stefanów Field, and an under-panel heading 2/VIII – 2,091 m.

Purchases of finished goods

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

Replacement investments

In the first half of 2011 the following works were performed:
1. Railway investments – development of tachographs on S-200 locomotives.
2. Construction of building facilities in the Bogdanka and Nadrybie Field.
   a. Extension of the administrative building (of the Management Board) – facility under construction, completion scheduled for 30 September 2011.
   b. Conversion of a shaft shelter – this facility has already been commissioned.
   c. Construction of power supply to the shaft shelter and the Management Board building – task completed.
3. Modernisation of the existing building facilities.
   a. The OSH complex in Nadrybie – repair of the bath within the scope of conversion of the 2nd, 3rd and 4th floor and making of new façade are under construction. Planned completion date – Q4 of this year
   b. Yard of the TMA department under gantry in Bogdanka – the facility was commissioned.
   c. Roads and yards in the vicinity of the main warehouse – task under construction.
   d. Roads and lots around the 1.2 shaft – due to a collision in the extension of the MCPP, the implementation was postponed until 2012.
   e. The Stary Tartak training centre – new roof cover was made, and the wooden elevation was replaced – task completed.
4. Lifting machines and other power systems.
   a. Lifting machine control and braking driving system in shaft 1.2. – part of the system was started up.
   b. Modernisation of emergency-inspection B 1100A lifting facility - task completed.
   c. Modernisation of 110 kV GSTR in Bogdanka – conversion concept has been developed.
5. Telecommunication systems and devises – under construction.
   a. Expansion of the SMP and SAT system with a module in Stefanów – task completed

b. Wireless shaft communications device – the PENDI DUO wireless communications system was developed in shafts No. 1.3 and 1.2.

6. Alarm and monitoring systems – under preparation.
   System for monitoring pressure in bearings of powered roof supports – task completed.
7. Power and telecommunication cable networks – these facilities are under construction.
8. Modernisations of mining machines, the main items being:
   - Panel lining Glinik 15/32 - completed,
   - WARAN direct station - completed,
   - bottom-road conveyor for the 7/VII/385 panel – task completed,
   - ploughing conveyor trough PF4/1032 – task completed.
9. Repair of machines and facilities, the main items being:
   - Repairs of coal cars gradually under construction.
   - renovation of the JOY 4LS8 longwall coal-cutting machine – task completed.

Environmental protection

During the first half of 2011, the following works were under way:

1. Extension of the mining landfill - a building and working designs were prepared for the first stage of the development of an existing mining landfill. Commencement of developing designs for further stages of development.
2. Design works are continued for the construction of the Szczecin storage reservoir. The time limit for performing design works was extended until 20 December 2011. Works connected with obtaining environmental permit are under way.

Performance and modernization of workings in the Bogdanka and Nadrybie fields

In the first half of 2011 the following works were performed:

1. Longwall workings in the Bogdanka field - an over-panel heading in 13/II/382 for panel 13II in seam 382 is being drilled; an over-panel heading for panel 6/IV and under-panel heading for panel 6/IV in seam 385 in field IV are being drilled. The drilling of the second stage of the under-panel heading for panel 6/I has started. In the Nadrybie field, the drilling of an under-panel heading for panel 3/II has been completed, and the drilling of an under-panel heading of panel 4/II is in progress.

   Other workings - the 2fN heading with a conveyor belt and R-27 heading were drilled.
2. Modernizations and developments of mining workings – the task is gradually under way.
3. Modernization of storage reservoirs – the documentation has been prepared for the modernization of the 3fB reservoir, the procedure of selecting the contractor is in progress.

5.3 Capital investments of the LW BOGDANKA Group in the first half of 2011

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

6. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP

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

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

- maintaining a stable position as the main supplier of coal in eastern Poland, particularly for the commercial power industry;
- strengthening its competitive position by cutting the units costs of extractions and production.

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

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

In the near future, measures aimed at implementing the planned development strategy of the LW BOGDANKA Group will primarily focus on the implementation of the Company's investment tasks, including the development of the Mechanical Coal Processing Plant.
Enlarging the Stefanów Field will enable the production capacity of LW BOGDANKA S.A. as well as the annual quantity of hard coal extraction to be doubled, (starting from 5.8 million tonnes in 2010 to the target 11.5 million tonnes per annum in 2014.).

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

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

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

8.1 Risk associated with the Group's market environment

8.1.1 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 globally. The financial results generated by the Company are affected by the rate of increase in domestic and global GDP, particularly the rate of increase in industrial production, changes in exchange rates, the level of inflation, the rate of unemployment, national fiscal policy, and the demand for electricity and heat energy, etc.

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

8.1.2 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's market position. Those plans are set forth in particular in the following documents:

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

Implementation or amendment of the adopted assumptions may have a significant impact on the future competitive position and financial results of LW BOGDANKA. A significant element of risk within this area is the result of privatisation process of ENEA S.A. i.e. the sale by the State Treasury of 51% shares in the company. Depending on the selection of an investor by the State Treasury, there is a risk that Elektrownia Kozienice will change its existing development strategy, which assumes an increase in conventional energy generating capacities of Elektrownia Kozienice.

8.1.3 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 S.A. Group. The present, difficult situation on global financial markets, the crisis of the Euro zone as well as difficult situation of the American economy may have an impact on the change of demand for fuel and may result in changes of prices of energy carriers, including coal, on global markets, which may affect the Group's financial results.

With a view to mitigating the risk related to changes in prices of energy sources, the Group enters into long-term commercial contracts with key customers purchasing power coal. Information on the material trade agreements signed by the Group in 2011 and after the balance-sheet date is presented in section 12.3 of the Report.

8.1.4 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 may 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 will not be charged. The regulations which will enter into force after the lapse of the above-mentioned transition period, i.e. on 1 January 2012, may result in an increase in prices of coal for end users, and thus a decrease in competitiveness of coal in comparison with other energy carriers. This may have a negative effect on the future financial performance of all entities in the hard coal mining industry in Poland, including of LW BOGDANKA Group.

8.1.5 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 (or, alternatively, a possible decrease in interest rates may cause a decrease in financial expenses of the Company bringing a positive effect on its financial results).

In the Group's assessment 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 potential risk may increase largely in the case of a substantial share of debt financing (among others – long-term bank credits) for the planned investment of Łęczyńska Energetyka – i.e. "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant".

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

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

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

The most important natural threats occurring in the mine include:

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

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

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

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

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

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

Currently LW BOGDANKA implements a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds (proceeds from the issued series C shares, income on current operating activity) and debt financing, currently totalling PLN 244 million. At present, the Company has a significant level of cash (PLN 261,3 million as of 30 June 2011), but it does not exclude the possibility of increasing the value of interest-bearing debt in the next several months, which will be dependent on the scope and speed of planned investments in tangible assets. LW Bogdanka sees no threat as to the possibility to acquire additional financing in the form of debt for implementation of its investments. The Company's current loan in the amount of PLN 244 million represents approx. 12.4% of the shareholders' equity (PLN 1,971.04 million) and approx. 8.5% of the balance-sheet total.

In turn, the planned investment of Łęczyńska Energetyka, i.e. "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant", the manner and scope of its financing as regards the equity and credit ratings, may require future suretyships and guarantees from LW BOGDANKA S.A.

8.1.8 Risk connected with exchange rates

Analysis of historical data of the Group shows that about 0.04% of the value of its total revenue on sales came from export. The territory of Poland remains the main market for the LW Bogdanka Group, and most transactions are settled in the domestic currency. As at the date of submitting the Report, LW BOGDANKA Group's operations are not exposed to currency risk.

8.1.9 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.

The implementation of the Energy and Climate Package by the European Union assumes the reduction of greenhouse gases emission by 20%, the increase of renewable energy share to 20%, and rationalization of the use of energy and, as a consequence, its consumption reduction also by 20% (the so-called 3x20 package). The implementation of the Energy and Climate Package may result in an increase in prices of electrical and heat energy produced from power coal, an aggravation of competitiveness of the production of electrical and heat energy from coal, and in worsening of the economic situation and competitiveness of Polish economic entities that buy electrical energy at prices higher than their UE competitors.

It may have a negative impact on the sales of coal by the Company, and in consequence may have a negative impact on its financial results. This risk is hard to evaluate and it is hard to undertake any activities aimed at limiting it as works are in progress in relation to the final form of obligations to reduce the emission of CO2 in the respective sectors of economy, and thus it's now known at what actual level the limits of CO2 emission will be. In the whole world (USA, China, Australia), there have already appeared new technologies – the so-called "clean coal technologies" which have been gradually improved, by means of which the problem of CO2 emission will be much smaller than at present.

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

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

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

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

8.1.11 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. Thus the Company became a private entity, whose 90.5% of shares may be subject to transactions at the WSE.

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

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

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

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

This risk consequently causes threats as regards implementation of the Group's established operational strategy.

The Management Board undertakes actions aimed at increasing the value of the Company, through improvement of the structure and efficiency of mining and cost optimisation. It is also important to show to investors the real value of shares, both in relation to the currently achieved results and to the Company's potential as well as further development prospects and fundamental values.

8.2 Risk directly associated with the Group's operations

8.2.1 Risk associated with estimating the size of deposits

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

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

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

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

8.2.2 Risk associated with the launch of extraction of new deposits

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

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

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

8.2.3 Technical and technological risk

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

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

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

8.2.4 Risk associated with high costs of technologies applied by the Group

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

8.2.5 Risk of IT systems malfunctioning

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

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

The Company implemented a "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." regulating organisational and technical measures for data protection and maintaining the continuity of systems' operation. This refers to the organisation of access to data, making safety copies and their storage, using firewalls, anti-virus systems on servers and employees' PCs. The servers supporting the systems are high-class equipment with double data processing and storage systems. In particular, in 2010, a server cluster system for main ORACLE databases and a centralised data backup was implemented and in the first half of 2011 – a cluster system for other servers.

IT systems used at the 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.

8.2.6 Risk associated with retaining and attracting human resources

In the next years, the Group intends to increase significantly 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 the following 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.

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 thus also on the Group's financial results.

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 the end 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.

8.2.7 Key customer risk

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

As at the day of submitting the Report, the Group has signed contracts for the entire sales of coal for 2012, and entered into agreements with two main recipients (ENEA Elektrownie Kozienice S.A., and Energia Elektrownie Ostrołęka) thus ensuring a market for coal in the long-term perspective until 2025. Information on the material trade agreements signed by the Company in 2011 and after the balance-sheet date is presented 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 customers will significantly strengthen its position in relation to the Group by taking over higher volumes of the Company sales than they are now. This poses a risk of increasing the dependency of the Group on one key customer.

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

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

8.2.8 Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by LW BOGDANKA S.A.

On both the Polish market and export markets, the 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).

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

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

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

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

8.2.9 Risk of delays in the planned investments

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

At the turn of August and September 2011, lifting equipment for shaft 2.1 will be started up. Construction facilities for the haulage system of the excavated material from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were commissioned (the Company holds the permit to use the construction facilities), the procedure of commissioning technological equipment is in progress and its completion was scheduled for August 2011. At the turn of September and October, a substantial part of the building structure will be built, from the task of expanding the Mechanical Coal Processing Plant, in the scope of the so-called short haulage for the purpose of direct sale of coal. The remaining part of the expansion of the Mechanical Coal Processing Plant will be performed until August 2012.

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

8.2.10 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 the Report, four trade union organisations were operating at LW BOGDANKA, whose membership constituted a total of 63% of the Company's employees, and a total of six trade union organisations operated in the LW BOGDANKA Group bringing together 64% of its employees.

The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating at the Company could affect the operating activities conducted by LW BOGDANKA. It concerns also possible protests connected with a risk of the hostile takeover of LW BOGDANKA and thus the whole Group.

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

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

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

8.2.12 Key supplier risk

The specific nature of the Group's operations (both of LW BOGDANKA S.A. and Łęczyńska Energetyka operations with respect to 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 Company.

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 companies require that a performance bond is made.

8.2.13 Risk of unfavourable/inappropriate contractual terms being concluded

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

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

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

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

8.2.14 Risk associated with related party transactions

Within the LW BOGDANKA Group, mutual transactions between the Group companies (related undertakings) are concluded, which may be subject to inspection by tax authorities. The main subject of examining the transactions is whether they have been concluded on an arm's length basis or not.

According to the Group's assessment, all transactions within the Group, which LW BOGDANKA concludes with Łęczyńska Energetyka have been and are entered into exclusively on an arm's length basis. It cannot be ruled out however that the tax authorities will decide to the contrary in assessing the transactions conducted by the Company and its related parties, which could result in a difference in calculating the taxable income and the necessity of paying additional tax along with default interest.

8.3 The Group's financial risk factors

8.3.1 Liquidity risk

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

A major factor in evaluating a company's insolvency risk is the level of the company's operating cash flows, cash and liquidity ratios. As of 30 June 2011, the Group's cash is PLN 261,271,000, current ratio is 1.22, and quick ratio is 1.10. In the period from 1 January 2011 to 30 June 2011, operating cash flows continued at more or less the same level in relation to the same period of the previous year and amounted to PLN 167,952,000. As of the date of submission of the financial statements, the Group is not threatened with insolvency. In order to avoid potential threats to the Group's solvency in the future and to minimise liquidity risk, the Group prepares long- and short-term analyses and forecasts as the basis for identifying the Group's cash requirements. This makes it possible to plan inflows and outflows and to determine the optimum level of cash and the optimum method of financing for the future, taking into account the principles of economic calculation.

8.3.2 The Group's credit risk

The credit risk is understood as a lack of the ability to meet financial liabilities by the customers of Lubelski Węgiel "Bogdanka" S.A. Group.

The group continuously monitors customers' arrears associated with making payments for the products sold (including for Group's main product – power coal), and analyses 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 makes transactions solely with those customers whose creditworthiness was confirmed. For many years the 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.

All the entities with which the Group makes deposit transactions operate in the financial sector; they are solely banks registered in Poland, having at their disposal proper equity capital and a sound and stable market position. Given the above, we believe that credit risk for monetary resources and bank deposits is low.

8.4 Risks associated with environmental protection

8.4.1 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 stricter. Any possible tightening of the standards in this respect may result in higher costs for the Company.

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

8.4.2 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 must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including BAT requirements), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. Accordingly, the environmental protection standards are also applicable to Łęczyńska Energetyka.

As at the date of submitting the Report, the 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 IPPC requirements (EkoKlinkier installation and mining waste dump). Both LW BOGDANKA and Łęczyńska Energetyka were granted the CO2 emission allowance for the settlement period 2008-2012.

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

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

8.4.3 The Group's risk associated with management of waste generated after extension of the LW BOGDANKA's mining area

As a result of the enlargement of the mining area and increase in coal extraction, LW BOGDANKA S.A. will significantly increase the amount of extraction waste generated (in 2010 it was at a level of 3.3 million tonnes annually; the forecast for 2011 – 3.9 million tonnes in 2011, 3.6 million tonnes in 2012 and about 5.7 million tonnes in 2014). As of 1 January 2011, about 73% of extraction waste is subject to recycling, while the remainder was stored at a landfill situated within the area of the Company's plant (the waste is subjected to the process of recycling by the Company or handed over to the entities authorized to manage waste disposal for its further use).

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 other entities for management, other waste yard location) may turn to be less cost effective which may affect the Group's financial result.

8.4.4 The Group's investment risks associated with protected areas

The Group companies' 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 the Company's mining land). Those environmental conditions do not pose an obstacle for the Company's activity in its present scope. Nevertheless, all the planned investment activities of the Company must be analysed from the perspective of their potential negative impact on protected areas.

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

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

8.5 Risk factors associated with proceedings and legal environment of the Group

8.5.1 Risk of change to tax laws

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

8.5.2 Risk of real estate tax on mining excavations of LW BOGDANKA

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

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

Moreover, it should be emphasized that on 9 June 2011, the *Sejm* adopted a new act: Geological and Mining Law. Although the adopted version of the act did not include the statement that was suggested in the draft – that "underground mine headings, as well as installations and equipment placed in them are not building structures or construction equipment within the meaning of construction law provisions" – according to LW BOGDANKA the new act provides for the solutions which may have a key significance for the issues of taxation by means of a real estate tax of the facilities and equipment located in underground mine headings. Namely, in Article 6.1.4, a new definition of a construction facility of a mining plant was introduced, according to which a construction facility of a mining plant is a mining plant facility which is located outside the underground mine heading, which is a construction facility within the meaning of the Construction Law of 7 July 1994

(Dz. U. of 2010, No. 243, item 1623, as amended), used directly for those activities that are regulated by the law with respect to the extraction of fossils from deposits, and for underground non-reservoir storage of substances or underground storage of waste in underground mining plants that extract hard coal together with the preparation (technologically associated with extraction of fossils) of extracted fossils for sale. According to LW BOGDANKA, the contents of the above definition, in comparison with the previous definition of a construction facility of a mining plant, provide justified grounds for assuming that all facilities and devices which are in an underground heading, are not building structures or construction devices within the meaning of the Construction Law. As a consequence, this should mean that they will not be subject to taxation with real estate tax.

However, bearing in mind the disputes related to taxation with real estate tax on the basis of previous provisions, it may not be unequivocally stated that the above position of LW BOGDANKA related to the new wording of the definition of a construction facility of a mining plant, will be shared by tax authorities and administrative courts.

8.5.3 Risk of LW BOGDANKA associated with expenses for creating certain mining headings and their classification for the purposes of corporate income tax

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

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

a. preparatory pits for liquidation – when the excavation from the exploitation field the preparatory pits are associated with ends, those pits are liquidated as useless for the remaining parts of the mine. Some of those pits which perform the function of near-wall pits are liquidated gradually along the progress of the exploited wall. The classification of this group of pits for liquidation is determined at the stage of planning the method of preparing the deposits for exploitation;

b. special pits of auxiliary nature – created from pits localised on exploitation fields (blasting niches, drill niches, section chambers). They are liquidated with other movement pits for which the operation has already been performed;

c. selector pits – they are used for deposit extraction (walls and cross-cuts). Those pits are liquidated when the extraction in the field of the wall is completed and when they are no longer necessary for operation of the remaining parts of the mine;

d. pits and examination holes – corridor pits and openings performed from the surface and mining pits for the purposes of examination of the deposit. The purpose of those pits is to examine the deposit structure and collect information on its exploitation.

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

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

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

8.5.5 Risk of violating the stock exchange disclosure requirements

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

8.6 Relationships of risks within the Group - summary

The LW BOGDANKA Group consists of a Parent Undertaking – LW Bogdanka S.A. and a subsidiary company – Łęczyńska Energetyka Sp. z o.o. The Parent Undertaking generates 99.3% share of Group's revenue and 98.80% of the net profit (according to data for 2010), therefore it was assumed that the key risks in Group's activities are in fact the key risks of the Parent Undertaking. The only risk at the Group level associated with Łęczyńska Energetyka, which could influence the Group's activities to a considerable extent, is the process of implementing the planned investment, i.e. "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant". This investment involves a number of technical, technological, processing, and financial risks that are typical for this kind of projects.

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

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the first half of 2011, LW BOGDANKA S.A. was not a party to proceedings pending before court, arbitration body or administrative body, regarding:

- liabilities or claims of LW BOGDANKA S.A. worth at least 10% of LW BOGDANKA S.A.'s shareholders' equity,

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

10. RELATED PARTY TRANSACTIONS

In the first half of 2011, the Parent Undertaking and its subsidiaries did not conclude any significant transactions with associated entities which were individually or jointly significant and were concluded on terms other than on an arm's length basis. Information on transaction of LW BOGDANKA S.A. with related entities is presented in section 19 of the Abridged Interim Financial Statements of LW BOGDANKA S.A. for the period of 6 months ended on 30 June 2011.

11. INFORMATION ON THE COMPANY OR ITS SUBSIDIARY GRANTING SURETIES FOR A CREDIT FACILITY OR LOAN OR GRANTING GUARANTEES

In the period from 1 January 2011 to 30 June 2011, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiary granted sureties for a credit facility or loan and they did not grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's shareholders' equity.

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

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

On 10 May 2011, the Annual General Shareholders Meeting adopted a resolution on distribution of net profit for 2010. It was decided to distribute the net profit generated by the Company amounting to PLN 227,362,313.44 (two hundred twenty-seven million three hundred sixty-two thousand three hundred and thirteen zlotys 44/100) as follows:

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

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

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

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

12.2 LW BOGDANKA qualified for inclusion in Respect Index

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

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

12.3 Conclusion of significant agreements

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

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

The Agreement provides for the following liquidated damages:

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

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

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

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

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

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

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

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

12.3.3 Transactions with Bucyrus Europe GmbH – value of a significant agreement: purchase of the longwall coal ploughing system

On 31 May 2011 the Company announced in Current Report No. 18/2011 that within the last 12 months (i.e. until 31 May 2011), the value of agreements concluded by and between LW BOGDANKA and Bucyrus Europe GmbH, with registered office at Industriestrasse 1, 44534 Lünen, Germany, (the "Supplier") and its subsidiaries amounted to approx. PLN 248 million.

The Agreement of the highest value was concluded on 31 May 2011 by and between the Company and Bucyrus Europe GmbH for the supply of a longwall plough system to the mine in Bogdanka. The total value of the Agreement (i.e. the price of the longwall coal plough system) amounts to PLN 162,981,000.00. The time limit for the performance of the Agreement is 14 months from the date of signing thereof.

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 the signing of the Agreement] - liquidated damages accounting for 0.1% of the Price [PLN 162,981,000.00] (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 1,000.00 for each commenced hour of delay with respect to the time limits specified in the Agreement [commencement of rectification of defects and/or breakdowns not later than within 12 hours from the notification; rectification – not later than within 24 hours from the commencement of rectification],

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

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

Other terms and conditions do not differ from the market standards.

12.3.4 Conclusion of a significant agreement with PH-U "Energokrak" Sp. z o.o. with registered office in Krakow

On 19 July 2011 the Company announced in Current Report No. 21/2011 that the net value of agreements concluded within the past 12 months (i.e. until 19 July 2011) by and between the Company and Przedsiębiorstwo Handlowo-Usługowe Energokrak Sp. z o.o., ul. Ciepłownicza 19, 31-587 Kraków, 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 value of the Agreement, without regard to additional options, possible increases, deviations and tolerance, in accordance with current prices amounts to PLN 393 million net. 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 amount of coal, shall pay the other Party liquidated damages in the amount of 10% of the value of the undelivered/uncollected coal. Other terms and conditions do not differ from the market standards applied in such agreements.

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

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

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

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

12.5 Appointment of a chartered auditor

The Company's Supervisory Board by means of a written vote, adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o. with registered office in Warsaw, Al. Armii Ludowej 2011, as an entity authorised to carry out a review of the Company's separate financial statements for the first half of 2011, the Group's consolidated financial statements for the first half of 2011, and to carry out an audit of the Company's financial statements for 2011 and the Group's consolidated financial statements for 2011, drawn up in accordance with the International Accounting Standards (IAS).

The agreement was concluded for a period enabling the subject matter of the agreement to be performed.

The Company announced the election of the chartered auditor in Current Report No. 19/2011 of 9 June 2011.

12.6 Employment

Employment at the Company as at 30 June 2010 and 2011 is presented in the table below:

Table 22 Employment at the Company as at 30 June 2010 and 2011

Employment	H1 2010	H1 2011	Change H1 2011/ H1 2010 [%]
Total workers	3,334	3,458	103.71%
Underground workers	2,548	2,568	100.78%
Surface workers	786	890	113.23%
Full-time employees underground	289	310	107.27%
Full-time employees on the surface	272	276	101.47%
Total underground	2,837	2,878	101.45%
Total staff	3,896	4,045	103.82%

Employment in the first half of 2011 increased by 149 persons, i.e. by 3.82% in relation to the employment level at the end of the first half of 2010.
In the first half of 2011, 175 persons were employed at LW BOGDANKA S.A.; including 149 persons employed from outside the mining industry, 11 mining school graduates, 13 graduates of other schools, 2 persons from another mining company.

At the same time, in the first half of 2011, 98 employees left the Company:

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

The Group's employee turnover rate, calculated as the product of the difference between the number of people taken on and the number of people dismissed in a given period divided by the number of employees as of the end of the first half of 2011, is 0.019, which shows that the Group employs more people than it dismisses. The Company values employees with many years of service for the Company and treats them as its key resource. The positive value of the employee turnover rate shows that the Group benefits from its efforts to improve the qualifications of its personnel. Employment stability improves the employees' morale. Also, the Company can make full use of its personnel's innovative ideas. Knowledge of the Company's organisational structure helps to improve its internal processes.

13. List of tables

Signatures of the Management Board Members:

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

Bogdanka, 29 August 2011