DIRECTORS' REPORT ON OPERATIONS
LUBELSKI WĘGIEL BOGDANKA S.A.

for the period from 1 January 2013 to 31 December 2013

BOGDANKA, MARCH 2014

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1 BASIC INFORMATION ON LW BOGDANKA S.A.

1.1 Name and registered office of the Company

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

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	+48 (81) 462 51 00, +48 (81) 462 51 01
Fax:	+48 (81) 462 51 91
website:	www.lw.com.pl
e-mail:	bogdanka@lw.com.pl
Industry Identification Number (REGON):	430309210
Tax Reg. No. (NIP):	713-000-57-84

1.2 Legal Form

Lubelski Węgiel BOGDANKA S.A. is a joint stock company, operating under the laws of Poland.

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

On 9 March 2010, the State Treasury sold 46.69% of shares in the Company on the Stock Exchange. Therefore, it ceased to hold a majority in the Company's share capital. The number of Company's shares amounts to 34,013,590. On 4 January 2012, 3,208,111 employee shares were introduced to trading on the Warsaw Stock Exchange, and 34,754 employee shares were introduced on 4 February 2013. The total number of LW BOGDANKA's shares in public trading amounts to 34,013,455. As at the date of publishing this Report, the remaining 135 shares are registered shares.

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

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

- the Act of 15 September 2000 - the Commercial Companies Code (Dz. U. [Journal of Laws] of 2000, No. 94, item 1037, as amended);
- the Act of 9 June 2011 - the Geological and Mining Law (Dz. U. [Journal of Laws] of 2011, No. 163, item 981, as amended);

The founder of the Company is the State Treasury, represented by the Minister of the State Treasury.

The Company may operate in Poland and abroad.

The Company was established for an indefinite term.

1.4 History of the Company and its legal predecessors

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

The enterprise history begins with Resolution No. 15/75 of the Council of Ministers adopted on 17 January 1975 - i.e. decision on construction of a pilot and excavation mine in Bogdanka. Groundbreaking plaque for the enterprise was Ordinance No. 4 of the Minister of Mining and Power Industry on establishment of a state enterprise under name Kopalnie Lubelskiego Zagłębia Węglowego w Budowie (under construction) (KLZW w budowie) of 17 January 1975. The Minister of Mining and Power Industry with Ordinance No. 15/Org/84 of 1 January 1985 put KLZW w Budowie into liquidation and on its base he created Lubelsko-Chełmskie Gwarectwo Węglowe w budowie (under construction) (LChGW w budowie). By virtue of Resolution of the Council of Ministers No. 34/88 of 8 February 1988, construction of one of the two mines of LChGW w budowie - i.e. K-2 mine in Stefanów - was discontinued. With Ordinance No. 72/Org/88 of the Minister of Industry of 30 June 1988, LChGW w budowie was put in liquidation on 1 October 1988. On 31 December 1988, the property and rights and obligations of the liquidated company were transferred to a state-owned enterprise under the name Dąbrowskie Gwarectwo Węglowe in Sosnowiec.

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

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

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

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

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

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

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

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

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

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

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

On 29 April 2008, the Extraordinary General Shareholders Meeting of the Company adopted a resolution authorising the Management Board to undertake activities aimed at preparing the procedure for the first public offering of the shares issued within the framework of increasing the Company's share capital as well as admitting and introducing shares to trading on the stock exchange.

On 14 November 2008, the Extraordinary General Shareholders Meeting of the Company adopted a resolution regarding:

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

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

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

1. 19,770,590 Series A Shares
2. 11.000.000 Series C Shares

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

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

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

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

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

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

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

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

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

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

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

The role of LW BOGDANKA S.A. within the Group primarily involves defining the Group's development strategy. The Company also exercises ownership supervision by way of exercising rights conferred by the shares in subsidiaries, at the Shareholders Meetings of these companies. As at the day of submitting the Report, the Members of the Management Board of LW BOGDANKA S.A. held functions in the Supervisory Boards of subsidiaries, i.e.:

- in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o. – Zbigniew Stopa, President of the Management Board of LW BOGDANKA S.A.;
- in the Supervisory Board of Ekotrans Bogdanka Sp. z o.o. – Zbigniew Stopa, President of the Management Board of LW BOGDANKA S.A. and Krzysztof Szlaga, Member of the Management Board of LW BOGDANKA S.A. for Procurement and Investments;
- in the Supervisory Board of RG Bogdanka Sp. z o.o. - Krzysztof Szlaga, Member of the Management Board of LW BOGDANKA S.A. for Procurement and Investments.

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

The Company governing bodies are:

a) the Management Board;

b) the Supervisory Board;

c) the General Shareholders Meeting.

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

a) for the Management Board - the Rules of Procedure of the Management Board of Lubelski Węgiel BOGDANKA S.A.;

b) for the Supervisory Board - Rules of Procedure of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.;

c) for the General Shareholders Meeting - Rules of Procedure of the General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A.

The Company is headed by the Management Board of LW BOGDANKA S.A.

From 23 November 2012 to 4 March 2013 the Management Board operated in the following composition:

a) President of the Management Board

b) Vice-President of the Management Board, Trade and Logistics;

c) Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;

d) Member of the Management Board, elected by the employees.

As a result of appointing new Members of the Management Board on 4 and 11 March 2013, the Management Board operated until the end of the 7th term of office in the following composition:

- President of the Management Board;

- Vice-President of the Management Board, Trade and Logistics;

- Vice-President of the Management Board, Economic and Financial Affairs;

- Vice-President of the Management Board, Chief Accountant;

- Member of the Management Board, Procurement and Investments;

- Member of the Management Board elected by the employees.

As at 31 January 2014 and as at the day of submitting the Report, the composition of the Management Board of LW BOGDANKA S.A. of the 8th term of office was as follows:

- President of the Management Board;

- Vice-President of the Management Board, Trade and Logistics;

- Vice-President of the Management Board, Economic and Financial Affairs;

- Member of the Management Board, Procurement and Investments.

The Management Board members organise and supervise the organisational units within their own division. The organisational structure of the Company also includes the Production Director - Head of Mining Supervision in Mining Facility, (previously Chief Engineer – Head of Mining Supervision in Mining Facility), who organises and supervises the operation of the mine in accordance with the provisions of the Geological and Mining Law. More information on the rules governing the appointment and functioning of the Management Board is provided in section 13.8.1.3.1 of the Report.

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

In order to make the rules of management of LW BOGDANKA S.A. more precise, the following steps were taken in 2013:

1. implementation plan for Social Corporate Responsibility strategy at LW BOGDANKA S.A. was adopted;
2. Instruction on managing equipment (other than non-current assets) at Lubelski Węgiel Bogdanka S.A. was introduced;
3. amended Instruction for performing stocktaking in Lubelski Węgiel Bogdanka S.A. was introduced;
4. amended Sales Terms and Conditions of Building Ceramics by Lubelski Węgiel Bogdanka S.A. were introduced;
5. amended "Sales Terms and Conditions of Coal" were introduced;
6. amended Code of Ethics at the Lubelski Węgiel Bogdanka Group was introduced;
7. uniform text of the "Instruction specifying a decision making procedure of the Company's Management Board and rules for preparation and circulation of documents submitted at the Management Board meetings" was introduced;
8. "Human Resources Policy" at Lubelski Węgiel Bogdanka S.A. was introduced;
9. Board for LW BOGDANKA S.A. strategy was appointed;
10. amended instruction for preparation and workflow of documents presented at the Management Board meetings was introduced;
11. changes to the composition of the Corporate Risk Management Committee were introduced;
12. rules for conducting proceedings for granting public procurement were updated, the Standing Tender Committee at Lubelski Węgiel Bogdanka S.A. in Bogdanka was appointed and the obligations of its members were determined.

The update of the currently applicable documents and the introduction of new ones is aimed at implementation of the following assumptions: increase of the Company's transparency, increase of competitiveness in service provision, facilitation of the cost control process, optimisation of Company's procurement process.

On 25 January 2013, the Company's Supervisory Board adopted resolutions with regard to:

1. appointing Mr Zbigniew Stopa to the Management Board of the 8th term of office as the President of the Management Board;
2. appointing Mr Waldemar Bernaciak to the Management Board of the 8th term of office as the Vice-President of the Management Board, Trade and Logistics;
3. Appointing Mr Yves, Marie, Gerard, Roger de Bazelaire de Boucheporn as the Vice-President of the Management Board, Economic and Financial Affairs for the period until the end of the 7th term of office (effective as at 4 March 2013) and for the 8th term of office;
4. Appointing Mr Krzysztof Szlaga as the Member of the Management Board for Procurement and Investments for the period until the end of the 7th term of office (effective as at 11 March 2013) and for the 8th term of office;
5. Appointing Ms Krystyna Borkowska as a Vice-President – Chief Accountant, effective as at 4 March 2013, until the end of the 7th term of office.

Moreover, there were changes in the composition of the Management Board, specified in Article 13.8.1

On 4 July 2013, the Annual General Shareholders Meeting introduced amendments to the Articles of Association of Lubelski Węgiel BOGDANKA S.A. with regard to, among other issues, the Powers of the Company's governing bodies, in compliance with which the approval of the Supervisory Board shall be required for:

1. Acquisition, sale or production of non-current assets, construction in progress or intangible assets which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, if the value of one or more related transactions exceeds the PLN equivalent of EUR 5,000,000;
2. Establishment of a security regarding any liability of the Company or a third party, if the value of one or more related transactions exceeds the PLN equivalent of EUR 1,000,000;
3. Conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 10,000, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association.

Further, a possibility was introduced to make advance dividend payments to the shareholders, for the dividend expected as at the end of a financial year, which may be paid out on the basis of a decision of the Management Board made upon approval of the Supervisory Board.

1.7 Information on branches (establishments) owned by the Company

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

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

In 2013 Lubelski Węgiel BOGDANKA had capital interests in the following business entities:

Table 1 Capital interests of the Company

Company's business name Registry No.	Company's share in the share capital		Share capital	Core activities
	31 Dec. 2012	31 Dec. 2013 and 20 Mar. 2014		
Łęczyńska Energetyka Spółka z ograniczoną odpowiedzialnością in Bogdanka KRS 0000007317	88.70% (73,332 shares)	88.70% (73,332 shares)	PLN 82,677,000.00 divided into 82,677 shares of PLN 1,000	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water

EkoTRANS Bogdanka Spółka z ograniczoną odpowiedzialnością Tax Reg. No. (NIP) 5050123960	0.00% (0 shares)	100.00% (100 shares)	PLN 100,000.00 divided into 100 shares of PLN 1,000	complex transport organisation and recovery of spoil arising during coal-associated shale washing and cleaning
RG BOGDANKA Spółka z ograniczoną odpowiedzialnością	0.00% (0 shares)	100% (10,000 shares)	PLN 500,000.00 divided into 10,000 shares	services, deliveries and mining works for LW Bogdanka
Kolejowe Zakłady Maszyn KOLZAM S.A. in Racibórz KRS 0000115564	24.41%	24.41%	PLN 750,000.00 divided into 150,000 shares of PLN 5.00	manufacturer of a rolling stock company in bankruptcy

Subsidiaries:

A) Łęczyńska Energetyka Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	+48 81 443 11 02, +48 81 462 55 53
Fax:	+48 81 443 11 01
website:	www.lebog.com.pl
e-mail:	biuro@lebog.com.pl
Industry Identification Number (REGON):	004164490
Tax Reg. No. (NIP):	713-020-71-92

Share capital (as at 31 December 2013): PLN 82,677,000.00 divided into 82.677 shares of PLN 1.000.

Shareholding structure:

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

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

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

B) EkoTRANS BOGDANKA Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów,
Tel.:	+48 81 462 52 15
Fax:	+48 81 462 52 15
website:	-

e-mail	biuro@ekotrans-bogdanka.pl
Industry Identification Number (REGON):	06155187
Tax Reg. No. (NIP):	505-012-39-60

Share capital amounts to PLN 100,000.00 and is divided into 100 shares, PLN 1,000 each.

Shareholding structure: 100% Lubelski Węgiel „Bogdanka" S.A.

EkoTRANS provides services to the mine with respect to management of spoil arising during coal- associated shale cleaning and washing.

C) RG „Bogdanka" Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów,
Tel.:	+48 81 462 50 86
Fax:	-
website:	-
e-mail:	poczta@rgbogdanka.pl
Industry Identification Number (REGON):	243255890
Tax Reg. No. (NIP):	627-273-54-05

Share capital of RB Bogdanka Sp. z o.o. amounts to PLN 500,000.00 and is divided into 10,000 shares, PLN 50 each.

Shareholding structure: 100% Lubelski Węgiel „Bogdanka" S.A.

The business activity of the Company consists in providing of services, deliveries and mining works to LW BOGDANKA S.A.

The Group's associated entity:

EKSPERT Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	+48 81 462 20 62
Fax:	+48 81 462 20 62
website:	-
e-mail:	wkekspert@wp.pl
Industry Identification Number (REGON):	432693862
Tax Reg. No. (NIP):	505-000-15-99

Share capital: 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%.

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

On 3 July 2013, Ekspert Sp. z o.o. was crossed out from the National Court Register. Thus, the liquidation proceedings with regard to the company were completed.

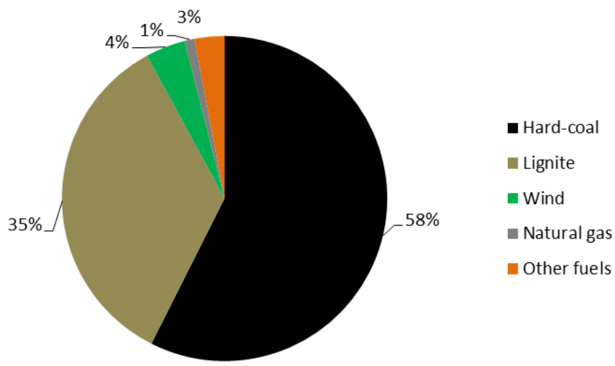
2 DESCRIPTION OF THE COMPANY'S BUSINESS ACTIVITY

2.1 The coal market in Poland

Hard coal is Poland's most important energy source.

Coal is Poland's main energy source, accounting for 93% of domestic electrical energy output, 58% of which is attributable to hard coal and 35% to lignite. The remaining 7% is generated by gas and RES (renewable energy sources). The role of hard coal as a primary energy carrier in Poland's energy security policy is growing, due to substantial coal deposits, especially in view of the consistently high prices of other energy sources, crude oil and natural gas in particular.

Chart 1 The structure of fuels used in electrical energy production in Poland in 2013

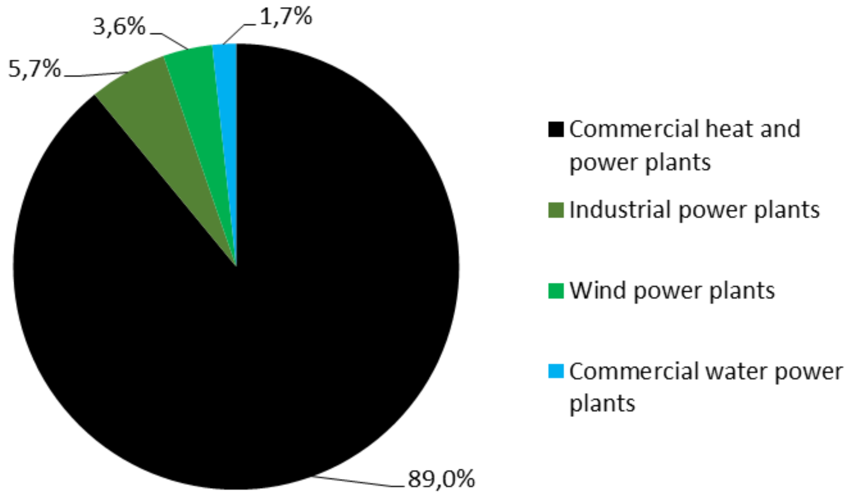


Source: The Energy Market Agency (ARE S.A.) www.cire.pl

Nearly 95% of Poland's electrical power is generated by commercial power plants, with thermal power plants accounting for 89% and hydro-power plants for approx. 6%. The remaining 5% is shared between industrial power plants and wind farms.

The overall electricity production in Poland in 2013 stood at 162,501 GWh, a 1.66% increase on 2012. In the period between January and December 2013 commercial thermal power plants generated 144,673 GWh. The greatest rise in the volume of electricity produced (47.23%) was noted in wind farms, which in 2013 generated 5,823 GWh (compared to 3,955 GWh in 2012). In contrast, electricity production by gas power plants has declined. In 2012 they generated 4,485 GWh, whereas in 2013 their production fell to 3,149 GWh, which constitutes a 29.80% decrease.

Chart 2 Breakdown of electrical energy production by domestic power plants in 2013

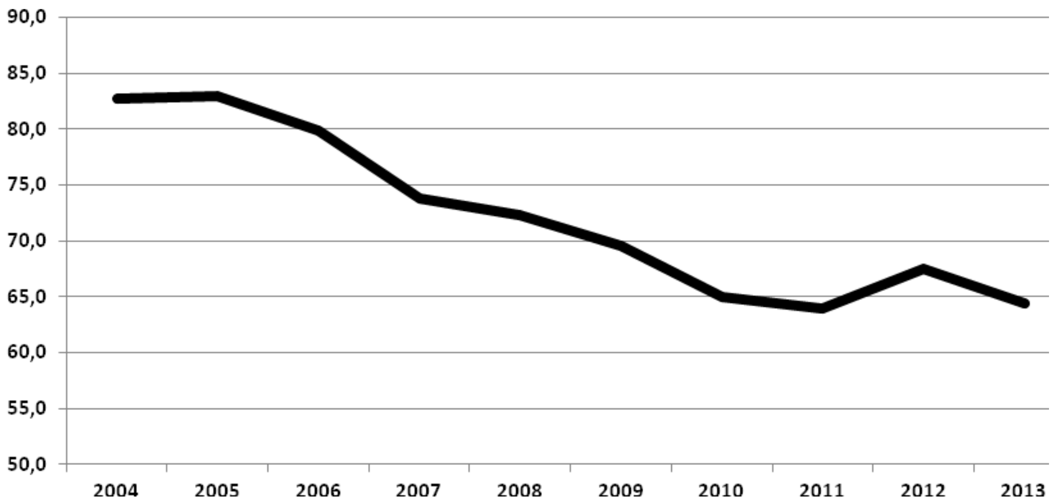


Source: PSE S.A.

Hard coal production in Poland

Poland is the world's major hard coal producer and the largest producer of hard coal in the European Union. In 2013 the output of power coal stood at 64.4 million tons. In comparison with the previous year the output had declined by 3.1 million tons.

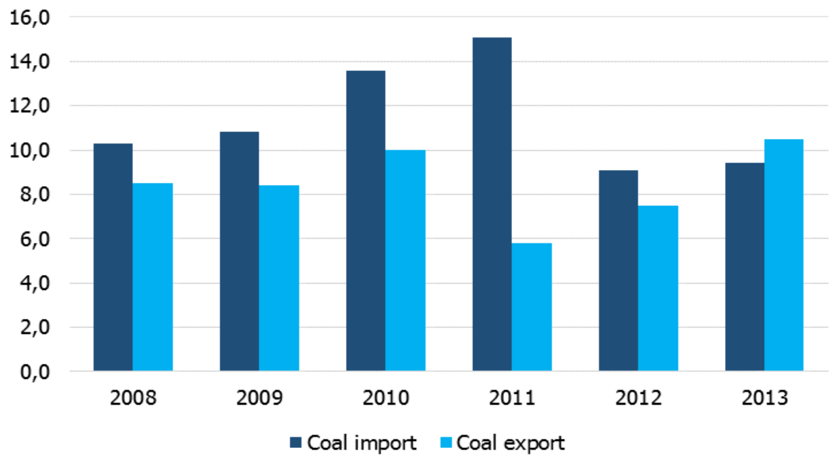
Chart 3 Power coal output in Poland between 2004 and 2013



Source: ARP S.A.

In 2013, 10.5 million tonnes of coal in total were exported. Compared to 2012, when 7.5 million tonnes of coal were exported, this constitutes a rise by 3.0 million tonnes. In turn, 2013 brought about a rise in coal imports from 9.1 million tonnes achieved in 2012 to 9.4 million tonnes.

Chart 4 Poland's coal trade balance in 2008÷2013

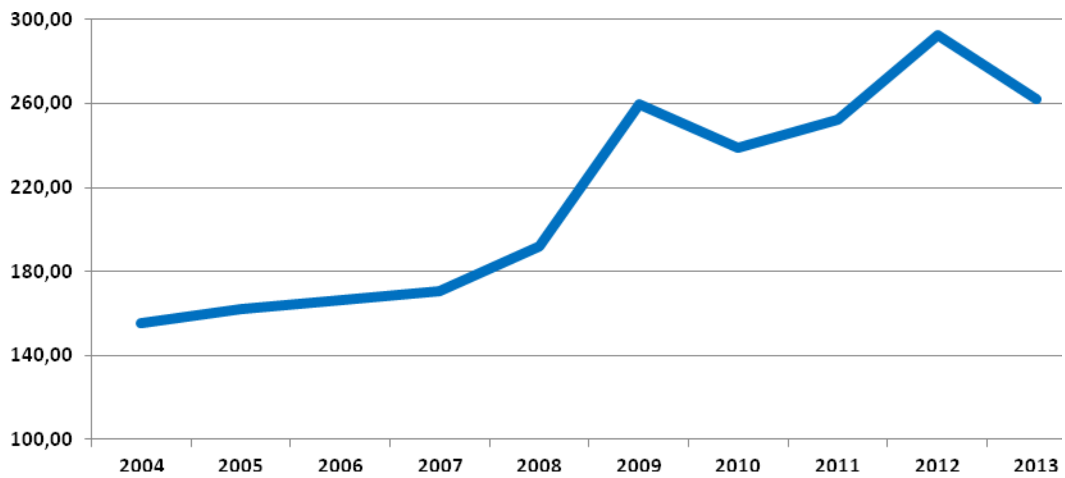


Source: ARP S.A.

Price of power coal

The average price of power coal in 2013 stood at PLN 262.31/Mg. Compared to 2012 the price declined by 10.40%.

Chart 5 Average price of power coal in Poland between 2004 and 2013 (PLN/Mg)



Source: ARP S.A.

2.2 Information on activities conducted by the Company

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

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

a) agriculture, forestry, hunting and fishery (Section A);

b) mining and production (Section B);

c) industrial processing (Section C);

d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D);

e) water supply; liquid and solid waste management; activities related to reclamation (Section E);

f) construction (Section F);

g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G);

h) transport and warehouse management (Section H);

i) activities related to lodging and catering (Section I);

j) information and communications (Section J);

k) finance and insurance (Section K);

l) real estate activities (Section L);

m) professional, scientific and technical activities (Section M);

n) administration and support activities (Section N);

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.

2.3 Compliance with technical regulations and standards

The Mining Plant Lubelski Węgiel BOGDANKA S.A. is operated in line with requirements of Geological and Mining Law (9 June 2011, Dz. U. [Journal of Laws] No. 163, item 981 of 5 August 2011) and in line with requirements of executive regulations as issued pursuant to Article 120 and with consideration given to Article 224 of the Geological and Mining Law, and using applicable standards.

Works in the operation of the mining plant are carried out with the observance of principles of mining technology, occupational health and safety rules, fire safety rules, rationalised deposit management, environmental protection and securing and repairing mining damage. The basic ground for the Lubelski Węgiel BOGDANKA S.A. mining plant to conduct its operations is its Operational Plan. In 2012, a new edition was compiled of the Operational Plan, in compliance with the requirements of the new Geological and Mining Law, which covers the period 2013÷2015, approved by the Director of the Regional Mining Authority in Lublin on 21 December 2012.

The mine holds the technical designs required to extract its seams 382, 385/2 and 391, technical designs for its extraction and heading workings, technical documentations for its transport systems, as well as the necessary technologies and work safety instructions. Operation of the mine's basic buildings and facilities (e.g. shafts, fan stations, personnel transport systems) takes place based upon permits issued by the Director of the Regional Mining Authority in Lublin, whereas operation of its remaining machinery based upon permits issued by the Mining Plant's maintenance manager. Its machines, facilities and materials, as well as its blasting means, have their relative permits obtained from the Head of the State Mining Authority to be used underground, voluntary certificates, or conformance statements issued by their manufacturers. Works in the operation of the Mining Plant are managed by its engineering staff who have qualifications as required by law and have been confirmed by the State Mining Authority (*Wyższy Urząd Górniczy*) in Katowice or the Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin.

2.4 Quality Control

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

1. Sampling and analysis at the bottom of the mine of the coal excavated by the particular Departments, as well as taking and analysing channel Samales;

2. Sampling and testing the raw coal being excavated from the bottom of the mine and conveyed to its mechanical processing plant;
3. Sampling and tests of the commercial coal, i.e. fine coal, nut coal and pea coal produced by Lubelski Węgiel BOGDANKA S.A.;
4. Carrying out quality and quantity settlements and assessing compliance with procedural requirements in accordance with the concluded agreements, including the relevant documentation related to coal supply settlements;
5. Sampling the quality of fine coal stored in the warehouse and intended for sale and participating in the inventory of heaps;
6. Coal warehousing:
   a) keeping a goods inwards register in respect of coal,
   b) keeping a goods outwards register in respect of coal,
   c) inspecting the work of the loading equipment and signing lease documents;
7. Controlling the processes that are going on in the Mechanical Coal Processing Plant (*Zakład Mechanicznej Przeróbki Węgla*) in the area of:
   a) jig drilling fluid - analysing the material treated mechanically with the drilling fluid for crushing and drilling purposes, analysis of screenings and drilling fluid products, i.e. waste, concentrate, slurry, and washing water;
   b) heavy drilling fluid - analysing the material treated mechanically with the drilling fluid for crushing and drilling purposes, analysis of drilling fluid products, i.e. waste, concentrate, interlayer, washing water, and slurry;
8. Control of processes going on at the EKOKLINKIER Construction Ceramics Plant in the area of sampling and testing coal shale and the ceramic mass;
9. Commercial coal quality claims.

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

- mine air and mine gas analyses;
- dust levels and silica content analyses;
- analyses of parameters of coal, coal shale and ceramic body;
- measurements of noise intensity;
- measurements of mechanical vibrations.

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

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

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

2.5 Description and assessment of technical equipment and the technologies used

In 2013 Lubelski Węgiel BOGDANKA S.A. excavated its coal using the panel "from the field" system with fall of roof, by means of the coal-cutting machine and plough mining techniques.

Longwall galleries are drilled in appropriate advance and built in full prior to starting up the panel. Both longwall galleries are liquidated on a regular time basis downstream the front of the panel and two new galleries are built for each successive panel.

The panels are from 250 m up to 310 m long, and panel lengths, depending upon the exploitation field size, are from 1,000 m to even over 5,000 m (panels in field VII and VIII in seam 385 in Stefanów).

The longwall galleries are built in an open frame support system with an arch-shaped cross section made of V36 section and typical frame spacing of 0.75-0.9 m. In these galleries mainly sets of the ŁPSC series of types (6- or 7-piece) is used. A typical size of sets for longwall galleries in the case of coal-cutting panels is 10/K, whereas in the case of coal-ploughing panels the sizes used were 11/S and 12/S. In the longwall galleries for coal-ploughing panels, due to the large cross-section of headings and the commonly used span size of 0.9 m, the standard procedure is to anchor the rock mass, strengthening the support lining.

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

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

In 2013, wall panels were exploited using heavy-duty longwall mining and lay-by coal-cutting machine and coal-ploughing complexes.

Each powered complex consists of:

a) panel and under-panel conveyor with performance up to 1,600 tonnes/h and high reliability and durability;

b) in the case of coal-cutting machine complexes, a panel coal-cutting machine with web depth from 0.8 m up to 1.0 m, working and manoeuvring speeds up to 16 m/min, equipped with automatic travelling speed adjustment systems and operation mode signalising systems;

c) in the case of coal-ploughing complexes, a slide plough fully integrated with a wall conveyor and a wall support system, which can be controlled automatically;

d) powered panel roof support with support capacity of 0.8 – 1.0 MPa, which provides for appropriate roof maintenance, equipped with the latest generation control systems that makes it possible to build the roof with speed adjusted to the coal-cutting machine's mining speed or the operation of the plough.

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

In 2013, LW BOGDANKA S.A. owned 5 powered panel complexes, including 3 coal-cutting machine complexes and 2 coal-ploughing complexes. The principal machinery that these complexes consist of and their basic parameters are listed in Table 2.

Table 2 Basic equipment of panels as used in 2013

Equipment element	Complex no., type (name)				
	I coal-cutting of 1997	II coal-cutting of 2001	III coal-cutting of 2005	IV coal-ploughing of 2010 no. 1	V coal-ploughing of 2012 no. 2
Panel roof support					
- type	Glinik 10/23 POz	Glinik 15/32 POz after modernisation Glinik 17/33,5 Poz	Glinik 12/27 POz	Bucyrus 9.5/20	Caterpillar 9.5/20
- section's support capacity	0.8 MPa	1.0 MPa	0.9 MPa	0.9 MPa	0.9 MPa
Panel conveyor					
- type	PF-4/932	JOY AFC	JOY AFC	PF 4/1032	PF 4/1032
- driving power	3×400 kW	3×500 kW	3×500 kW	2×800 kW	2×800 kW
Panel winning machine					
- type (swath)	Longwall coal-cutting machine JOY 4LS3 (0.8 m)	Longwall coal-cutting machine JOY 4LS8 (1.0 m)	Longwall coal-cutting machine JOY 4LS8 (1.0 m)	Block plane GH 1600-1 (-)	Block plane GH 1600-1 (-)
Complex location in 2013					
- seam	385/2	382	382	385/2	385/2
- panel	9/IV/385	3/II, 4/II	13/II, 6/I	7/VII, 1/VIII/385	2/VI, 6/VII/385
- excavating field	Bogdanka	Nadrybie	Bogdanka	Stefanów	Nadrybie/Stefanów

Preparatory and opening-out workings are drilled mechanically using heading coal-cutting machines class AM-75. In 2013, the mine owned six heading coal-cutting machines: three AM-75s, and three MR-2340XSs. In 2013, one coal-cutting machine MR-340MS was purchased and one owned AM-75 was modernised.

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

In 2013, 28.6 km of roadway workings were made, including about 13.5 km by outsourced companies.

For the purposes of transporting materials in the mine's underground workings, a transport system of combustion slackline cableways is used. This system makes it also possible to transport the crew into the Mine's more remote areas. On main levels (e.g. on 960 m in Bogdanka and on 990 m in Stefanów) an underground rail transport operates, which employs combustive and electric-accumulator locomotives.

2.6 Licences and permits

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

In connection with its requirements, the Company holds:

1. The right to use geological information concerning the BOGDANKA hard coal deposit, pursuant to Agreement No. 266/IG/2006 (982/G/2006) of 8 December 2006, signed with the State Treasury – Ministry of the Environment.
2. Geological documentation supplemented by the Attachment no. 3 for the BOGDANKA hard coal deposit in the new "Puchaczów V" mining area, which was approved with no reservations by the Ministry of the Environment.
3. A project to manage the BOGDANKA hard coal deposit in the new extended "Puchaczów V" mining area, which enjoyed a favourable opinion issued by the Director of the Regional Mining Authority in Lublin.
4. License to excavate hard coal from the BOGDANKA deposit (seams 385, 385/2, 389, 391) covered by the "Puchaczów V" mining area, issued by the Minister of the Environment no. 5/2009 of 6 April 2009. The

license has been granted until 31 December 2031.

5. Agreement upon establishing mining usage to excavate hard coal from the BOGDANKA deposit concluded on 6 April 2009 between the State Treasury – Ministry of the Environment and Lubelski Węgiel BOGDANKA S.A.
6. The Operational Plan approved by the Director of the Regional Mining Authority in Lublin for its basic part by force of his decision of 30 December 1994. Its basic part will be in force over the license's validity period. Its detailed part that covers years 2007 ÷ 2009 was approved by the Director of the Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin by force of his Decision of 6 November 2006, whereas for the period 2010÷2012, it was approved on 14 December 2009.

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

1. Aquatic legal survey - Decision taken by the Lublin Province Governor of 31 December 2007, ref. no.: ŚiR.III.6811/91/07, for special usage of water resources, which covers:
   a) drainage of the Mining Plant Lubelski Węgiel BOGDANKA S.A. in Bogdanka in volumes not exceeding:

      $Q_{dśr}$ = 20 000 m^3/d, Q_{max} = 22 000 m^3/d, Q_{hmax} = 917 m^3/h,

      with deadline until 31 December 2010, and

      $Q_{dśr}$ = 26 700 m^3/d, Q_{max} = 32 000 m^3/d, Q_{hmax} = 1 400 m^3/h,

      with deadline from 1 January 2011 until 31 December 2017.
   b) disposal of unused mining water from the pit water settling tank using the outflow ditch into the RE "Żelazny" stream, which is a tributary of the Świnka river;
2. Permit to generate, recover and neutralise waste, including a description of how to handle this waste – Decision taken by the Lublin Province Governor of 10 September 2004 - no. ŚiR VII. 6620/32/2004 – valid until 10 September 2014, as amended;
3. Integrated permit no. PZ 17/2006 for the Construction Ceramics Plant installations and waste dump – Decision taken by the Lublin Province Governor of 29 December 2006, valid until 28 December 2016;
4. Integrated permit – Decision no. PZ 21/2009 for the Construction Ceramics Plant installation and waste dump No. RŚ.V.MJ.7624/3/09 of 6 July 2009, which altered Decision no. PZ 17/2006 in the area of the waste dump installation, valid until 1 May 2012;
5. Integrated permit – Decision No. PZ 7/2011 of 4 May 2011, Ref. RŚ.V.MJ.7624/3/09 for the Construction Ceramics Plant installations and waste disposal site, issued on behalf of the Lublin Province Governor by the Director of the Department of Agriculture and Environment, amending integrated permit No. 17/2006 of 29 December 2006 and permit No. 21/2009 of 6 July 2009. This permit remains effective:

   - in the part concerning the use of the mining waste disposal site – until 1 May 2012,
   - in the part concerning the use of construction ceramics manufacturing installations – until 28 December 2016;
6. Permit received from the Regional Mining Authority in Lublin of 30 March 1993, no. L.dz.5/512/1/93/AG to conduct mining / building works connected with mining waste dump extension;
7. Permit to take part in the EU's CO_2 emissions trading scheme for ZCB EKOKLINKIER of 28 March 2006 (L.dz. ŚiR.V.66100/14/20060);
8. Telecommunications Permit No. 74/2004/Z of 27.07.2004 (DRT-WZZ-6080-31/03) to exploit stationary public telephone network – valid for 25 years;
9. Licences for exploration of the hard coal deposit in Lublin K-3 area issued by the Minister of the Environment No. 12/20013/p of 8 August 2013. The licence has been granted until 8 August 2015;

In 2012 the Company estimated the cost of geological information for the K-3, K-6 and K-7 deposits and concluded an agreement with the Minister of the Environment to use this information in exchange for a fee. Supplements to the documentation of the K-3, K-6 and K-7 hard coal deposits were developed and approved by the licensing authority. On 20 December 2013 the Company submitted an application for a licence to extract hard coal from the K-3, K-6 and K-7 areas.

At the moment the Company is performing the works under licence for exploration of the hard coal deposit in Lublin K-3 area No. 12/2013/p and has applied for a licence for exploration of the hard coal deposits in Ostrów and Orzechów areas. The above applications are currently pending.

3 INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF LW BOGDANKA S.A. CONCLUDED IN 2013 AND FOLLOWING THE BALANCE SHEET DATE INCLUDING AGREEMENTS BETWEEN SHAREHOLDERS, INSURANCE AGREEMENTS AND COOPERATION AGREEMENTS WHICH ARE KNOWN TO LW BOGDANKA S.A.

The Company has no information about significant agreements concluded in 2013 between the shareholders. All significant agreements concluded by LW BOGDANKA S.A. in 2013 and after the balance sheet date are described below.

3.1 Trade agreements

3.1.1 Conclusion of a Significant Agreement with ENEA Wytwarzanie S.A.

On 15 January 2013 LW BOGDANKA S.A. concluded an Annual Agreement for the Supply of Power Coal in 2013 (the Annual Agreement) with ENEA Wytwarzanie S.A. with registered office in Świerże Górne, 26-900 Kozienice 1, which is attached as Appendix 4 to Long-Term Agreement No. UW/LW/01/2010 referred to in Current Report No. 5/2010 of 5 March 2010, No. 44/2010 of 20 December 2010, and No. 31/2011 of 27 December 2011 (the Long-Term Agreement).

The Annual In binding upon the parties from 1 January 2013 to 31 December 2013, and concerns coal supplies for power units of ENEA Wytwarzanie S.A. in Kozienice, compliant with Long-Term Agreement No. UW/LW/01/2010. The value of the Annual Agreement concerning the supplies in 2013 at current prices amounts to PLN 755 million net. As a result of executing the Annual Agreement, the value of the entire Long-Term Agreement currently amounts to PLN 11,494 net, which is 0.26% less than specified in Current Report No. 31/2011 of 27 December 2011.

The Annual Agreement, which constitutes Appendix 4 to Long-Term Agreement No. UW/LW/01/2010, provides for the following liquidated damages: the Party to the Annual Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay to the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied.

Other terms of the Annual Agreement do not differ from the market standards applied in agreements of this type.

This was announced by the Company in Current Report No. 3/2013 of 15 January 2013.

3.1.2 Conclusion of an Additional Agreement, an Annex to the Annual Agreement and an Annex to the Significant Agreement with ENEA Wytwarzanie S.A.

On 29 March 2013 the Management Board of LW BOGDANKA S.A. concluded an Annex to Long-Term Agreement for the supply of power coal No. UW/LW/01/2010 (the Long-Term Agreement) with ENEA Wytwarzanie S.A. with registered office in Świerże Górne, 26-900 Kozienice 1.

The Annex provides for an increase in the volume of coal supplies to the power units of the ENEA Wytwarzanie Power Plant in Kozienice within the scope of the Long-Term Agreement in 2014, 2015 and 2016.

The Management Board also announced that on 29 March 2013 an Annex was concluded to the Annual Agreement for the supply of power coal in 2013 (the Annual Agreement) which is attached to the Long-Term Agreement as Appendix 4. The Company notified of the Annual Agreement in its Current Report No. 3/2013 of 15 January 2013.

The Annex specifies terms of coal supply for 2013 covered by the Annual Agreement which is valid from 1 January 2013 to 31 December 2013 and concerns basic coal supplies in 2013 for the ENEA Wytwarzanie Power Plant in Kozienice, in compliance with the Long-Term Agreement.

Moreover, the Management Board announced that on 29 March 2013 it concluded an Additional Agreement for the supply of power coal in 2013 (the Additional Agreement) with ENEA Wytwarzanie S.A. This is a separate agreement outside the scope of the Long-Term Agreement which increases the volume of supplies to the ENEA Wytwarzanie Power Plant in Kozienice as compared to the volume specified in the Long-Term Agreement.

The Additional In binding upon the parties from 1 April 2013 to 31 December 2013 and concerns additional coal supplies in 2013 for the purposes of the ENEA Wytwarzanie Power Plant in Kozienice. These supplies are in addition to those specified in the Annual Agreement.

The Additional Agreement provides for the following liquidated damages: A Party to the Additional Agreement that fails to collect or supply the contracted volume of coal on quarterly basis pays the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied.

Each Party is entitled to terminate the Additional Agreement at one month's notice which commences on the first day of a month following a month in which notice was given. A Party terminating the Additional Agreement is obliged to pay to the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied.

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

The value of the said Agreements (the Annual Agreement and the Additional Agreement) binding upon LW Bogdanka S.A. and ENEA Wytwarzanie S.A. in 2013 amounts to PLN 794 million net, while the value of the entire Long-Term Agreement effective for the supplies between 2011 and 2025 currently amounts to PLN 11,166 million net.

This was announced by the Company in Current Report No. 9/2013 of 29 March 2013.

3.1.3 Conclusion of an Annex to the Significant Agreement with Elektrownia Północ Sp. z o.o. for the supply of power coal

On 3 June 2013, the Management Board of LW BOGDANKA S.A. concluded an Annex to Long-Term Agreement for the supply of power coal (the "Agreement") with Elektrownia Północ Sp. z o.o. with registered office in Warsaw for the purposes of the projected power units of the power plant ("Unit I", "Unit II") in the Municipality of Pelplin (the "Power Plant"). The Agreement was the subject of Current Report No. 28/2011 of 12 December 2011.

As a result of the Annex conclusion, the Parties have agreed that the ultimate date for the Buyer to obtain debt financing for the purposes of the construction of Unit I and Unit of the Power Plant shall be 31 December 2013 (the ultimate date of financial closing). Therefore, the Agreement shall contain the following conditions subsequent:

a) The Agreement will be automatically terminated, in the part with respect to Unit I, on 31 December 2015, if the Buyer fails to notify the Seller on the financial closing for Unit I before that date;

b) The Agreement will be automatically terminated, in the part with respect to Unit II, on 31 December 2015, if the Buyer fails to notify the Seller on the financial closing for Unit II before that date;

Due to the Annex conclusion, other provisions of the Agreement do not change and do not differ from the market standards applied in typical Project Finance agreements.

This was announced by the Company in Current Report No. 20/2013 of 4 June 2013.

3.1.4 Concluding an Annex to the Significant Agreement with Zakłady Azotowe Puławy S.A.

On 10 June 2013, the Management Board of LW BOGDANKA S.A. signed an Annex to the Long-Term Agreement on Sale of Power Coal of 8 January 2009, concluded between the Company and Zakłady Azotowe Puławy S.A. Group ("ZA Puławy") with registered office in Puławy.

The subject matter of the Agreement is the supply-sale of power coal to ZA Puławy. The Annex specifies a change in the volume of coal supplies for the purposes of ZA Puławy in 2013 and an amendment of liquidated damages.

As a result of concluding the Annex, the value of the Agreement amounts currently (without regard to possible increases, deviations and tolerance) to a total of PLN 1,052 million net (i.e. 0.57% less than in Report No. 55/2012).

As a result of concluding the Annex, the liquidated damages for the unperformed annual amounts of coal supply, specified in the Agreement, shall change as at 1 January 2014 and shall amount to 20% of the value of the unperformed supply volumes that comply with the agreement parameters (formerly 10%).

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

The Agreement of 8 January 2009, which was disclosed in Current Report No. 29/2009, and amended by the Annex of 5 December 2011, which was disclosed in Current Report No. 26/2011, and by the Annex of 28 December 2012, which was disclosed in Current Report No. 55/2012, was deemed significant because it exceeds 10% of the value of the Company equity.

This was announced by the Company in Current Report No. 21/2013 of 10 June 2013.

3.1.5 Concluding an Annex to the Significant Agreement with PGNIG Termika S.A.

On 5 July 2013, the Management Board of LW BOGDANKA S.A., with registered office in Bogdanka, concluded an Annex to the Agreement on Sale/Purchase of Power Coal (the Agreement) with PGNIG Termika S.A. The Agreement concerns coal supplies provided by the Company in 2013÷2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A. The Agreement was referred to in Current Reports Nos. 13/2012 of 23 April 2012, 13/2013 of 29 April 2013 and 14/2013 of 28 May 2013.

The Annex applies to supplies performed in 2014. Therefore, the condition subsequent, referred to in Current Report No. 14/2013, shall not apply.

As a result of concluding the Annex, the net value of the entire Long-Term Agreement amounts currently to PLN 973.42 million.

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

The criterion for deeming the concluded Agreement to be significant is that it exceeds 10% of the value of the Company equity.

This was announced by the Company in Current Report No. 28/2013 of 5 July 2013.

3.1.6 Conclusion of an Annex to the Significant Agreement with EDF Paliwa Sp. z o.o.

On 31 October 2013, the Management Board of LW BOGDANKA S.A. with registered office in Bogdanka concluded an annex to the Long-Term Agreement on the sale of power coal (the "Agreement") of 19 July 2011 with EDF Paliwa Sp. z o.o., with registered office in Krakow. The Agreement was described in Current Report No. 21/2011 of 19 July 2011 and in Current Report No. 42/2012 of 1 August 2012.

As a result of concluding the Annex, the parties:

a) determined the terms of coal supply for 2014 (volume and price);

b) changed the rules of conducting sale of coal products between intermediary coal entities after the amendments of the Excise Duty Tax of 6 December 2008 and secondary regulations thereto.

Additionally, the Company's Management Board announces that due to the execution of the provisions of the Agreement, the term thereof has been extended for the next calendar year and the Agreement is in effect until 31 December 2016.

According to the Annex, the net value of the entire Agreement, excluding any additional options, possible increases, deviations and tolerance, amounts to PLN 681 million net, at current prices.

Other terms and conditions of the Agreement, as a result of the Annex conclusion, remain unchanged and do not differ from the market standards applied in such agreements.

The criterion for deeming the Agreement, to which the Annex has been concluded, significant is that it exceeds 10% of the value of the Company's equity.

This was announced by the Company in Current Report No. 37/2013 of 31 October 2013.

3.1.7 Conclusion of an Annex to the Significant Agreement with Elektrownia Połaniec S.A. - GDF SUEZ ENERGIA POLSKA Group

On 18 November 2013, the Management Board of LW Bogdanka S.A. with registered office in Bogdanka concluded an annex to Agreement No. 3/W/2012 on the sale of power coal (the "Agreement") between the Company and Elektrownia Połaniec Spółka Akcyjna - GDF SUEZ ENERGIA POLSKA Group with registered office in Zawada 26, 28-230 Połaniec. The Agreement was referred to in Current Reports Nos. 41/2012 of 12 July 2012, 31/2013 of 30 August 2013 and 38/2013 of 31 October 2013.

The Agreement provides for the supplies of power coal for the purposes of Elektrownia Połaniec in 2013÷2018. The Annex specifies the terms and conditions of supplies in 2013÷2018. Since the Annex has been signed, the condition subsequent described in Current Report No. 38/2013 of 31 October 2013 will not apply.

The value of the entire Agreement after the Annex has been concluded amounts to about PLN 2.848 billion net, as per current prices.

As a result of concluding the Annex, the condition subsequent has been amended and reads as follows: If until 31 August 2015 the Parties fail to conclude an annex to the Agreement setting the price of coal supplies for 2018, the Agreement is terminated with effect at the end of a period, for which the Parties have set the price according to the provisions of the Agreement.

As a result of concluding the Annex, the liquidated damages for failure to collect or supply coal have been amended as follows: In the case of failure to supply or collect coal for reasons attributable to one of the Parties in the amount specified for a particular year, taking into account permissible deviations in a settlement for a given Year of the Agreement, the other Party is entitled to liquidated damages which shall account for 20% of the value of coal which has not been supplied or collected.

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

The criterion for deeming the Agreement significant is that it exceeds 10% of the value of the Company's equity.

This was announced by the Company in Current Report No. 40/2013 of 18 November 2013.

3.1.8 Conclusion of an Annex to the Significant Agreement with ENERGA Elektrownie Ostrołęka S.A.

On 19 November, the Management Board of LW Bogdanka S.A. with registered office in Bogdanka signed Annex to Long-Term Agreement on the Sale of Power Coal No. 1456/W/2010 (the "Agreement") with ENERGA Elektrownie Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5. The Agreement was the subject of Current Reports Nos. 43/2010 of 14 December 2010, 32/2011 of 28 December 2011, and 29/2012 of 29 May 2012.

As a result of concluding the Annex, the Parties agreed on the terms and conditions of supplies in 2013–2015.

In light of the above, the value of the entire Agreement, in force from 1 January 2011 to 31 December 2015, changes into about PLN 1,192 million net, as per the current prices.

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

The criterion for deeming the Agreement significant is that it exceeds 10% of the value of the Company's equity.

This was announced by the Company in Current Report No. 41/2013 of 18 November 2013.

3.2 Other agreements relevant to the Company's operation

3.2.1 Conclusion of an Agreement with Caterpillar Mining sp. z o.o. and the volumes of trading with Caterpillar Global Mining Europe GmbH and its Subsidiaries per value of the Significant Agreement

On 16 April 2013, LW BOGDANKA S.A. entered into an agreement with Caterpillar Global Mining sp. z o.o. (ul. Fabryczna 6, 41-404 Mysłowice) for the supply of factory-new spare components for the ploughing systems made by BUCYRUS and CATERPILLAR, which operate in underground mining plants extracting hard coal from places under risk of methane and coal dust explosion. In light of the above, the volumes of trading and the value of the agreements concluded between the Company and Caterpillar Global Mining Europe GmbH with registered office at Industriestrasse 1, 44534 Lünen, Germany (the "Supplier") and its subsidiaries within the last 12 months, i.e. until 16 April 2013, amounted to approx. PLN 266.6 million.

The Agreement of the highest value is the one concluded between the Company and the Supplier on 7 February 2013. It was the agreement for the supply of the longwall ploughing system EXW the mine in Bogdanka (the "Agreement").

The total value of the Agreement (the price of the ploughing system) amounts to EUR 47 million. Therefore, the estimated value of the Agreement calculated at the average exchange rate announced by the National Bank of Poland on the date of concluding the Agreement amounts to PLN 196.8 million.

The time limit for the Agreement performance – by 30 June 2014

1. The Client may charge the Supplier with liquidated damages if:

a. the Supplier delays the supply of a given part of the Subject Matter of the Agreement and a complete set of documents listed in the Agreement, excluding the equipment, subject to the following:

   - until 1 August 2013 in the case of the first part of the Subject Matter of the Agreement – in the amount of 0.5% of EUR 5.4 million for each commenced week of delay. However, in total not more than 5% of EUR 5.4 million;
   - until 30 June 2014 in the case of the second part of the Subject Matter of the Agreement – in the amount of 0.5% of EUR 41.59 million for each commenced week of delay. However, in total not more than 5% of EUR 41.59 million;

b. the Supplier delays the removal of any removable defects identified during the final acceptance of a given part of the Subject Matter of the Agreement for a period of at least 5 business days (setting another time-limit for removal of defects requires that appropriate arrangements be made between the Parties)

   – in the amount of 0.1% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter), for each commenced day of delay. However, in total not more than 5% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter);

c. the Supplier delays the removal of defects and/or failure of a given part of the Subject Matter of the Agreement covered by a quality guarantee, and delays the removal of defects and/or failure within the guarantee period to such an extent which renders it impossible to use a given part of the Subject Matter of the Agreement, in accordance with applicable law, within the period of the quality guarantee and warrantee for defects - in the amount of PLN 1,000 for each commenced hour of delay in relation to the set time-limits. However, in total not more than 2.75% of the net price, depending the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of Subject Matter);

d. the Client withdraws from the Agreement for reasons attributable to the Supplier - in the amount of 10% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter).

2. The Supplier may charge the Client with liquidated damages in the amount of 10% of the net price, if the Supplier withdraws from the Agreement for reasons attributable to the Client, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter).
3. The Parties may seek damages in excess of the liquidated damages specified in the Agreement.

The equivalent of EUR 41.59 million calculated at the average exchange rate announced by the National Bank of Poland on the date of concluding the Agreement amounts to PLN 174.2 million, while the equivalent of EUR 5.4 million is PLN 22.6 million.

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

This was announced by the Company in Current Report No. 12/2013 of 17 April 2013.

3.2.2 Conclusion of an agreement with regard to bond issue programme and Bank's acquisition of two series of bonds

On 23 September 2013, Lubelski Węgiel Bogdanka S.A. concluded an agreement with regard to bond issue programme ("Agreement") with POLSKA KASA OPIEKI SPÓŁKA AKCYJNA ("Bank").

Under the Agreement, the Company intends to establish a bond issue programme ("Programme") which provides for bond issue by the Company in many series, pursuant to the provisions of the Agreement, up to the amount of PLN 300,000,000, which is the maximum allowed total amount of issued and not redeemed bonds. The aim for bond issue shall be obtaining funds for financing current Company operations and satisfying its investment needs.

The Bank intends to assume the obligation to acquire the bonds issued under the Program and to act during the issue as the guarantor, the depositary, the issue agent, the paying agent and the documentation agent.

The term of the Programme begins on the day signing the Agreement and ends on 31 December 2018. Under the Programme, the Company will be entitled to issue bonds with maturities from 3 to 5 years, indicated in the terms of the bonds. The nominal value of each bond series will be no lower than PLN 25,000,000.

The interest rate of both series is based on WIBOR 3M, increased by a fixed margin. Offers of the Bank's acquisition of the Bonds issued in series will be proposed in accordance with the Programme.

The Company established security for the benefit of the Bank in the form of: claim assignment agreement regarding an agreement with one of the Company's clients, a declaration of submission to enforcement pursuant to Article 777.1.5 of the Code of Civil Procedure and a power of attorney to an indicated bank account of the Company.

The Company published this information in Current Report No. 33/2013 of 23 September 2013.

On 27 September 2013, Bank POLSKA KASA OPIEKI SPÓŁKA AKCYJNA acquired two series of bonds issued pursuant to a resolution of the Company's Management Board of 26 September 2013 under a Bond Issue Programme, established pursuant to an agreement with the Bank.

In pursuance of the Programme, the Bank acquired 750 series BOGD01 300618 bonds, with a nominal value of PLN 100,000 (one hundred thousand zlotys) each, and 750 series BOGD02 300318 bonds, with a nominal value of PLN 100,000 (one hundred thousand zlotys) each. The aggregate amount of both bond series acquired by the Bank is PLN 150,000,000. Redemption date for the series BOGD01 300618 bonds is scheduled for 30 June 2018, and the redemption date for the series BOGD02 300318 bonds is scheduled for 30 March 2018.

The Company published this information in Current Report No. 34/2013 of 27 September 2013.

In pursuance of the Programme, on 27 December 2013, Bank POLSKA KASA OPIEKI SPÓŁKA AKCYJNA acquired another series of bonds issued under a Bond Issue Programme (the "Programme"), established pursuant to an agreement with the Bank. The Bank acquired 500 (five hundred) series BOGD03 300918 bonds, with a nominal value of PLN 100,000 (one hundred thousand zlotys) each, and a total value of PLN 50,000,000 (fifty million zlotys). Redemption date for the series BOGD03 300918 bonds is scheduled for 30 September 2018.

The interest rate of the series is based on WIBOR 3M, increased by a fixed margin.

The Company published this information in Current Report No. 46/2013 of 27 December 2013.

3.2.3 Conclusion of an Agreement with Korporacja Gwarecka S.A.

On 25 November 2013, an agreement was concluded 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 the performance of the above-mentioned works at LW Bogdanka S.A. (including in the Stefanów Field) on Saturdays, Sundays and holidays which are official holidays within the period of 12 months from 1 February 2014 to 31 January 2015.

The maximum value of the agreement may amount to approx. PLN 218.3 million net. It will depend on the scope of services contracted and performed.

The agreement provides for the following liquidated damages:

1. In the case the Contractor fails to achieve a minimum monthly wall mining progress specified in the Agreement in any monthly settlement period for reasons attributable to the Contractor, then the fee payable to the Contractor shall be reduced by PLN 20,000 for every running meter below the minimum monthly wall mining progress. Monthly wall mining progress shall be specified in a monthly report on the settlement of wall mining progress.

2. In the event that Contractor fails to achieve a minimum monthly progress of preparatory works in any monthly settlement period for reasons attributable to the Contractor, then the fee payable to the Contractor shall be reduced by an amount being a product of PLN 5,000 and the number of running meters below the minimum monthly progress of preparatory works.

3. In the event of non-performance or undue performance by the Contractor of services other than those specified in sections 1 and 2, for reasons attributable to the Contractor, then the fee payable to the Contractor shall be reduced by an amount equivalent to 200% of the net value of such a number of man-shifts as may prove necessary to duly perform uncompleted part of the task in question, calculated according to the rates set out in the Agreement. The number of man-shifts shall be estimated by the representatives of both Parties. The value of the non-performed or unduly performed part of the works, as well as the reduction of the Contractor's fee resulting therefrom, shall be specified by the representatives of both Parties in the report on the settlement of uncompleted parts of the tasks and settled together with the fee payable to the Contractor for the man-shifts worked on the basis of reports for a day on which the tasks assigned by the Client to the Contractor were not performed in full.

4. In the event the Client withdraws from the Agreement for reasons attributable to the Contractor, the Client shall be entitled to charge the Contractor with liquidated damages in the amount of 10% of the total maximum value of the Agreement.

5. Payment of liquidated damages does not exclude the possibility of the Client claiming damages from the Contractor on general terms if the incurred damage exceeds the value of liquidated damages.

The Agreement does not provide for a condition, or a time-limit.

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

The Company published this information in Current Report No. 44/2013 of 25 November 2013.

3.2.4 Conclusion of an agreement with Caterpillar Global Mining Europe GmbH for the supply of another longwall ploughing system

On 17 February 2014, the Management Board of LW BOGDANKA S.A. with registered office in Bogdanka entered into an agreement with Caterpillar Global Mining Europe GmbH, Industriestrasse 1, 44534 Lünen, Germany, for the supply of factory-new longwall ploughing system for low seam mining, designed for operation in underground mining plants extracting hard coal from places under risk of methane and coal dust explosion; complete and ready for assembly, and afterwards launch and start coal extraction; with software necessary for correct system operation.

The total value of the Agreement (the price of the ploughing system) amounts to EUR 39,750,000.00 net (thirty-nine million seven hundred and fifty thousand euros 00/100).

The time limit for the delivery – 2014

The equivalent of EUR 39.75 million calculated at the average exchange rate announced by the National Bank of Poland on the date of concluding the Agreement (4.1530) amounts to PLN 165.08.

The Company did not publish the information on concluding the Agreement in a Current Report, since the Agreement value does not exceed 10% of the Company equity, and the information is not to be deemed confidential within the meaning of the Act on Trading Financial Instruments.

3.3 Agreements related to achieving share issue objectives

In 2013, the Company did not conclude any agreements related to achieving share issue objectives.

3.4 Transactions with related entities

In 2013 the Company and its subsidiaries concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis.

In 2013 the following agreements concluded by LW BOGDANKA S.A. and Łęczyńska Energetyka were in effect:

- for heat energy supplies,
- for water supplies and sewage disposal, maintenance services and other,
- for sale of power coal and electrical energy,
- lease, rental and lending for use agreements,
- for heating of inlet air on shaft 2.2,
- for service and maintenance supervision,
- for the sale of a section of heat distribution network.

In 2013 the following agreements concluded by LW BOGDANKA S.A. and RG Bogdanka were in effect:

- for the performance of mining works in cutting E-1 on level 960,
- for the performance of works in LW Bogdanka S.A. mine,
- for providing explosion works,
- lease, rental and lending for use agreements,
- for regeneration of used rollers.

In 2013 the following agreements concluded by LW BOGDANKA S.A. and EkoTrans Bogdanka were in effect:

- for disposal of non-dangerous waste (waste rock),
- lease, rental and lending for use agreements.

For more information please refer to the Company's Financial Statements, note 36.

4 ANALYSIS AND INFORMATION ABOUT BASIC ECONOMIC AND FINANCIAL DATA DISCLOSED IN THE ANNUAL SEPARATE FINANCIAL STATEMENTS OF LW BOGDANKA FOR FOUR QUARTERS OF 2013, I.E. FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

This chapter presents selected ratios characterising the financial position of the Company for the period from 1 January 2013 to 31 December 2013, calculated on the basis of financial data included in the Annual Separate Financial Statements of Lubelski Węgiel BOGDANKA, which were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union. Due to amendments to IFRS 13 and IAS 19

"Employee Benefits", the separate financial statements for four quarters of 2013 were prepared using the same accounting principles for the current and comparative periods, with adjustment of the comparative period to comparable conditions in order to reflect changes in the accounting principles and presentation adopted in the financial statements in the current period.

The Company's financial and economic position is stable. The financial performance, the value of generated cash flows and cash funds held show that the Company's financial position is good. LW BOGDANKA controls its contracted liabilities on an ongoing basis. Financial resources management must be considered good and it complies with the assumptions made in the Company's Strategy. The analyses of financial resources – held and planned – are carried out on an ongoing basis.

Works for optimisation of the mining process (in terms of technology and maximising the output with the current geologic conditions) are systematically carried out. Works are pending with a view to making new excavations available in order to maintain continuity and achieve growth of extraction in next years. Next stages of the major investment programme of the Company are pursued in order to achieve the assumed strategic objectives.

4.1 Basis of preparation of the Annual Separate Financial Statements

The financial statements of LW BOGDANKA S.A. were drawn up on the basis of the International Financial Reporting Standards and related interpretations announced in Regulations of the European Commission.

These financial statements were prepared according to the historical cost principle, including the valuation at fair value of certain components of property, plant and equipment in connection with assuming fair value as a deemed cost, which was carried out as at 1 January 2005.

These financial statements were prepared using the same accounting principles for the current and comparative periods, with adjustment of the comparative period to comparable conditions in order to reflect changes in the accounting principles and presentation adopted in the financial statements in the current period in connection with applying amendments to IAS 19 "Employee Benefits."

These financial statements follow the same accounting principles (policies) and calculating methods as the latest approved annual financial statements, with the exception of:

1. change in the accounting principles related to the amendments to IAS 19 "Employee Benefits",
2. financial instruments measured at fair value in accordance with IFRS 13.

Detailed data regarding the impact of amendments to IAS 19 and application of IFRS 13 on the financial statements is disclosed in note 2.1a.

The Company applied the amendments to IAS 19 as of 1 January 2013 and recognises actuarial gains/losses arising from the measurement of post-employment defined benefit plans in other comprehensive income. Because of retroactive application of the amendments, the income statement and the statement of comprehensive income include restated data for the period ended 31 December 2012. The statement of changes in equity as at 31 December 2012 was changed accordingly. The changes did not have any impact on the statement of financial position as at 31 December 2012.

The financial statements for the year ended 31 December 2012 were restated to the conditions applicable currently based on the actuarial valuation prepared by an actuary for 2012.

Furthermore, in accordance with the amendments to IAS 1 "Presentation of Financial Statements" relating to the presentation of "Other comprehensive income", as of 1 January 2013 the Company modified the presentation of income and other comprehensive income in its financial statements by implementing two separate documents, i.e. income statement and statement of comprehensive income.

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

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

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

Works for optimisation of the mining process (in terms of technology and maximising the output with the current geologic conditions) are systematically carried out. Works are pending with a view to making new excavations available in order to maintain continuity and achieve growth of extraction in next years. Next stages of the major investment programme of the Company are pursued in order to achieve the assumed strategic objectives.

4.3 Production, sale and inventories of coal

In the fourth quarter of 2013, the production of commercial coal in the Company increased by nearly 23% compared to the same period of 2012, while four quarters of 2013 saw an increase in production by 7.20% compared to the same period of 2012.

Table 3 Commercial coal production by LW BOGDANKA S.A. for Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 ['000 tonnes]

Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012	Q4 2013/ Q4 2012	4 Qs 2013/ 4 Qs 2012
2,107.02	1,717.18	8,345.30	7,784.79	22.70%	7.20%

Table 4 Structure of commercial coal production by LW BOGDANKA S.A. for Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012

	Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012
Fine coal	96.83%	98.80%	97.19%	98.20%
Nut coal	1.68%	0.08%	1.41%	0.13%
Pea coal	1.50%	1.12%	1.40%	1.67%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

In all analysed periods the structure of sales did not change significantly – power fine coal remained the dominant assortment (its share in the production was in the range 97% - 99%).

In the fourth quarter of 2013 the sales of coal grew by over 10% compared to the fourth quarter of 2012, while four quarters of 2013 saw an increase in sales by nearly 5% compared to the same period of 2012.

Table 5 Commercial coal sales by LW BOGDANKA S.A. for Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 ['000 tonnes]

Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012	Q4 2013/ Q4 2012	4 Qs 2013/ 4 Qs 2012
2,062.18	1,866.20	8,147.15	7,795.51	10.50%	4.51%

Chart 6 Analysis of the extraction of coal

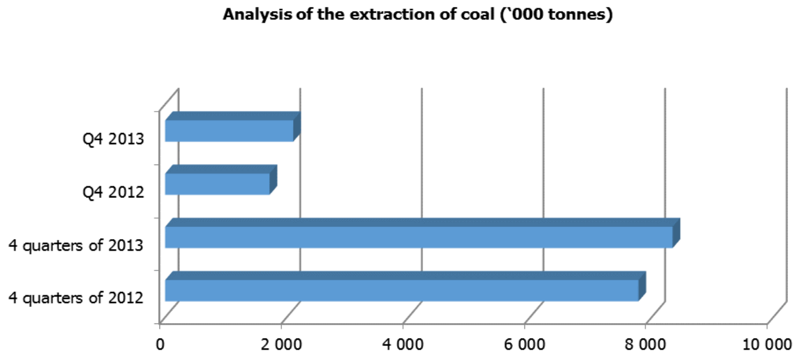
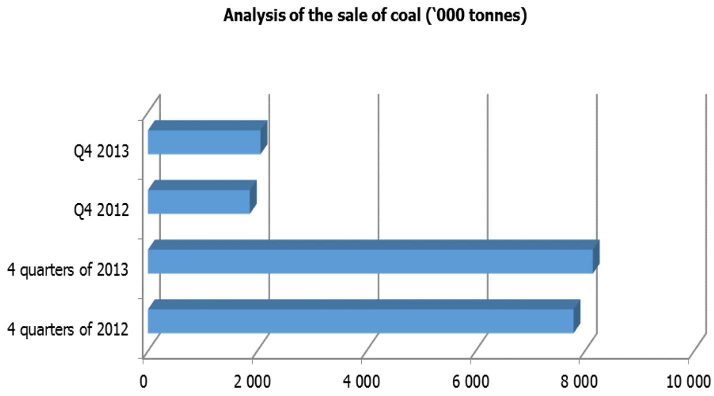


Chart 7 Analysis of the sale of coal

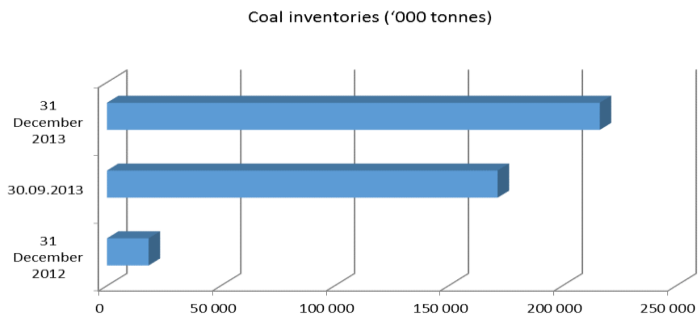


At the end of the fourth quarter of 2013 the level of coal inventories was 216,444,900 tonnes, which means an increase by 44,854,190 tonnes, i.e. by 26.14% compared to the level as at 30 September 2013; at the same time it was higher by 198,117,360 tonnes than as at 31 December 2012. The level of coal inventories presented at the end of the fourth quarter of 2013 corresponds to ca. eight days of commercial coal production by the Company.

Table 6 Inventories of coal after 4 Qs 2013 and 4 Qs 2012 and as at 30 Sep. 2013 [tonnes]

Item	31 Dec. 2013	30 Sep. 2013	31 Dec. 2012	Change [%] (31 Dec. 2013/ 30 Sep. 2013)	Change [%] (31 Dec. 2013/ 31 Dec. 2012)
Inventories of coal	216,444.90	171,590.71	18,327.54	26.14%	1,080.98%

Chart 8 Coal inventories



4.3.1 Production potential

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

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

Table 7 Deposit reserves of hard coal in BOGDANKA updated as at 31 December 2013 [million tonnes]

Reserves [million tonnes]	Year			Difference
	2011	2012	2013	2013÷2012
Total balance	805.9	798.9	790.5	-8.4
Balance*	446.0	439.0	430.6	-8.4
Industrial	320.5	313.5	305.1	-8.4
Recoverable	242.9	237.3	230.6	-6.7

*Balance reserves (covered by the licence)

4.4 Revenue and key customers

In the fourth quarter of 2013 LW BOGDANKA S.A. generated revenue of PLN 480,255,000, which means an increase by nearly 9% compared to the fourth quarter of 2012; while in four quarters of 2013 the Company generated revenue of PLN 1,894,108,000, which means a year-to-year increase by over 3%.

The main source of the Company's revenue is the production and sale of power coal. In each of the compared reporting periods this activity generates nearly 96% of the Company's revenue. In the fourth quarter of 2013 the Company noted an increase in revenue from coal sales by over 7% compared to the fourth quarter of 2012. In four quarters of 2013 revenues from coal sales grew by nearly 3% compared to the same period of the previous year. In the separate annual financial statements published by the Company, for presentation purposes, data in the separate income statement concerning revenue from coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of sold coal that was obtained during drilling of excavations. Bearing in mind the above, the value indicated in the separate annual income statement for the period from 1 January to 31 December 2013 was adjusted by PLN 99,741,950, while in the same period of the previous year – by PLN 80,629,950.

Approx. 85% of coal sales (in terms of value) realised in the period from 1 January to 31 December 2013 (as in the same period of the previous year) were carried out on the basis of long–term trade agreements between LW BOGDANKA S.A. and Elektrownia Kozienice S.A., GDF Suez Energia S.A., PGNiG Termika S.A., Zakłady Azotowe Puławy S.A., EDF Paliwa Sp. z o.o. and Elektrownia Ostrołęka S.A. The following companies were customers whose share in the Company's sales in 2013 exceeded 10% of the total revenue:

- Elektrownia Kozienice S.A. – ENEA Group - approx. 40% share in the revenue
- PGNiG Termika - approx. 17% share in the revenue
- Elektrownia Połaniec S.A. – GDF Suez Energia Polska – approx. 10% share in the revenue

The Company has no formal links with the above mentioned entities.

Table 8 Dynamics of changes in product range with respect to revenue of LW BOGDANKA S.A. in Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 [PLN '000]

Item	Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012	Change (Q4 2013/ Q4 2012)	Change (4 Qs 2013/ 4 Qs 2012)
Sales of coal	459,096	428,243	1,824,944	1,776,524	7.20%	2.73%

Sales of ceramics	1,204	1,742	5,124	6,749	-30.88%	-24.08%
Other activities	17,475	8,921	54,414	34,271	95.89%	58.78%
Sales of goods and materials	2,480	3,575	9,626	13,051	-30.63%	-26.24%
Total revenue	**480,255**	**442,481**	**1,894,108**	**1,830,595**	**8.54%**	**3.47%**

In the fourth quarter of 2013, the revenue from other activities accounted for 3.64% of the total revenue, compared to 2.02% a year before. A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by the LW BOGDANKA S.A. for the benefit of some customers (this item has contributed primarily to the increased revenue in that group),
- revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials in the fourth quarter of 2013 dropped from 0.81% to 0.52% compared to the fourth quarter of 2012. In the analysed period of 2013 and 2012, the dominant position in the amount was revenue from the sales of scrap.

Table 9 Structure of LW BOGDANKA S.A. revenue by product range in Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012

Item	Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012
Sales of coal	95.59%	96.78%	96.35%	97.05%
Sales of ceramics	0.25%	0.39%	0.27%	0.37%
Other activities	3.64%	2.02%	2.87%	1.87%
Sales of goods and materials	0.52%	0.81%	0.51%	0.71%
Total revenue	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The activities of the Company are primarily concentrated in Poland. During the analysed period of both 2013 and 2012, export sales constituted a fraction of revenue generated and concerned only sales of ceramics. The share of export in the total revenue did not exceed 0.1%.

Table 10 Geographic structure of revenue of the Company in Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 [PLN '000]

Item	Q4 2013	% share	Q4 2012	% share	4 Qs 2013	% share	4 Qs 2012	% share
Domestic sales	480,067	99.96%	442,428	99.99%	1,893,061	99.94%	1,829,800	99.96%
Export sales	188	0.04%	53	0.01%	1,047	0.06%	795	0.04%
Total revenue	**480,255**	**100.00%**	**442,481**	**100.00%**	**1,894,108**	**100.00%**	**1,830,595**	**100.00%**

4.5 Costs of LW BOGDANKA S.A.

This section presents costs of LW BOGDANKA S.A. by type and function. The recording of costs 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 (commercial coal) or whether they have been used by the Company to finance the construction of an investment facility with its own funds (incl. longwall galleries) and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as non-current assets, constituting depreciation costs of the period in question.

4.5.1 Cost by type

In the fourth quarter of 2013 costs by type incurred by LW BOGDANKA S.A. amounted to PLN 510,617,000, which means that the costs were higher by 3.86% than in the fourth quarter of 2012. The increase in costs was largely the result of recorded increase in depreciation and amortisation, costs of employee benefits (remunerations together with mandatory contributions and other benefits in favour of the employees) and taxes, fees and charges. Costs in other groups went down from 1.82% (outsourced services) to 46.06% (entertainment and advertising costs).

The total costs by type in 2013 amounted to PLN 1,833,576,000 and were higher compared to the same period of the previous year by 5.65%, i.e. PLN 98,116,000. The cost of employee benefits went up by PLN 41,917,000 – the value of remunerations and mandatory contributions was higher (the average employment as well as the average monthly remuneration in the Company went up); in addition, the costs included a portion of the option scheme attributable to 2013 in the amount of PLN 2,835,000.

The value of depreciation and amortisation went up by 9.80% (to PLN 325,500,000). During the last financial year the value of non-current assets held by the Company increased by PLN 180,077,000 to PLN 3,098,350,000.

The value of outsourced services in four quarters of 2013 went down from PLN 432,782,000 to PLN 430,030,000 (-0.64%). In the analysed period the value of drilling and mining services (in connection with drilling and reconstructing excavations) remained at a similar level compared to the same period of the previous year, while the value of other services contracted to external companies went down (including transport of stone), although the costs of railway transport services went up. It must be noted that the above railway transport costs are reinvoiced to the ultimate coal recipient (neutral impact on EBIT).

The total value of materials and energy consumption increased by 7.51% compared to 2012 and amounted to PLN 485,399,000. In the analysed period the value of energy (understood as the sum total of electrical, heat and water energy, and other media) went down, with the value of consumed materials going up at the same time – it was caused by a larger extent of performed preparatory works (in the entire 2013 the Company completed 28,618 metres galleries compared to 23,254 metres in the previous year; the length of galleries completed in the fourth quarter of 2013 was 7,395 metres galleries compared to 6,558 metres in the fourth quarter of 2012).

The value of taxes, fees and charges paid in 2013 went up to PLN 32,550,000 from PLN 31,264,000 in 2012 – the exploitation fee and real property tax was higher.

The result of an adjustment of costs by type by change in products and accruals and deferrals, the value of own work and the costs of goods and materials sold, will give own cost of sales for 2013 amounting to PLN 1,440,620,000. As compared to the previous year, it is higher by 0.27% (with a simultaneous year-to-year increase by 4.51% in the amount of coal sold).

Table 11 Costs of LW BOGDANKA S.A. by type [PLN '000]

Item	Q4 2013	Q4 2012	12 months of 2013	12 months of 2012	Change [Q4 2013 / Q4 2012]	Change [12 months of 2013 / 12 months of 2012]
Amortisation/depreciation	85,461	68,228	325,500	296,442	25.26%	9.80%
Materials and energy consumption	104,692	124,858	485,399	451,495	-16.15%	7.51%
Outsourced services	116,842	119,012	430,030	432,782	-1.82%	-0.64%
Employee benefits	192,731	167,244	532,925	491,008	15.24%	8.54%
Entertainment and advertising costs	958	1,776	7,602	9,121	-46.06%	-16.65%
Taxes, fees and charges	7,573	7,026	32,550	31,264	7.79%	4.11%
Other costs	2,360	3,503	19,570	23,348	-32.63%	-16.18%
TOTAL COSTS BY TYPE	**510,617**	**491,647**	**1,833,576**	**1,735,460**	**3.86%**	**5.65%**

Change in inventory of products and accruals and deferrals, including:	-54,816	-11,825	-32,574	-8,689	363.56%	274.89%
change in products	-5,665	23,389	*-32,099*	*-2,045*	-124.22%	1469.63%
change in prepaid expenses	2,394	8,692	*-475*	*-6,644*	-72.46%	-92.85%
change in accrued expenses	-51,545	-43,906	*0*	*0*	17.40%	-
Costs of operating activities	**455,801**	**479,822**	**1,801,002**	**1,726,771**	**-5.01%**	**4.30%**
Activities for the Company's own needs	102,661	91,456	369,785	293,544	12.25%	25.97%
Reversal of provisions for real property tax	0	9,502	0	9,502	-100.00%	-100.00%
Value of goods and materials sold	2,262	3,594	9,403	13,004	-37.06%	-27.69%
Own cost of sales	**355,402**	**382,458**	**1,440,620**	**1,436,729**	**-7.07%**	**0.27%**

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In the fourth quarter of 2013 (compared to the same period of the previous year) the share of employee benefits costs went up (to 37.74%), the share of depreciation and amortisation costs went up to 16.74%, while the share of materials and energy consumption costs and the outsourced services costs in the total costs went down. The sum total of employee benefits, outsourced services and materials consumption generated over 81% of costs in the fourth quarter of 2013. The same group of costs accounted for nearly 79% of the Company's total costs in the entire 2013.

Table 12 Structure of costs by type at LW BOGDANKA S.A.

Item	**Q4 2013**	**Q4 2012**	**12 months of 2013**	**12 months of 2012**	**Change [Q4 2013 / Q4 2012]**	**Change [12 months of 2013 / 12 months of 2012]**
Amortisation/depreciation	16.74%	13.88%	17.75%	17.08%	20.61%	3.92%
Materials and energy consumption	20.50%	25.40%	26.47%	26.02%	-19.29%	1.73%
Outsourced services	22.88%	24.21%	23.45%	24.94%	-5.49%	-5.97%
Employee benefits	37.74%	34.02%	29.06%	28.29%	10.93%	2.72%
Entertainment and advertising costs	0.19%	0.36%	0.41%	0.53%	-47.22%	-22.64%
Taxes, fees and charges	1.48%	1.43%	1.78%	1.80%	3.50%	-1.11%
Other costs	0.46%	0.71%	1.07%	1.35%	-35.21%	-20.74%
TOTAL COSTS BY TYPE	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**0.00%**	**0.00%**

Chart 9 Structure of costs by type in Q4 2013

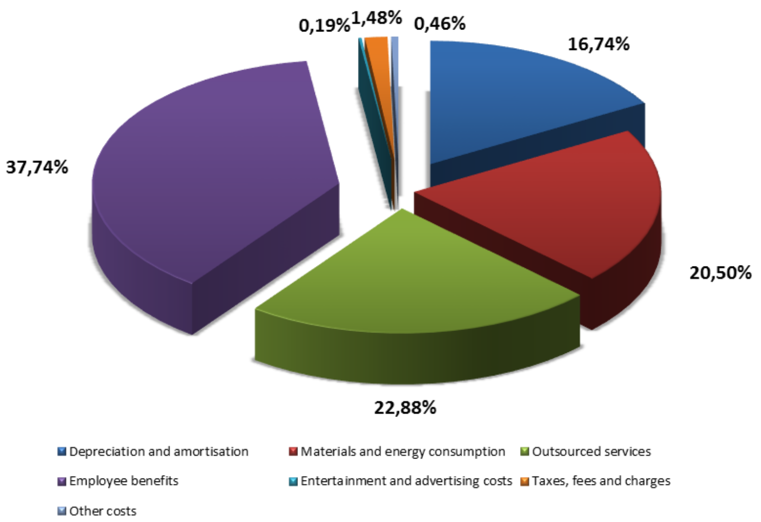
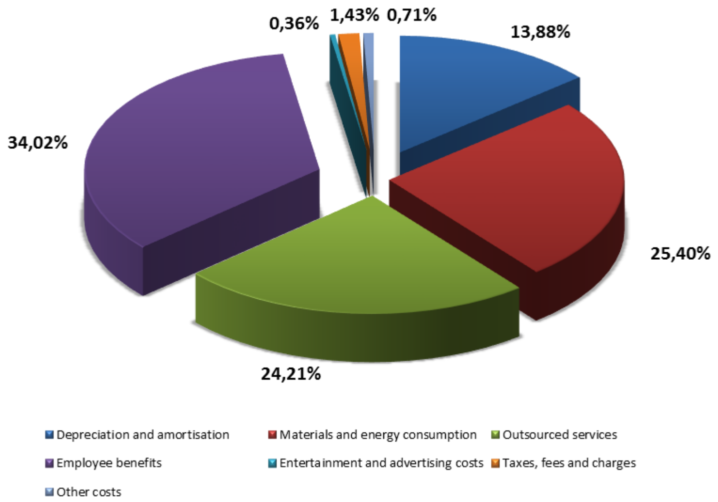


Chart 10 Structure of costs by type in Q4 2012



4.5.2 Costs by function

In the fourth quarter of 2013 the own cost of sales (by function) amounted to PLN 355,402,000 and was lower by 7.07% than the cost in the fourth quarter of 2012, and in the twelve months of 2013 it was higher by 0.27% compared to the twelve-month period of 2012. A decrease in the own cost of sales between the fourth quarter of 2013 and the fourth quarter of 2012 is caused, among other things, by updated employee provisions in the fourth quarter of 2013 (in accordance with prepared actuarial valuation), higher value of coal obtained from drilling of excavations, as well as the inventories of coal higher by nearly 200,000 tonnes.

Table 13 Costs of LW BOGDANKA S.A. by function [PLN '000]

Item	Q4 2013	Q4 2012	12 months of 2013	12 months of 2012	Change [Q4 2013 / Q4 2012]	Change [12 months of 2013 / 12 months of 2012]
Costs of products, goods and materials sold	321,441	341,174	1,303,376	1,300,948	-5.78%	0.19%
Selling costs	10,657	10,766	44,539	44,007	-1.01%	1.21%
Administrative costs	23,304	30,518	92,705	91,774	-23.64%	1.01%
Own cost of sales	**355,402**	**382,458**	**1,440,620**	**1,436,729**	**-7.07%**	**0.27%**

The structure of costs by function is presented in the table below.

Table 14 Structure of costs by function at LW BOGDANKA S.A.

Item	Q4 2013	Q4 2012	12 months of 2013	12 months of 2012	Change [Q4 2013 / Q4 2012]	Change [12 months of 2013 / 12 months of 2012]
Costs of products, goods and materials sold	90.44%	89.21%	90.47%	90.55%	1.38%	-0.09%
Selling costs	3.00%	2.81%	3.09%	3.06%	6.76%	0.98%
Administrative costs	6.56%	7.98%	6.44%	6.39%	-17.79%	0.78%
Own cost of sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0%**	**0.0%**

4.5.3 The LW BOGDANKA's suppliers

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

The principal suppliers for LW Bogdanka include mainly companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of workings, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January 2013 and 31 December 2013, the value of the turnover with any supplier did not exceed 10% of the Company's total revenue.

Provisions at LW BOGDANKA S.A.

Table 15 Balance-sheet provisions in LW BOGDANKA S.A. at the end of 2013 and 2012 [PLN '000]

Item	As at 31 Dec. 2013	As at 31 Dec. 2012 restated	Change 2013/2012 [%]
Employee provisions	197,934	190,652	3.8%
Real property tax liabilities (excavations)	27,846	9,502	193.1%
Provision for mine closure costs	85,278	89,861	-5.1%
Mining damage	12,933	13,470	-4.0%
Other	24,058	23,026	4.5%
TOTAL	**348,049**	**326,511**	**6.6%**

The total provisions as at 31 December 2013 amounted to PLN 380,049,000, which means an increase by 6.6% compared to the value as at 31 December 2012.

The balance of provisions in the fourth quarter of 2013 was PLN -23,561,000 compared to PLN +39,502,000 in the fourth quarter of 2012. The negative balance in 2013 results from updated provisions for employee benefits and for mine closure costs (in accordance with actuarial valuations held). The balance of employee provisions in the fourth quarter of 2013 was PLN -30,118,000 compared to PLN +28,909,000 in the same period of 2012.

The balance of provisions in four quarters of 2013 went down by 67.6% to PLN +21,538,000 compared to the same period of 2012.

Table 16 Provisions in LW BOGDANKA S.A. for Q4 2013 and Q4 2012 and 4 Qs 2012 [PLN '000]

	Q4 2013	Q4 2012	Change 2013/ 2012	4 Qs 2013	4 Qs 2012	Change 2013/ 2012
Employee provisions	-30,118	28,909	-	7,282	44,217	-83.5%
Real property tax liabilities (excavations)	15,086	-12,585	-	18,343	-7,085	-
Provision for mine closure costs	-12,908	12,228	-	-4,584	13,005	-
Mining damage	3,894	9,196	-57.7%	-537	8,110	-
Other	485	1,754	-72.3%	1,034	8,275	-87.5%
TOTAL	**-23,561**	**39,502**	**-**	**21,538**	**66,522**	**-67.6%**

4.6 Selected financial data

4.6.1 Company's revenue, costs, profit and loss

Table 17 Analysis of separate income statement [PLN '000]

Item	Q4 2013	Q4 2012	Change [Q4 2013 / Q4 2012]	4 Qs 2013	4 Qs 2012	Change [4 Qs 2013 / 4 Qs 2012]
Revenue	480,255	442,481	8.54%	1,894,108	1,830,595	3.47%
Costs of products, goods and materials sold, selling and administrative costs	355,402	382,458	-7.07%	1,440,620	1,436,729	0.27%
Profit on sales	124,853	60,023	108.01%	453,488	393,866	15.14%
Profit on sales margin (Gross margin)	*26.00%*	*13.57%*	91.60%	*23.94%*	*21.52%*	11.25%
Other income	970	-29,253	-	2,410	1,494	61.31%
Other costs	2,137	1,142	87.13%	3,062	1,822	68.06%
Net operating profit/loss	123,686	29,628	317.46%	452,836	393,538	15.07%
Other net profits/losses	-6,662	18,392	-	-30,745	-5,942	417.42%
Operating profit (EBIT)	117,024	48,020	143.70%	422,091	387,596	8.90%
EBIT margin	*24.37%*	*10.85%*	124.61%	*22.28%*	*21.17%*	5.24%
EBITDA	202,485	116,248	74.18%	747,591	684,038	9.29%
EBITDA margin	*42.16%*	*26.27%*	60.49%	*39.47%*	*37.37%*	5.62%
Finance income	1,542	822	87.59%	5,915	10,003	-40.87%
Finance costs	6,294	5,067	24.22%	18,302	18,937	-3.35%
Profit before taxation	112,272	43,775	156.48%	409,704	378,662	8.20%
Pre-tax profit margin	*23.38%*	*9.89%*	136.40%	*21.63%*	*20.69%*	4.54%
Income tax	7,632	9,450	-19.24%	83,174	72,401	14.88%
Net profit for the financial year	104,640	34,325	204.85%	326,530	306,261	6.62%
Net profit margin	*21.79%*	*7.76%*	180.80%	*17.24%*	*16.73%*	3.05%

Chart 11 Analysis of the separate income statement on individual levels of the Company's operations in Q4

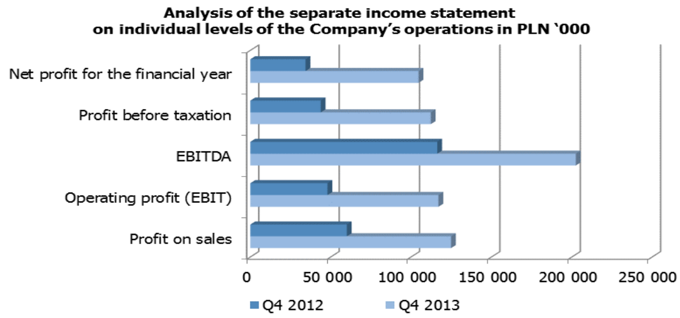
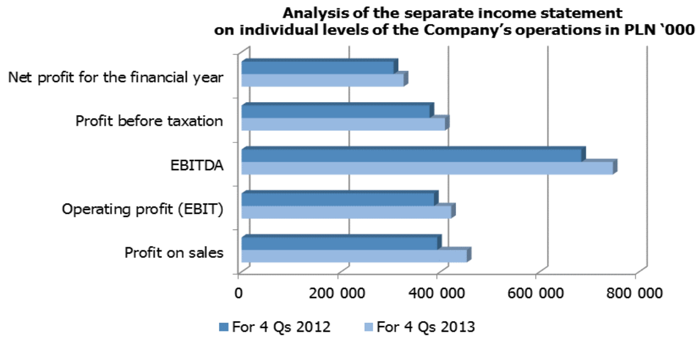


Chart 12 Analysis of the separate income statement on individual levels of the Company's operations in 4 Qs



4.6.1.1 Revenue

The value of revenue for the fourth quarter of 2013 increased by over 8.5% compared to the same period of the previous year and amounted to PLN 480,255,000. In twelve months of 2013, the Company recorded an increase in revenue by nearly 3.5% compared to same period of 2012 (it generated PLN 1,894,108,000 in 2013 compared to PLN 1,830,595,000 in 2012).

4.6.1.2 Costs of products, goods and materials sold, selling costs, administrative costs

In the fourth quarter of 2013 the costs of products, goods and material sold plus selling and administrative costs went down in total by 7.07% compared by the same period of the previous year and amounted to PLN 355,402,000. When data for the twelve months is analysed, the year-to-year change was +0.27%.

4.6.1.3 Profit on sales

The profit on sales in the fourth quarter of 2013 went up by 108.01% compared to the fourth quarter of 2012 and amounted to PLN 124,853,000, whereas in twelve months of 2013 the profit went up by over 15% compared to the same period of 2012.

4.6.1.4 Other income

In the fourth quarter of 2013 other income amounted to PLN +970,000 compared to PLN -29,253,000 a year before. In four quarters of 2013 the other income went up by 61.31% compared to the same period of 2012 (PLN 1,494,000) and amounted to PLN 2,410,000. The dominant items in the value for 2013 are received damages (PLN 1,057,000) and reversal of used other provisions for liabilities (PLN 954,000).

4.6.1.5 Other costs and other net profits/losses

In the fourth quarter of 2013 other profits/losses amounted to PLN -6,662,000, while in the fourth quarter of 2012 they equalled PLN +18,392,000, which means a change of PLN 25,053,000. In the entire 2013 the Company generated the other net loss of PLN -30,745,000 compared to PLN -5,942,000 in 2012. In connection with technical and economic analyses performed within the Company, a permanent impairment loss of assets was recognised in 2013 in the amount of PLN 25,321,000.

4.6.1.6 EBIT

The operating profit in the fourth quarter of 2013 amounted to PLN 117,024,000 and was higher by 143.70% compared to the fourth quarter of 2012, whereas EBIT for the twelve months of 2013 was higher by 8.90% than in the same period of the previous year. EBIT margin in the fourth quarter of 2013 was 24.37%, i.e. it was higher by 13.52 p.p. than in the fourth quarter of the previous year. When data for four quarters is analysed, an increase of ca. 5% (+1.11 p.p.) in EBIT margin is observed.

4.6.1.7 EBITDA

EBITDA, i.e. operating profit plus depreciation and amortisation, in the fourth quarter of 2013 went up by 74.18% compared to the fourth quarter of 2013 and amounted to PLN 202,485,000. Depreciation and amortisation in the fourth quarter of 2013 amounted to PLN 85,461,000 compared to 68,228 in the same period of 2012; while in four quarters of 2013 an increase in EBITDA of 9.29% was noted, with EBIT going up by 8.90%.

EBITDA margin the fourth quarter of 2013 was 42.16% and was higher than in the same analysed period of 2012. When annual data is analysed, an increase in EBITDA margin (by 5.62%, i.e. by 2.10 p.p.) is noted, EBITDA for four quarters of 2013 was 39.47%.

4.6.1.8 Finance income

The finance income in the fourth quarter of 2013 amounted to PLN 1,542,000, which means an increase of ca. 90% compared to the same period of the previous year, while in the entire 2013 the finance income went down from PLN 10,003,000 to PLN 5,915,000. Decreased income on an annual basis has been caused by lower levels of cash available during the year within the Company, as well as the lowering of reference rates by the National Bank of Poland.

4.6.1.9 Finance costs

The finance cost for the twelve months of 2013 amounted to PLN 18,302,000 compared to PLN 18,937,000 in 2012 (decrease by 3.35%). The total indebtedness of the Company amounted to PLN 621,000,000 as at 31 December 2013 compared to PLN 441,000,000 as at 31 December 2012. In 2013 lower reference rates were in place; at the same time interest paid in relation to investing activity amounted to PLN 15,247,000 in 2013 compared to PLN 19,785,000 in 2012. In the fourth quarter of 2013 the finance costs amounted to PLN 6,294,000 and were higher by 24.22% than in the fourth quarter of 2012.

4.6.1.10 Profit before taxation

In the fourth quarter of 2013 the Company generated pre-tax profit which was higher by 156.48% than in the fourth quarter of 2012. In the twelve months of 2013 the Company generated pre-tax profit of PLN 409,704,000 compared to PLN 378,662,000 a year before – the pre-tax profit went up by 8.20%.

4.6.1.11 Net profit

In the fourth quarter of 2013 the Company generated net profit higher by 204.85% than in the fourth quarter of 2012 – it amounted to PLN +104,640,000 in 2013 compared to PLN +34,325,000 in 2012. And net profit for the twelve months of 2013 reached PLN 326,530,000, which means an increase by nearly 7% compared to the twelve months of 2012.

4.6.2 The Company's operating profit adjusted for provisions and non-recurring items

The Company's operating profit for the fourth quarter of 2013 amounted to PLN 117,024,000 and was higher by 143.70% compared to the profit for the fourth quarter of 2012; the profit for four quarters of 2013 was higher by 8.90% on a year-to-year basis. Items significant for EBIT calculation included, among other things, a change in provisions and the balance of non-recurring items.

Table 18 Company's operating profit without provisions and non-recurring items for Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 [PLN '000]

Item	Q4 2013	Q4 2012	Change 2013/ 2012	4 Qs 2013	4 Qs 2012	Change 2013/ 2012
Revenue	480,255	442,481	8.54%	1,894,108	1,830,595	3.47%
Costs of products, goods and materials sold, selling and administrative costs	-355,402	-382,458	-7.07%	-1,440,620	-1,436,729	0.27%
Other income	970	-29,253	-	2,410	1,494	61.31%
Other costs	-2,137	-1,142	87.13%	-3,062	-1,822	68.06%
Other net profits/(losses)	-6,662	18,392	-	-30,745	-5,942	417.42%
EBIT	**117,024**	**48,020**	**143.70%**	**422,091**	**387,596**	**8.90%**
EBIT margin	**24.37%**	**10.85%**	**124.61%**	**22.28%**	**21.17%**	**5.24%**
Adjustment for change in provisions	-23,561	39,502	-	21,538	66,522	-67.62%
Adjustment for non-recurring items (other operating income + other costs + other net profits/losses	7,829	12,003	-34.77%	31,397	6,270	400.75%
Adjusted EBIT	**101,292**	**99,525**	**1.78%**	**475,026**	**460,388**	**3.18%**
Adjusted EBIT margin	**21.09%**	**22.49%**	**-6.22%**	**25.08%**	**25.15%**	**-0.28%**

Adjusted EBIT (EBIT + change in provisions – non-recurring items) in the fourth quarter of 2013 reached PLN 101,292,000 compared to PLN 99,525,000 a year before (increase by 1.78%). Adjusted EBIT for four quarters of 2013 was higher by 3.18% than EBIT for four quarters of 2012 and amounted to PLN 475,026,000.

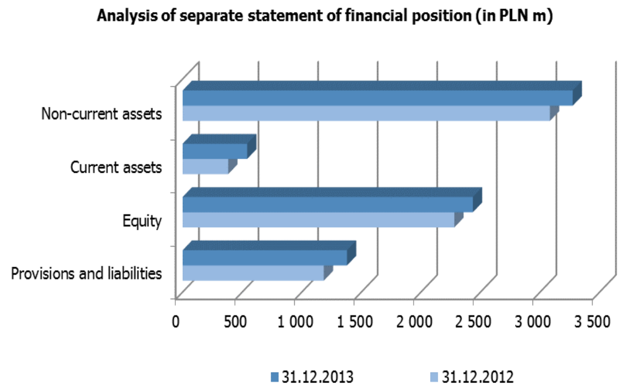
4.6.3 Balance sheet

Table 19 Selected financial information of LW BOGDANKA S.A. [PLN '000]

Item	31 Dec. 2013	31 Dec. 2012	Change% [2013/2012]
Total assets	3,815,467	3,465,021	10.11%
Return on Assets (ROA)	*8.97%*	*9.39%*	*-4.47%*
Non-current assets	3,274,070	3,082,760	6.21%
Current assets	541,397	382,261	41.63%
Equity	2,436,170	2,280,211	6.84%
Return on Equity (ROE)	*13.85%*	*13.89%*	*-0.29%*
Provisions and liabilities	1,379,297	1,184,810	16.42%

* - the calculations consider the average level of assets and equity (as at 31 December 2013 + as at 31 December 2012)/2

Chart 13 Analysis of the separate statement of financial position



4.6.3.1 Assets

The balance-sheet total as at 31 December 2013 went up by 10.11% to PLN 3,815,467,000 compared to the value as at 31 December 2012 (increase of PLN 350,446,000). Non-current assets increased by over 6%, which is largely the result of the investment programme carried out by LW BOGDANKA S.A. Current assets went up by over 41%, with the value of inventories going up by over 100%, trade and other receivables going up by ca. 3%, and cash and cash equivalents going up by 106.63%. The increased value of total inventories in the Company is mainly the consequence of increased coal inventories. The level of coal inventories presented at the end of the fourth quarter of 2013 corresponds approximately to eight days of commercial coal production by the Company.

As at 31 December 2013, the return on assets (ROA) went down by 0.42 p.p. and amounted to 8.97% on the balance-sheet date.

4.6.3.2 Equity and liabilities

The equity went up by 6.84%. It was the result of distribution of profit for the previous year effected by the General Shareholders Meeting and adding net profit/loss for the twelve months of 2013 to equity.

Provisions and liabilities went up by over 16% compared to the value as at 31 December 2012: current liabilities increased by 93.93% (in accordance with repayment schedules, for 2014 the repayment of loans in the amount of PLN 421,000,000 is scheduled, which in consequence resulted in reclassification of non-current loans to current loans), while non-current liabilities decreased by 25.12% (PLN -193,801,000) – on one hand, a portion of non-current loans became current, and on the other hand, the debt was increased by three tranches of bonds having the total value of PLN 200,000,000.

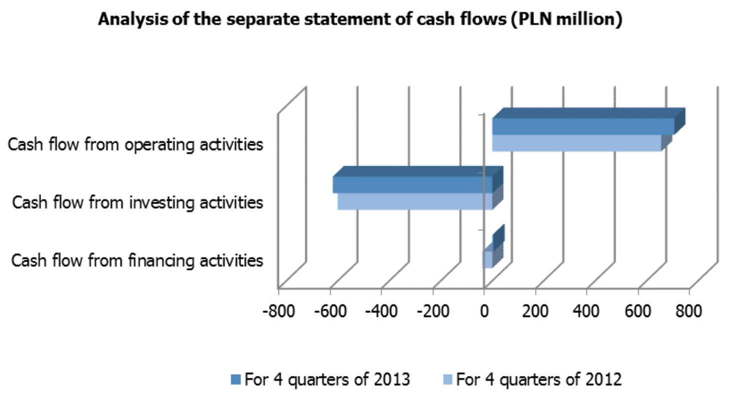
As at 31 December 2013 a decrease of 0.29% in return on equity compared to the end of 2012 was noted. The ratio as at 31 December 2013 was 13.85% compared to 13.89% as at 31 December 2012.

4.6.4 Cash flows

Table 20 Separate cash flows in 4 Qs 2012 and 4 Qs 2013 and Q4 2012 and Q4 2013 [PLN '000]

Item	Q4 2013	Q4 2012	Change% [2013/ 2012]	4 Qs 2013	4 Qs 2012	Change% [2013/ 2012]
Cash flow from (used in) operating activities	142,023	118,470	19.88%	702,146	656,133	7.01%
Cash flow from (used in) investing activities	-169,399	-208,623	-18.80%	-614,906	-601,175	2.28%
Cash flow from (used in) financing activities	40,357	-3,211	-	4,564	-39,261	-

Chart 14 Analysis of the separate statement of cash flows



In the fourth quarter of 2013 the Company generated net cash flow from operating activities higher by 24.30% than in the fourth quarter of 2012, in the period from 1 October 2013 to 31 December 2013 it amounted to PLN 147,255,000 compared to PLN 118,470,000 a year before. The cash flow from operating activities for the twelve months of 2013 amounted to PLN 707,378,000 compared to 656,133 in the same period of 2012. Cash flow from investing activities increased (in absolute terms) during the twelve months of 2013 by 3.15% (to PLN -620,138,000) compared to the same period of 2012. It was the result of increased acquisition of property, plant and equipment compared to 2012, in accordance with the pursued development strategy.

In the period from 1 January to 31 December 2013 the Company recorded positive cash flow from financing activities in the amount of PLN 4,564,000 (the Company raised PLN 200,000,000 under the bond issue scheme, paid out dividend from profit for the 2012 financial year amounting to PLN 172,109,000, and repaid some of the loans taken).

4.6.5 Debt and financing structure of LW BOGDANKA S.A.

Table 21 Debt ratios of LW BOGDANKA S.A.

Item	31 December 2013	31 December 2012	Change [%] (2013/2012)
Overall debt ratio	36.15%	34.19%	5.73%
Ratio (debt plus employee liabilities)/EBITDA	0.90	0.92	-3.26%
Debt to equity ratio	56.62%	51.96%	8.97%
Fixed capital to non-current assets ratio	89.45%	96.08%	-6.90%
Current debt ratio	21.01%	11.93%	76.11%
Non-current debt ratio	15.14%	22.26%	-31.99%

4.6.5.1 Overall debt ratio

The overall debt ratio as at 31 December 2013 went up by 5.73% compared to the end of 2012 and reached 36.15% - the share of borrowed capital in the overall financing sources of the Company increased.

The level of the Company's debts as at 31 December 2013 did not pose any risk to the Company's operation and ability to settle liabilities in a timely manner. In 2014 it is scheduled to repay the debts in the amount of PLN 421,000,000 (loans with PKO BP and PEKAO S.A.). In order to assure uninterrupted financing at appropriate level, it is planned to commence in 2014 the procedure of refinancing the above debts and to increase debt to cover expenditures for construction in progress.

4.6.5.2 Ratio (debt plus employee liabilities)/EBITDA

The ratio showing debt to EBITDA decreased at the end of December 2013 by 3.26% and reached 0.90. In the analysed period the value of debt liabilities under issued bonds increased; with the value of employee provisions going down at the same time (in accordance with prepared actuarial valuation).

4.6.5.3 Debt to equity ratio

The debt to equity ratio as at 31 December 2013 went up by 8.97% compared to the ratio as at 31 December 2012 and reached 56.62% - the increase in borrowed capital was higher than the change in equity.

4.6.5.4 Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 89.45% (as at 31 December 2013) compared to 96.08% (as at 31 December 2012) – in the analysed period the value of fixed capital (equity plus non-current liabilities less provisions) decreased, with non-current assets going up at the same time.

4.6.6 Liquidity ratios

Table 22 Liquidity ratios [days]

Item	31 Dec. 2013	31 Dec. 2012	Change [%] (2013/2012)
Current liquidity ratio	0.73	1.04	-29.81%
Quick liquidity ratio	0.58	0.89	-34.83%

* When calculating the ratio, the total current liabilities are adjusted by current provisions for the remaining liabilities and encumbrances

In the period covered by the separate annual financial statements, the liquidity ratios of the Company remained at a safe level, and the Company is not having any difficulties in settling its liabilities. Bearing in mind the development strategy pursued by the Company, the liquidity ratios are to be considered correct.

4.6.7 Turnover ratios

Table 23 Turnover ratios [days]

Item	31 Dec. 2013	31 Dec. 2012	Change [%] (2013/2012)
Inventory turnover	23.0	13.5	70.37%
Debtors collection rate*	45.9	48.7	-5.75%
Creditors payment rate**	80.8	75.7	6.74%
Operating cycle (1+2)	68.9	62.2	10.77%
Cash conversion cycle (4-3)	-11.9	-13.5	-11.85%

* - Trade and other receivables

** - Trade and other liabilities

4.6.7.1 Inventory turnover

The inventory turnover ratio as at 31 December 2013 went up by ca. 70% compared to the ratio as at 31 December 2012, which is largely the result of an increase in the average value of inventories.

4.6.7.2 Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 45.9 days (as at 31 December 2013), as compared to 48.7 days (as at 31 December 2012). The decrease in the rate is attributable to a nominal decrease in the average level of other receivables, with growing revenue.

4.6.7.3 Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 68.9 days, as compared to 62.2 days as at 31 December 2012. The time necessary for realising the Company's current assets got longer by 6 days on the average.

4.6.7.4 Creditors payment rate

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got longer by 5 days to ca. 81 days, as compared to the end of 2012. In the analysed period the Company had higher current trade liabilities.

4.6.7.5 Cash conversion cycle

As a result of the trends described above, a cash conversion cycle of –11.9 days was achieved as at 31 December 2013 compared to –13.5 as at 31 December 2012. The negative value of the cash conversion cycle means that the Company uses non-interest-bearing borrowed capital.

4.7 Information on financial instruments

LW BOGDANKA S.A. is a party to one forward currency transaction. Security has been established for the performance of an agreement worth EUR 47 million for the supply and assembly of another wall ploughing system. The first transaction of EUR 4.3 million was settled on 2 September 2013, and the next one of EUR 1.08 million was settled on 15 November 2013.

On 27 September 2013, as part of the "Bond Issue Scheme of up to PLN 300,000,000" LW BOGDANKA S.A. issued, in two series, 1,500 bonds with a nominal value of PLN 100,000 each – on 27 December 2013, the Company issued another 500 bonds with a nominal value of PLN 100,00 each - the total value of the completed part of the scheme is PLN 200 million. This was announced by the Company in Current Reports No. 34/2013 and No. 46/2013.

In four quarters of 2013 the Company did not use any other 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 financial liquidity.

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

The Company is of the opinion that the risk associated with trade creditors is limited as LW BOGDANKA S.A. continuously analyses inflows and outflows, and knows in advance what amounts will be due. Moreover, the cooperation with banks is good which causes that the Company may obtain additional debt financing, in accordance with the long-term strategic plan.

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

In 2013 no untypical factors and events occurred that may have influenced the Company's operations. Events that affected operations and financial results of LW BOGDANKA S.A. in the financial year 2013 or which may have influence thereon in the following years have been described in other sections of the Report.

4.9 Differences between financial results disclosed in the annual report and the published 2013 result forecasts

LW BOGDANKA S.A. did not publish forecasts of the separate or consolidated financial results of the Company for 2013.

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

As at 31 December 2013, the Company's equity amounted to **PLN 2,436,171,000**.

The equity is comprised of:

- **Ordinary shares**		**PLN 301,158,000**
- **Other capital**		**PLN 1,462,788,000**
Including:		
	- **Supplementary capital**	PLN 548,655,000
	- **Other capital reserves** including:	**PLN 914,133,000**
	- Reserve capital	PLN 915,518,000
	- Equity on valuation of cash flow hedges	PLN (4,238,000
	- Equity on Management Options issuance	PLN 2,853,000
- **Retained profits**		**PLN 672,225,000**
Including:		
	- Revaluation capital reserve	PLN 66,023,000
	- Other capital – retained profits brought forward	PLN 276,747,000

- Net profit PLN 329,454,000

The value of the share capital as at the end of 2013 amounted to PLN 301,158,000.

Supplementary capital:

In the course of transformation of the state-stock company, the supplementary capital was calculated at the level representing a difference between the sum of: founding and corporate funds and the share capital.

As at 31 December 2013, the Company's supplementary capital amounted to PLN 548,655,000. As at 31 December 2013, the supplementary capital represented 22.52% of the share capital.

Other capital reserves:

As at 31 December 2013, the Company's other capital reserves amounted to PLN 914,133,000. In 2013 they increased by 14.18%.

Social Benefits Fund:

Company Social Benefits Fund is made annually from the basic write-off charged to the Company's operating expenses. In 2013 the social fund increased by PLN 7,000,000 as a result of an additional write-off with a proviso that in the event of selling a summer holiday centre in Łazy, in the year in which the net amount on account of its sale is contributed to the social benefit fund, the basic write-off will decrease by the amount equal to the amount by which the fund increased as a result of the sale of the summer centre. However, the amount by which the basic write-off will decrease shall not be higher than PLN 7,500,000. The fund also increased by other income from partial payments from the employees for social activity and interests on funds on a bank account for loans granted from the Social Benefit Fund for housing purposes. This is a special purpose account, used in accordance with the Act on the Company Social Benefits Fund of 4 March 1994 (Dz. U. [Journal of Laws] No. 70, item 335 of 1996, as amended) and the rules adopted by the Management Board. In relation to 2012, the fund increased by PLN 971,530 and as at 31 December 2013 it amounted to PLN 9,925,390.

Mine Closure Fund

In compliance with Article 26c of the Geological and Mining Law of 4 February 1994 (uniform text Dz. U. [Journal of Laws] of 2005 No. 228, item 1947, as amended), and the Ordinance of the Minister of Economy of 24 June 2002 on detailed rules of creating and functioning the mine closure fund (Dz. U. [Journal of Laws] No. 108 item 951), Lubelski Węgiel BOGDANKA S.A. gathers funds for covering the costs of a liquidation of a mining plant, in a separate bank account. As at 31 December 2013 the value of those funds amounted to PLN 77,912,260. Increase in funds at the bank account results from a payment made from mandatory annual write-offs of PLN 7,687,090 and bank interest on funds deposited in the account of PLN 2,193,920.

Future deposits related to the closure of the mining plant are covered with a provision disclosed in the income statement. The amounts of provisions are recognised in the present value of expenditures which are expected to be needed to discharge a given obligation.

4.11 Information about agreements on loans and borrowings concluded and terminated in the given financial year

Banks providing services to the Company

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

Auxiliary accounts and deposit accounts are maintained by:

- mBank S.A. Lublin Branch,
- Powszechna Kasa Oszczędności Bank Polski S.A. Regional Corporate Branch, Corporate Centre in Lublin,
- Bank Zachodni WBK S.A. in Lublin,
- Bank Ochrony Środowiska S.A. Lublin Branch,
- Bank Millennium S.A. Regional Branch in Lublin.

Agreements concerning the Company's loans and borrowings

In 2013 the Company had two signed loan agreements.

1. Agreement on working capital non-revolving loan in the Polish currency, concluded with Powszechna Kasa Oszczędności Bank Polski S.A. on 27 May 2008 until 31 December 2009, extended with Annex No. 3 of 29 December 2009 until 31 December 2014 for the amount of PLN 250,000,000. In 2008 and 2009 the tranches were paid on the following dates: on 28 May 2008 in the amount of PLN 50,000,000; on 31 December 2008 in the amount of PLN 20,000,000; on 31 March 2009 in the amount of PLN 50,000,000 and on 30 June 2009 in the amount of PLN 130,000,000, PLN 9,000,000 of which was repaid in 2011.

As at 31 December 2013 liabilities under the loan in PKO BP S.A. amounted to PLN 241,000,000.

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

Collateral for the granted loan is:

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

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

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

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

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

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

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

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

The purpose of the loan is to finance current operations.

Loan tranches were granted on the following dates and in the following amounts:

1) PLN 50,000,000 on 27 December 2011,
2) PLN 50,000,000 on 30 December 2011,
3) PLN 50,000,000 on 30 March 2012,

4) PLN 50,000,000 on 29 June 2012.

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

Collateral for the granted loan is:

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

The loan will be repaid as follows:

1) 2014 – PLN 180,000,000.

In 2013, four instalments of the loan were repaid totalling PLN 20,000,000. As at 31 December 2013, liabilities under the loan in Bank Polska Kasa Opieki S.A. amounted to PLN 180,000,000.

4.12 Information on loans granted in the current financial year, with special regard for loans granted to the issuer's related entities

In 2013 Lubelski Węgiel BOGDANKA S.A. made no releases from debt.

In 2013 Lubelski Węgiel BOGDANKA S.A. did not contract or grant any loans or terminate any agreements concerning borrowings.

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

4.13.1 Guarantees granted by LW BOGDANKA S.A.:

In 2013 Lubelski Węgiel BOGDANKA S.A. did not provide any sureties or guarantees.

4.13.2 Guarantees received by LW BOGDANKA S.A.

1. Guarantee to secure liabilities in connection with the payment of remuneration for paid use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits.

On 20 September 2012 LW BOGDANKA S.A. received from **PKO BP S.A. a bank guarantee of payment** no. 23 1020 3147 0000 8293 0020 9643 **up to the amount of PLN 19,000,000** for the benefit of the State Treasury represented by the Ministry of Environment, ul. Wawelska 52/54, 00-922 Warsaw, to secure liabilities in connection with the payment of remuneration for paid use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits under agreement no. 808/IG/2012 of 24 August 2012. The guarantee is valid until 30 September 2021.

The liability under the guarantee will be reduced on a pro rata basis in the following cases:

1. the Bank makes payments to the Ministry of Environment, in which case the guarantee shall be reduced by the amount of such payments.
2. LW BOGDANKA S.A. makes payments to the Ministry of Environment in accordance with the conditions of the agreement, the receipt of which shall be confirmed by the Ministry of Environment in a statement.

Collateral for the guarantee is:

- assignment of contract receivables (change of collateral from transfer of funds in the amount of PLN 19,000,000 to the Bank's account),
- a set-off clause on setting off the amounts owed against the account of LW BOGDANKA S.A. with PKO BP S.A.,

- a statement on submission to execution.

Guarantee costs:

- fee for the granting of the guarantee by PKO BP S.A. (0.1% on the date of signing the agreement) on the amount of liabilities of PKO BP S.A. for each 3-month period of validity of the guarantee, but not less than PLN 200; the Bank reserves the right to increase the rates of the fee in accordance with its assessment of a degree of increased risk,

Fee for increasing the guarantee amount of 0.1% of the amount of such increase, but not less than PLN 200.

2. Guarantee to secure payment to Caterpillar Global Mining Europe GmbH for the supply of the first part of a factory-new wall ploughing system

On 7 March 2013 the Company received a guarantee of payment from BRE Bank S.A., as a security for Caterpillar Global Mining Europe GmbH, Industriestrasse 1, 44534 Lünen, Germany up to the amount of EUR 4,871,755.19. Its purpose was to guarantee timely payment for the supply of the first part of a factory-new wall ploughing system, in accordance with Article 2.5.a of agreement no. 222/IZ/2013 of 7 February. The guarantee was valid until 1 November 2013.

Collateral for the guarantee was:

- a promissory note with a promissory note declaration,
- assignment of receivables under a trade contract with Zakłady Azotowe Puławy S.A.

Other contractual commitments:

- settlement of the contract with Zakłady Azotowe Puławy S.A. through the account with BRE,
- external inflows to the account with BRE in the amount of PLN 10 million on a month-average basis,
- maintenance of net profit during the entire term of the guarantee.

Guarantee costs:

- front-end fee – 0.1% of the guarantee amount, payable on a one-off basis within 7 days from the date on which the guarantee is granted,
- fee on the Bank's commitment under the granted guarantee – 0.075% of the committed amount, for each commenced 3-month period, payable in advance for each period.

Liquidated damages (in the event of default on contractual obligations) – commitment fee is increased to 0.15%.

3. Guarantee to secure liabilities in connection with the payment of remuneration for paid use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits

On 6 June 2013 LW BOGDANKA S.A. received from PKO BP SA a bank guarantee up to the amount of PLN 1,500,000 for the benefit of the State Treasury represented by the Ministry of Environment, ul. Wawelska 52/54, 00-922 Warsaw, to secure liabilities under agreement 894/I/IG/2013 for making available the use of geological information on "Lublin-K-6-7" and "Lublin K-3". The guarantee is valid until 30 September 2021.

Collateral for the guarantee is:

- transfer of funds in the amount PLN 1,500,000 to the Bank's account until the secured liability is paid in full,
- a set-off clause on setting off the amounts owed against the accounts of LW BOGDANKA S.A. with PKO BP S.A.,
- a statement on submission to execution.

Guarantee costs:

- fee on the amount of the granted guarantee amounting to 0.10% of the amount of the granted guarantee for each commenced 3-month period of the guarantee term.

- other costs arising from the table of fees and charges, if any.

4. Guarantee to secure payment to Caterpillar Global Mining Europe GmbH for the supply (loco mine in Bogdanka) a factory-new wall ploughing system

On 25 July 2013 LW BOGDANKA S.A. received from PKO BP S.A. a foreign trade bank guarantee, in the amount of EUR 37,428,244.81, to secure the liability to Caterpillar Global Mining Europe GmbH Industriestrasse 1, 44534 Lunen, Germany, under an agreement for the supply (loco mine in Bogdanka) a factory-new wall ploughing system, agreement number 222/IZ/2013 of 7 February 2013. The guarantee is valid until 29 April 2015.

Collateral for the guarantee is:

- assignment of receivables in the amount of PLN 200,000,000,
- a set-off clause on setting off the amounts owed against the current account kept with PKO BP S.A.,
- a statement on submission to execution.

Guarantee costs:

- fee for handling a request for guarantee is equal to 0% of the guarantee amount,
- fee for the granting of the guarantee is equal to 0.05% of the guarantee amount, but not less than PLN 300 (the fee will be collected for each commenced 3-month period on the amount of the granted guarantee or on the current balance of the granted guarantee),
- fee for the granting of a guarantee differing from the standard template at PKO BP is equal to PLN 0,
- fees and charges, if any, for other services not listed in the agreement, connected with handling of the guarantee.

Additional arrangements:

The guarantee amount will be reduced by EUR 29,942,595.85 to EUR 7,485,648.96 after the lapse of 30 days from the date of payment of 80% of the price for the supply of the Second Part of the Agreement Subject Matter, not later than on 12 October 2014.

4.14 Description of the use of proceeds from the bond issue effected in the reporting period

On 27 September 2013, BANK POLSKA KASA OPIEKI S.A. acquired two series of bonds issued by LW BOGDANKA S.A. under the Bond Issue Scheme established on the basis of the Scheme Agreement. The value of acquired bonds amounted to PLN 150,000,000. Information about this fact was announced by the Company in Current Report No. 34/2013 of 27 September 2013. The next tranche of the bonds was taken up by the Bank on 27 December 2013, and the relevant information was announced by the Company in Current Report No. 46/2013. The value of acquired bonds was PLN 50,000,000.

In accordance with the Scheme Agreement relating to bond issue: "The objective of the Issue means financing the current operations and investment needs of the Issuer (but it does not constitute the objective of the issue within the meaning of the Bonds Act)."

Information about investments carried out by the Company, among other things, using the issue proceeds is provided in section 5.2 of the Report.

4.15 Assessment of the possibilities of investment plans' execution

The structure of financing property investment expenses will remain compliant with the adopted Strategy, i.e. they will be financed from equity and the debt held (loan and bonds). The Management Board expects an increase in the Company's debt financing. As at the date of providing this Report, LW BOGDANKA S.A. sees no threat as to the possibility to acquire additional debt financing, however it indicates that the costs of acquiring the debt as well as the servicing thereof may be higher than currently.

The loan together with issued bonds (totalling PLN 621,000,000), disclosed in the Company's statement of financial position as at 31 December 2013, accounted for 25.49% of its equity and 16.27% of the balance-sheet total.

4.16 Lease and rental agreements in 2013

The total revenue of LW BOGDANKA S.A. under lease and rental agreements of, among other things, land, premises, plant and machinery in 2013 amounted to PLN 9,269,067.51 excl. VAT.

5 INVESTMENTS AND DEVELOPMENT PROSPECTS FOR LW BOGDANKA S.A.'S OPERATIONS IN 2013

5.1 Development strategy

In 2013–2020, the Company plans to achieve, among others, the following strategic objectives:

- to complete its investment process aimed at doubling the production capacity of the mining plant to approx. 11.5 million tonnes of commercial coal in 2015;
- to make additional investments in upgrading its shaft 1.5 in Nadrybie to enable the Company to increase its net production capacity to approx. 12 million tonnes in 2018;
- to double the mine's resources and lifetime to around 2050 by obtaining a licence for and utilising new promising areas (increasing the mine's recoverable reserves from approx. 237 million to approx. 450 million tonnes);
- to strengthen the Company's well-established position as the main supplier of coal, particularly to the commercial power industry by achieving a 20% share in sales of power coal in Poland in 2015, compared to approx. 14% in 2012;
- to continue as the leader in effective mining, while reducing the Company's unit mining cash cost by 15% by 2017 compared to the level in 2012, in real terms;
- to continue as the leader in innovative technical solutions by implementing a Smart Mine project.

In order to pursue their strategy, the Company undertook a number of activities with regard to optimisation of the production process, costs, outsourced services and human resources management.

The Company estimates that the above strategy will require an average annual expenditure of approx. PLN 600 million in 2013÷2020, including:

- approx. PLN 250 million per annum in development capex to support increased production and productivity;
- approx. PLN 350 million in repeatable opex to maintain the Company's mining levels, upgrade its existing working pits and infrastructure.

The Dividend Policy that is part of the approved Strategy for 2013÷2015, provides for profit distributions to shareholders in the Company equal to 60% of the Company's consolidated net profit.

The above level of dividend will allow the Company to use a portion of its profit to co-finance its development expenditure on the one hand and to ensure a return of investment in its shares for its shareholders by making dividend payments at an above-average level in the coal mining industry on the other.

The Management Board's recommendation regarding dividend payments may be affected by changes to the assumptions relating to:

- the Company's development and its plans of further expansion;
- the implementation of the Company's investment plan;
- the Company's plans to maintain its liquidity at appropriate levels;

and to

- the net profit disclosed in the Company's separate financial statements;
- the planned investment and other capital expenditure;
- the current possibilities and costs of obtaining debt financing;
- the adoption, by the Company's General Shareholders Meeting, a resolution on a dividend level different from that recommended by the Management Board;
- other factors materially affecting the Company's financial standing.

5.2 The Company's investments in non-current assets

5.3 Investments in 2013 and the plan for 2014

Table 24 Implementation of investment projects in 2013 and the plan for 2014, as divided into projects [PLN '000]

Investment projects		Plan 2013	2013 implementation	Plan 2014
Gr. 1	**Development investments (including MCPP, central air-conditioning, technical infrastructure)**	76,442	84,406	62,951
Gr. 2	**Replacement investments**	57,105	81,178	49,506
A	Modernisation and repairs of machines and devices	17,975	38,297	13,430
B	Building and modernisation of structure and installations	39,130	42,881	36,076
Gr. 3	**Environmental protection**	10,353	16,999,	11,610
Gr. 4	**Building and modernisation of workings in the Bogdanka, Nadrybie and Stefanów Fields**	299,003	268,849	238,651
Gr. 5	**Purchase of machines and devices**	181,040	114,825	322,830
A	Purchase and installation of panel complexes	74,175	23,416	247,259
B	Purchase of new machines, devices and ready products	106,865	91,409	75,571
Gr. 1	**Development investments**	76,442	84,406	62,951
Gr. 2	**Replacement investments**	57,105	81,178	49,506
A	Modernisation and repairs of machines and devices	17,975	38,297	13,430
	TOTAL:	**623,943**	**566,257**	**685,548**

The main objective of the investment plan of LW Bogdanka S.A. for 2013 was to continue commenced tasks, aiming at doubling the output in 2015, as compared to 2011.

The capital expenditure, amended in the Consolidated Interim Financial Statements of the LW BOGDANKA Group for the first half of 2013 and published on 29 August 2013, was planned to amount to PLN 623,943,000, whereas it amounted to PLN 566,257,000, i.e. 90.75% of the plan's value.

5.4 Investment execution plan in 2013

The main positions included in the plan for 2013:

1. Continuation of the development investments associated with the development of the Stefanów field, including:
   - continuation of the extension of the Mechanical Coal Processing Plant,
   - extension of the central air conditioning system in the Stefanów Field, and
   - expansion of the coal storage area.
2. Continuation of the remaining development investments, among others:
   - starting the extraction of stone through shaft 1.5 in the Nadrybie Field,

  - construction of a central air-conditioning system in the Bogdanka Field,
  - extension of the mine with new extraction field.
3. Conducting reconstruction investments, including:
  - modernization and repairs of mining machinery and equipment,
  - continuation of the task associated with modernization of the 110/6kV station facilities.
4. Investments associated with environment protection:
  - continuation of the extension of the mining landfill.
5. Drilling and modernization of horizontal workings.
6. Purchases of machines and devices, including:
  - purchase of coal ploughing system No. 3,
  - purchases of machines and devices that require assembly,
  - purchases of ready investment goods.

5.5 Investment execution in 2013

In 2013, the following works were performed:

Gr. 1 Development investments

A. Technical infrastructure

Central air-conditioning system of the Stefanów Field

The underground air conditioning system was extended, the power of the installations in the surface air conditioning stations was increased from 5 MW to 6 MW, together with the system of controlling the distribution of chilled water and the network of underground air conditioning pipelines was extended in field VI in Nadrybie and in field VII in Stefanów.

B. Extension of the Mechanical Coal Processing Plant

The design works were continued in connection with the extension, target installation and equipment of the commercial coal storage area in LW Bogdanka S.A.

The extension of the MCPP processing capacity from its current level of 1,200 up to 2,400 Mg/h was continued. In 2013, in connection with a series of additional and replacement works, an annex to an agreement was signed, changing the deadline for performing the subject of the agreement and an agreement was concluded on performing additional works.

Stage I – completed and put into operation with final and valid decisions of the Director of the Regional Mining Authority (*Okręgowy Urząd Górniczy*). The trial run of the machinery, equipment and installations was completed.

Stage II – the construction and assembly works were completed, and the assembly of machines, devices and technological installations was in progress. A steel structure of auxiliary facilities was installed, the linings of facilities were being installed, finishing construction works were in progress, as well as the assembly of sanitary and electrical installations and the assembly of machinery, devices and technological installations.

Extension of the coal storage area

The design works were continued in connection with the extension, target installation and equipment of the commercial coal storage area in LW Bogdanka S.A.

C Other development investments

Starting the extraction of stone through shaft 1.5 in the Nadrybie Field,

The Company prepared a multi-variant concept of technical and technological solutions for stone transportation. The documentation and design works were continued.

Central air-conditioning system of the Bogdanka Field

I. On the basis of the developed concept, a tender for designing and executing the investment was announced and completed (apart from the provision of the pipelines for the initial circulation in shaft 1.2 and at level 960, and delivery and installation of a three-chamber PES feeder). Construction designs, executive designs of the surface area of the installation, and the underground technical designs were prepared, the permit for construction was obtained, and the construction works started.

II. On the basis of the design, a tender for delivery of the elements for construction of the water preinsulated and non-insulated DN 250 pipelines for central air conditioning in shaft 1.2 and at level 960, was announced and completed. In shaft 1.2 the main support structure was installed at level 900, and the installation of pipes was started below level 900 up to level 960.

Integrated production management system

The underground radio communication system was developed in the Stefanów Field, and the facility GPS supervision system was extended in LW Bogdanka S.A.

Extension of the mine with new extraction field

The Company obtained licence No. 12/2013p for exploration of hard coal deposits in the "Lublin K-3" area – the agreement was concluded with the State Treasury. An agreement was signed for drilling an exploratory ST-1 borehole up to the depth of 990 meters underground, for the purpose of recognizing the deposits of hard coal in the "Lublin K-3" area. Payments were made for the geological information and mining usage of OG Cyców.

Gr. 2 Reconstruction investments

A. Modernization and repairs of machinery and equipment

Two suspended Bevex diesel locomotives, two Scharf diesel tractors, and an AM-75 cutting machine were modernised, and the modernization of conveyors was in progress. The renovation of the AM-75 cutting machine, 2 items of MR 34X Ex-S cutting machines and 3 items of JOY 4LS longwall cutting machines was conducted so were periodic renovations of 17 items of coal wagon carts.

B. Construction and modernization of buildings and installations (without limitation)

Railway investments

The device of automatic passage signalling of the SSp SPA-41 type was installed in the railway crossing on 7.928 km, and installation of the STRAIL crossing surface in the railway crossing on 20.280 km of the Bogdanka – Jaszczów lay-by.

Switching station and 110/6kV station facilities

Works of stage A and B of modernization of the GSTR 110/6kV station in Bogdanka were completed with regard to: field 1, 2 and 3 and the T-4 transformer station; installation of section C of the 6kV switching station; renovation of the building of the station affiliated to section C of the 110/6kV switching station. There were reconstructed the sections of three overhead 110/6kV power lines in the area of the GSTR station in Bogdanka.

Gr. 3 Extension of the mining landfill in Bogdanka

The second phase of works was started based on the concluded agreement. 6BK, 7BK, 8BK belt conveyors, the 16K mobile conveyor, PTP-2 conveyor in modernized version (without a drive) were delivered and assembled. The purchasing of lands for the construction of the "Szczecin" reservoir was continued.

Gr. 4 - Building and modernization of workings in the Bogdanka, Nadrybie and Stefanów Fields

2013 saw an ongoing cross-cut of seams 382 and 385/2, 391 for starting new mining longwalls.

As for the preparatory workings in the Bogdanka Field, the drilling of the 1/II/385 haulage heading was continued, the N-2 cross heading, the N-4 cross cut was executed, and the following workings were started:

Longwall workings:

The drilling of the 6/VII/385 over-panel heading was completed, and the drilling of new workings was started: the 5/VII/385 under-panel heading and 4/VII/385 under-panel heading for making access to field VII. The drilling of the 1/VIII/385 under-panel heading and 2/VIII/385 under-panel heading was completed, and the drilling of the 3/VIII/385 under-panel heading was started for making access to field VIII.

The drilling of the 7/IV/385 under-panel heading was completed, and the drilling the new 7/IV/385 and 8/IV/385 over-panel headings was started in field IV in Bogdanka.

In field VI in Nadrybie the 3/VI/385 under-panel heading was completed and the drilling of the 3/VI/385 over-panel heading was started, and in field II in seam 382 in Nadrybie the 4/II over-panel heading was completed.

In field I seam 385/2 in Bogdanka the drilling of the 1/II/385 over-panel heading and 1/II/385 under-panel heading was started.

The redevelopment of mining workings was continued. In total 1,762.8 meters of workings were redeveloped.

Gr. 5 Purchases of machines and devices

A ***Purchases and assembly of panel complexes***

In 2013 an agreement on purchasing a high-duty coal-ploughing system for low seams was concluded. The purchases are executed in parts:

a) 1st stage of the agreement covers the extension of wall complex No. 2 by 55 running meters

b) 2nd stage of the agreement covers the purchase of factory-new wall complex No. 3 for 250 running meters of the wall.

In 2013 the 1st stage of the agreement was executed – coal-ploughing complex No. 2 for wall 6/VII/385 was extended. The wall was started in November. In 2014 the 2nd stage of the agreement will be executed for wall No. 3/VI/385.

B ***Purchases of machines, devices and finished goods***

Purchase and assembly of new machines and devices – the machines and devices for the total amount of PLN 66,333,600 were purchased and assembled. The most important ones included: suspended diesel locomotives, track diesel locomotives, ventilation stoppings, conveyor belts, conveyor feeders, sifters, cooling devices, roadheading machines, self-propelled drilling and bolting carts.

Purchases of finished goods – finished goods worth PLN 25,075,500 were purchased. The most important ones included: ready-made transportation devices (braking trolleys, hoists, containers, bogies for excavated material, a fire fighting car), hydraulic pumps and aggregates, electric devices (transformer stations, engines, counters), fans.

5.6 Plan for 2014

The planned investment outlays for 2014 amount to PLN 708,253,000.

Gr. 1. Development investments

Extension of the Mechanical Coal Processing Plant

- haulage of excavated material from shaft 2.1 – development of the designs of constructing a storage reservoir for raw coal,
- extension of the MCPP – outlays on construction and assembly works.

  In the first quarter 2014 it is planned to complete the finishing works of facilities, including the installation works, and to complete the assembly of machines, devices and technological installations. In the second quarter 2014 it is planned to conduct the technical acceptance procedure for the construction facilities, and to conduct the start-up of machines, devices and technological installations. In July 2014 it is planned to conduct a start-up of the technological line (machines, devices and technological installations), which will allow the final acceptance report to be signed, on 31 August 2014, with respect to the subject matter of the agreement. According to the data as of the day of preparing the Report, there are no delays that might affect the completion of the investment on 31 August 2014.
- extension of the coal storage area – there are planned the outlays on construction and assembly works,
- starting the extraction of stone through shaft 1.5,
- central air-conditioning system of the Bogdanka Field,
- integrated management system,
- extension of the mine with a new extraction field – research and documentation works.

Gr. 2. Reconstruction works

A. Modernization and repairs of machines and devices – modernization of the Bevex suspended locomotives and modernization of the PF-4/1032 wall conveyor together with the separating devices for the 2/VIII/385 wall.

B. Construction and modernization of structures and installations – railway investments, construction of construction facilities on the surface of the Nadrybie and Bogdanka Fields, modernization of the existing construction facilities, facilities of the 110/6 kV switching station, telecommunication systems and devices, power engineering, telecommunications and mechanical installations.

Gr. 3. Environment protection

The environmentally friendly projects include:

- extension of the mining landfill – this year, under an agreement, it is planned to complete the works. It is planned that lands will be purchased in connection with the extension,
- the "Szczecin" storage reservoir – further lands are planned to be purchased.

Gr. 4. Building and modernization of workings in the Bogdanka, Nadrybie and Stefanów Fields

It is planned to build the workings, mainly longwall headings, panel cross-headings and the remaining technological and access workings, allowing the walls in seams 382, 385/2 and 391 to be mined. There will also be conducted reconstructions of mining workings.

Gr. 5. Purchases of machines and devices

Purchase and assembly of panel complexes – the group covers, among others, the purchase of a coal ploughing system No. 3 for the wall 3/VI/385 (final invoice) and the purchase of a coal ploughing system No. 4 for the wall 1/I/385 (2014÷2015).

Purchase and assembly of machines, devices and finished goods – it is planned to purchase the machines and devices that require to be assembled in the worksite, including: suspended diesel locomotives, track mining locomotives, belt and scraper conveyors, powered lining sections, belt conveyors, sifters, cooling devices and roadheading machines.

Purchases of finished goods – devices without assembly – it is planned to purchase such devices as: devices for underground transportation of materials (containers for materials, braking bogies, timber carriers, bogies for excavated material), hydraulic pumps and aggregates (pump aggregates for binding materials, pumps for dehydrating the excavations and maintaining the required pressure in the fire system), electric devices (transformer stations, electric engines) as well as the remaining devices (powered lining sections for crossings between headings and walls, and ventube fans).

5.7 Capital expenditure of the Company, including capital expenditure made outside of the Group, and a description of financing methods

Lubelski Węgiel BOGDANKA did not make any capital expenditure in 2013.

In 2013, the Company established such company as EkoTrans Bogdanka (10 April 2013), in order to improve its competitiveness with regard to outsourcing services rendered to LW BOGDANKA.

On 4 July 2013, Lubelski Węgiel Bogdanka acquired 100% shares in RG Bogdanka Sp. z o.o. (former Eltrans Mining Spółka z o.o.).

5.8 Research and development works and implementation works

In 2013, the following research-development and implementation works were performed at the Company:

1. The introduction of the coal-ploughing technique for coal extraction was successful for the extraction walls in the thin seams of the thickness of 1.2 – 1.7 m. In March 2013 the extraction of the second wall (7/VII/385) equipped with the first coal-ploughing complex was finished (started at the beginning of October 2011), of the highest length in Polish mining, i.e. over 5 km. In July 2013, in direct vicinity, another wall No. 1/VIII/385 was started, equipped with that complex, with the same length. In November 2013 wall No. 6/VII/385 was started, the second one in the Stefanów Field equipped with coal-ploughing complex No. 2. In 2013 a contract was signed for the purchase of the third coal-ploughing complex, for wall No. 3/VI/385, planned for starting at the end of 2014.
2. In 2013 the works over improving the technological system and mechanical equipment of coal-ploughing systems were continued. Before 2013, two mechanical solutions were introduced that had been developed earlier, for self-loading of the coal "pushed out" by the coal plough to the longwall headings (in the previous technological system the roadheading machines are applied for loading that coal on the crossings of longwall headings and walls), and a powered lining section for pockets at the longwall headings. In 2013 those devices were introduced as a standard. A powered lining section for pockets at the longwall headings was applied not only in coal-ploughing walls, but also after introduction of a certain modification in cutting machine walls in the Bogdanka and Nadrybie Fields.
3. In 2013 underground tests for a new device designed for withdrawing the heading casing during the closedown of the heading during longwall exploitation were carried out. That device largely improves the safety of work with such difficult mining works as closedown of headings during longwall exploitation, and mechanizes the hard works that had been performed manually. At the end of 2013, the first such device was purchased, and it was used in working with the closedown of the longwall heading of wall No. 1/VIII/385 in division G-1 in Stefanów. It is planned that in 2014 further such devices will be purchased.
4. In 2013, together with completion of extraction from wall 2/VI/385 in Nadrybie, the experimental and introduction works were completed, aimed at using the longwall heading twice, and verifying an alternative for the current system of exploitation, in which both longwall headings are closed down together with wall exploitation, and each heading is used once. Generally speaking, the experiment was successful and the exploitation of wall 2/VI/385 was finished as follows: for that wall the over-panel heading was the under-panel heading of the wall 1/VI/385 left behind the front of the wall which was protected with a special protective belt along the whole length of the wall, i.e. about 1,750 m. That heading (after being used twice) was closed down during exploitation of wall No. 2/VI/385. Despite the positive attempt in technical terms, the economic cost-

effectiveness of that solution, in comparison with the previous method, is quite negative. A comprehensive economic analysis is still to be performed.

5. In 2013 works were continued over developing and introducing a new technology that will allow coal to be extracted with a short-front system, with the simultaneous filling in of the space with the stone coming from the preparatory works or from the initial separation of stone from the material excavated from the walls. Two variants of solutions are under analysis. One is based on a chamber-pillar system, and another is based on short filling longwalls. Variant 1 consists in extraction in the heading system on the basis of the basic headings in a typical yielding-support casing. These workings will be introduced in anchor casings with rectangular cross-sections. The post-exploitation area will be filled with stone. After gaining appropriate experience, the expansion is planned for the scope of activities, by filling the workings with dangerous waste, admissible by law to be stored in the mine pit. In variant 2, there would be reinforced a longwall of the length of e.g. 50 m, with the application of a lining for filling longwalls, and the stone would be located in the zone extracted behind the lining. Out of the two solutions, the variant seems more realistic, although it would be more difficult to locate the external waste. Both variants require significant investment outlays and further analyses.

In 2013, within the works into improving the heading casing system, measurements and observations were performed in trial wall No. 1/VIII/385 installed in the over-panel heading in Stefanów, located at the cavities of the excavated wall No. 7/VII/385, the door frame casing made of a new grade of steel with high strength parameters obtained as a result of heat treatment, steel being supplied by Heitzmann (Germany). The casing is an alternative solution for the new steel developed within the research project executed by the Central Mining Institute (*Główny Instytut Górnictwa*) in Katowice and the "Łabędy" Steelworks in Gliwice, which was tried in the Bogdanka mine in 2011. So far the appraisal is positive, but the complete results will be obtained in the spring of 2014, when the 1/VIII/385 wall will finish the whole trial section of the heading.

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

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

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

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

In case of significant deterioration in the economic situation of recipients of power coal, or in relation to deterioration in the economic situation in Poland, which would result in decreased demand for electrical and thermal energy, the financial results achieved by the Company may deteriorate. However, due to the fact of having long-term trading agreements, which oblige the recipients to meet certain levels of purchase of power coal, the risk of significant deterioration of the Company results is reduced. The Company's financial performance may also deteriorate if the existing taxes or charges (including the mining royalties) are raised or new taxes or charges on hard coal mining are introduced.

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

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

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

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

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

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by LW BOGDANKA S.A. The current difficult situation, crisis in the Ukraine, crisis in the Middle East, economic slowdown in China and increases in unsold coal inventories faced by both global and domestic producers due to a decrease in demand for coal may also exert an influence on the change in the demand for fuel, and consequently, the change in prices of coal and energy on the global and domestic market, which may affect the financial results of the Company. LW BOGDANKA mitigates the risk associated with prices of raw materials for energy production by controlling costs and signing long-term commercial contracts with key customers purchasing power coal.

5.9.1.4 Risk associated with the imposition of coal excise tax

As of 2 January 2012 the provisions of the Excise Tax Act of 6 December 2008 came into force. Under said provisions coal products sold for heating purposes are effectively taxed with excise duty. The Act referred to above and the relevant implementing regulations, despite providing for an extensive range of excise tax exemptions, including both electrical power generation, co-generated electrical power and heat and other selected industry sectors, as well as individual coal buyers, have resulted in a greater number of formal requirements as regards documenting the sale of excise tax-exempt coal.

However, the risk to the Company's operations is limited owing to the fact that LW BOGDANKA S.A. sells most of its coal volumes for electrical power generation purposes and the new domestic excise tax regulations provide for an extensive range of excise tax exemptions, including both electrical power generation, co-generated electrical power and heat and other selected industry sectors, as well as individual coal buyers.

The Company mitigates the excise tax risk by providing excise tax training to the employees, co-operating with reputable tax advisors, by requesting tax authorities to issue individual tax rulings, by active participation in the legislation process, by introducing in trade contracts provisions that enable the transfer of the potential excise tax burden to the buyer in case excise tax is imposed on the transaction.

5.9.1.5 Interest rate risk

LW BOGDANKA 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 finance costs of the Company and hence have an adverse effect on the Company's financial results (alternatively, a possible decrease in interest rates may cause a decrease in finance costs of the Company bringing a positive effect on its financial results). In the Company's assessment, the interest rate risk currently has a limited bearing on the financial standing of LW BOGDANKA S.A. given a relatively low degree of financing the Company's assets with interest-bearing third party capital. This risk may increase significantly in the case of a considerable growth in debt financing which is related to the Company's development strategy currently implemented (extension of the Stefanów Field).

5.9.1.6 Risk associated with changes in exchange rates

In February 2013 the Company concluded an agreement with Caterpillar Global Mining Europe GmbH for the supply of a wall ploughing system; the currency of the Agreement is EUR. A significant change in the EUR exchange rate could have an effect on the Company's financial situation.

In order to secure the Company against foreign exchange risk, LW BOGDANKA S.A. concluded a forward exchange contract. The security covers 100% of the value of the liability under the agreement to purchase a wall ploughing system. As at the publication date of this Report two out of four purchase transactions in EUR have been settled.

In February 2014 the Company concluded an agreement for the supply of a wall ploughing system, also paid for in EUR. The Company is planning to secure itself against foreign exchange risk on terms comparable to those applied in case of the previous purchase.

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

Currently LW BOGDANKA S.A. implements a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds and debt financing (currently totalling PLN 621 million).

At present, LW BOGDANKA sees no threat as to the possibility to acquire additional financing in the form of debt for implementation of its investments, however due to the Company's indebtedness which has been increasing over last years, it is estimated that the possible costs of its acquisition might be higher than those currently incurred. The current interest-bearing debt (loan and the issued bonds of the total value of PLN 621,000,000) accounted for 25.49% of Company's equity and 16.28% of the balance-sheet total.

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

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

- coal dust explosion hazard - class "b";
- fire hazard – IV self-combustion group (on a five-grade scale);
- methane hazard – methane category I (on a four-grade scale);
- water hazard – category I and II (on a three-grade scale);
- hazards connected with changing geological and mining conditions at the exploitation fronts.

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, e.g. Geological and Mining Law, the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Company in the future. The Company secures necessary funds to finance costs related to this sphere of activity. The scope of mining damage in the case of LW BOGDANKA S.A. is relatively small, since extraction is performed under little urbanised area. The safety level of the operating conditions in LW BOGDANKA S.A.'s mine is relatively high, which is reflected in the low accident indicators compared to other companies in the industry. This is due to, in particular, the Company's strict compliance with the principles of health and safety in the workplace, ongoing monitoring of threats at individual workstations, appropriate preventative measures, the absence of the risk of mine collapses, gas breakouts and rock outbursts and the relatively low risk of a methane explosion (category 1 methane threat on a four-grade scale). Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on LW BOGDANKA's operations include:

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

5.9.1.9 Risk of restrictive EU climate policy also with respect to the CO_2 emissions

The European Commission requires limiting the CO_2 emissions on the level of EU member states by 20% until 2020 in accordance with the so called "Europe 2020 strategy", as well as reducing greenhouse gas emissions by

20%, raising the share of energy consumption produced from renewable sources to 20%, and improving the energy efficiency by 20% in accordance with the so called "20-20-20" targets.

The European Commission is planning to introduce further requirements: cutting CO_2 emissions by 40% by 2030 and increasing the share of energy from renewable sources to 27%. The above requirements, unlike the current target of a 20% cut in CO_2 emissions by 2020 set for individual EU Member States, would be binding for the EU as a whole.

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 CO_2 emissions. Limitation of the CO_2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties in the scope of competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by LW BOGDANKA, and in consequence may have a negative impact on its financial results. This risk is difficult to assess and it is hard to take any activities to mitigate it due to the fact that despite the suggested restrictive EU climate policy the works on the final form of the obligations to decrease to CO_2 emissions for particular sectors. At the same time, in the world (the USA, China, Australia) new technologies - i.e. the "clean carbon technologies" have already appeared, which are continuously enhanced technologies and which, when applied, will decrease the problem of CO_2 emissions.

The Company is also reviewing the risk of national or regional regulations being introduced that set new emission standards for the existing or new low-power combustion sources in households. The Company is monitoring any amendments to the Energy Law or other acts that promote generating energy from renewable sources or support the system of producing electricity through high-efficiency co-generation, assessing their potential impact on the Company's operations.

5.9.1.10 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 significant degree to a raw material other than hard coal within the next 10 years. LW BOGDANKA 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. LW BOGDANKA takes 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. Also the imported coal poses some risk to the demand on national coal.

5.9.1.11 Risk of hostile takeover of the Group

As a result of its IPO on the Warsaw Stock Exchange, Lubelski Węgiel BOGDANKA S.A. has been a public company since 25 June 2009. On 9 March 2010, the State Treasury sold, in block trades, 15,882,000 shares it was holding, which accounted for 46.7% of the Company's share capital. In consequence LW BOGDANKA S.A. became a private entity, almost 100% shares of which can be subject of trade on the WSE. This situation poses a risk of the so-called hostile takeover. The Company is implementing its investment programme (Stefanów Field), which is to bring about a growth in the extracting capacity of the mine up to approx. 11.5 million tonnes of coal per year, 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, pose a risk of change in control over the Company on terms that would be unfavourable for the existing shareholders.

The Management Board undertakes actions the aim of which is to increase the value of the Company, through improvement of the structure and efficiency of mining and cost optimisation.

5.9.2 Risks directly associated with the Company's operations

5.9.2.1 Risk associated with the launch of extraction of new deposits at LW BOGDANKA

A material aspect of the operations conducted by the Company 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 could 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. At the moment the Company is undertaking activities with the aim of obtaining new licences in order to double its resources and secure a raw material base for extraction until 2050.

Recently we have noted growing interest on the part of domestic (Kompania Węglowa S.A.) and international business entities in the coal deposits in the Lublin Coal Basin. Some of those entities have been granted a licence to conduct prospecting and exploratory works in areas adjacent to LW BOGDANKA S.A. Consequently, these entities may in the future apply for mining licences. LW BOGDANKA S.A. holds a competitive advantage over prospective rivals in the form of extensive technical infrastructure necessary to conduct its operations, as well as unique know-how related to coal extraction in the mining and geological conditions of the Lublin Coal Basin deposit.

5.9.2.2 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 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 it in the future. The Company stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA S.A. uses the longwall system and currently extracts coal from four operating and one reequipped mining faces, which operate simultaneously. At the target production capacity, however, coal is obtained from four operating and two reequipped mining faces operating simultaneously. Technical and technological mining conditions the planned level of extraction can be maintained if a periodic stoppage occurs at one of the faces by intensifying work on the other. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.1 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down. Irrespective of the factors described above, the LW Bogdanka mine has a system of underground coal storage reservoirs. Three new reservoirs have recently been constructed in Stefanów. Raw coal reservoirs are also located on the surface. It should also be pointed out that the Company uses advanced mining equipment and machines in its mining operations and conducts intensive research and development work aimed at increasing the productivity of its operations, introducing solutions with a high degree of technical and technological reliability and increasing the safety of the work environment. These measures will significantly reduce the Company's technical and technological risk.

In this group of risks, there is also the risk of unexpected, usually local, deterioration of the quality of the deposit, for example due to reduction of the thickness of the seam, uncovering waste rock concentrations or waviness of the seam, which will result in deterioration of the coal (an increase in amount of stone mined with the coal). In such a case, in spite of achievement of the full gross output and increased costs thereof (difficulties with mining the stone, greater wear of tools and means of transport, increased costs of processing and storage of stone, etc.), the amount of commercial coal obtained will be reduced, which will influence economic performance.

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

The technology of power coal extraction applied by LW BOGDANKA S.A. involves the use of highly specialised machines and equipment produced only by several producers in the world, and sometimes only by one, as is in the case of advanced powered longwall ploughing systems that enable reaching high extraction effectiveness in thin deposits.

As a result of the Company's implemented investments referring to the Stefanów Field extension, it will be necessary to make further 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.

The longwall coal ploughing technology that the Company has been implementing for a few years allows high-capacity mining in thin coal deposits of as little as 1.2 metres (in 2010, the first longwall using this technology was put in operation). Such advanced solutions for mining industry are manufactured by only one company in the world. In 2012, LW BOGDANKA S.A. purchased the second longwall ploughing complex and in 2013 concluded an agreement for the delivery of the third one, to be performed in 2014. In addition to high costs of purchasing such equipment, there is a risk of difficulties in access (costs) to unique spare parts to ensure the operating continuity of the equipment, which may affect the costs of coal mining.

The risk of increased mining costs associated with the depth of mining will be growing. In 2015, mining of coal from seam 382 will end. Instead, mining of seam 391 will begin, which seam is located about 100 m below seam 382. As the depth increases, the difficulty of maintaining the workings (rock mass pressures increase), the natural temperature of rock, and some risks increase, which may result in an increase in coal mining costs.

5.9.2.4 Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of LW Bogdanka's computer systems may adversely affect its ongoing operations and therefore affect its future financial results. LW BOGDANKA systematically takes actions aimed at minimising the risk associated with the possibility of IT systems malfunctioning.

The Company implemented a "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." regulating organisational and technical measures for IT environment protection. This refers to the organisation of access to data, making safety copies and their storage, using the Internet traffic filters and firewall security systems, using application and hardware tools for the VPN secure connections, anti-virus systems for the purpose of protection servers and user workstations.

5.9.2.5 Key customer risk

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

As at the day of submitting the Report, the Company has signed contracts for the entire sales of coal for 2014, and has an agreement with Enea Elektrownia Kozienice S.A. which ensures a market for coal in the long-term perspective until 2025. In 2012, the Company signed new contracts with GDF Suez Energia Polska S.A. – (Elektrownia Połaniec) and with PGNiG Termika S.A. (formerly Vattenfall, Elektrociepłownie Żerań and Siekierki in Warsaw), Ożarów S.A. Group (Ożarów and Rejowiec Cement Plants), and has stable contracts with Energa Elektrownie Ostrołęka S.A., Zakłady Azotowe Puławy S.A. and EDF Paliwa Sp. z o.o. (formerly Energokrak, supplies to EDF Elektrownia Rybnik S.A.), which guarantee supplies of power coal for the next five years.

Furthermore, the Company has concluded conditional agreements with Enea Wytwarzanie S.A. (Elektrownia Kozienice S.A.), Energa Elektrownie Ostrołęka S.A. and Elektrownia Północ Sp. z o.o. for the purposes of future power coal supplies to new power units which, once the conditions precedent are met, will guarantee sales of coal at least until 2036. The conditional nature of the agreements for the purposes of future power coal supplies to the new power units under construction means that they are contingent upon the successful closing of financing for the new power units, therefore there is a risk that some of those contracts may fall through and the Company might be forced to enter into talks with other coal buyers that will guarantee the sale of coal in the long-term perspective.

In connection with its conditional nature, the aforementioned agreement with Energa Elektrownie Ostrołęka as regards future supplies for the newly constructed power unit C was terminated on 30 October 2012. The cause of termination, as given by the power plant, were changes in the market parameters of financing this investment and take-over of the Long-Term Investment Plan by the Energa Group, as a result of which the power unit C construction project was suspended and, therefore, the start date of power unit C operation, scheduled for 2016, will not be met. Termination of the agreement has no financial effect on the current situation of the Company, as the agreement related to a project of future supplies for which the Company assumes a high degree of risk related to failure to implement the project due to the requirement to ensure financing for the power unit C investment. The agreement is currently in the course of the 3 years' notice period. The terminated agreement does not apply to the current supplies to Energa Elektrownie Ostrołęka S.A., which take place in accordance with the terms of a separate agreement.

The Company mitigates the risk of long-term contracts by analysing the situation on the coal supplies and energy market and the forecasts related thereto, as well as by co-operating with renowned institutions dealing with energy sources market analysis and by co-operating with first-rate law firms. Managing the risk of long-term contracts is aimed at reducing the degree to which the Company may be affected by the risk of disadvantageous situation in coal pricing in the market through appropriate stipulation of agreements that ensures stability of supplies for commercial power industry.

Information concerning significant trade agreements signed by the Company in 2013 and after the balance sheet date is provided in section 3.1 of the Report.

There is also a risk that energy investments in new capacities will not be implemented, or that energy investments will be inclined towards substitute sources of energy (atom, natural gas, shale gas, renewable sources of energy) or that investments will be significantly delayed – which may cause a problem for the Company regarding allocation of significant volumes of coal originating from increased extraction. The Company mitigates this risk by looking for new customers who would diversify alternative sale options and would for example use the Company's coal to mix it with imported or domestic coal from other producers.

There is also a potential risk that as a result of investment delays in the Company, the level of higher extraction will be achieved later than it is assumed in the investment, mining and coal sales plans. This may bring about a problem of performing under sales contracts for the needs of the key recipients, which are concluded well in advance, and a risk of incurring liquidated damages (if any) by LW BOGDANKA. The Company mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

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

On both the Polish market and export markets, LW BOGDANKA S.A. is exposed to price competition from other producers of power coal in Poland (e.g. the mine companies Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.), as well as from eastern markets (including Russia, Ukraine and Kazakhstan) as well as supplies by other global producers delivered by sea (from the ports of Amsterdam, Rotterdam and Antwerp). In the case of domestic coal companies, significant risk factors associated with competition are:

- consolidation processes in the mining and power industry (vertical and horizontal consolidation within large energy groups) leading to the creation of powerful entities in terms of capital which determine how the domestic power coal market will develop;
- restructuring processes leading to the functional separation of entities responsible for generating energy, selling energy or purchasing coal as part of energy holdings;
- government assistance for hard coal mines in the Silesia region covered by a restructuring programme;
- large volumes in stock held by coal producers competitive to the Company and by electricity producers;
- poor financial standing of coal producers competitive to the Company; and
- the resulting sales strategy of the Company's competitors that focuses on maintaining a healthy cash flow rather than on profitability.

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

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

The specific parameters of the coal produced by the Company provide it with a competitive advantage when supplying coal mainly to commercial power producers, whilst limiting however the possibility of selling to individual buyers due to the restricted capacity to produce thicker coal assortments.

5.9.2.7 Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW BOGDANKA payable by its customers and the surplus of Company's receivables in comparison to liabilities. As of the end of 2013, trade debtors and other current accounts receivable of the Company accounted for 6.15% of the carrying value and 12.38% of the Company's revenue on sales. The share of trade debtors in trade debtors and other total current accounts receivable accounted for 78.15%.

In order to protect against the risk of potential insolvency of its customers, the Company continuously monitors customers' arrears associated with making payments for the products sold (including for the main product - power coal), by analysing the credit risk for the main customers individually, or by the respective classes of assets. Moreover, as part of the credit risk management, the Company makes transactions solely with those customers whose creditworthiness has been confirmed. For many years the Company has cooperated on the basis of long-term commercial contracts, as regards the delivery of power coal, with the main Polish energy-related groups, heat and power plants, heating plants and industrial enterprises.

5.9.2.8 Risk of delays in planned investments

LW BOGDANKA is carrying out activities aiming at the increase of production capacities by extension of the Stefanów Field, the processing plant and the track system. Contracts for performance of those tasks were awarded through public procurements. In September 2011, lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were launched. LW BOGDANKA exercises due diligence in the actions taken to ensure that the extension of the Mechanical Coal Processing Plant is completed as soon as reasonably possible.

The main construction work was completed, however with respect to construction there still are ongoing minor finishing works. In 2014, machine and technology assembly works will be completed and commissioning procedures and test run of the plant will be started. In accordance with an annex to the agreement and agreements for additional works, the whole investment should be completed by the end of 31 August 2014. As a result, full coal beneficiation will be possible starting from when the extension of the mine is scheduled for completion. Before the investment in question is formally completed, the Company will continue to exploit coal deposits from the individual extraction fields (Bogdanka, Stefanów) in such a way so as to fully correlate the quality of the excavated output with the deadline for achieving full coal processing capacity by the Mechanical Coal Processing Plant. These actions are of great significance in terms of guaranteeing that the Company will meet its production and sales targets, as well as the quality parameters expected by the buyers and specified in the one-year and long-term contracts concluded with key energy sector customers.

5.9.2.9 Risk associated with the strong position of the trade unions in the Group

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, four trade union organisations operate at LW BOGDANKA S.A., associating 63% of the employees. It concerns also possible protests connected with a risk of the Company's hostile takeover. The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of LW BOGDANKA S.A. mainly. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities conducted by LW BOGDANKA S.A.

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

5.9.2.10 Risk associated with retaining and attracting human resources for LW BOGDANKA

LW BOGDANKA S.A.'s demand for human resources results from the Company's strategy. The Company plans to recruit staff only for positions essential from the point of view of operating a coal mine, chiefly for mining, mechanical and electrical departments, and the Mechanical Coal Processing Plant, where, due to the work schedule of brigades/departments, it is impossible to complement the staffing by employees of external companies (e.g. RG Bogdanka).

So far the Company has experienced no major difficulties in attracting young and well-qualified personnel. The reactivated vocational training schemes discussed above essentially meet the Company's needs; therefore no risks have been identified in that area. Changes concerning the organisation of non-stationary vocational schooling (a system of courses), which were developed at the turn of 2011 and 2012, and will be introduced in the next school year, will not exert any influence on education, and thus, on the recruitment of new personnel.

A Company-independent factor which increases the risk of destabilisation of employment are the continued and protracted discussions and work of the government and the parliament on the pension system. While nothing negative has as yet been decided on miner pensions, announcements of returning to the case and the pressure from various social and political groups are conducive to the emergence of uncertainty. This regards extending the retirement age and reducing, or even revoking, the current pension benefits with respect to certain groups in the mining sector. The fear (perhaps unjustified) of losing certain accrued rights may, in case of unfavourable course of events, lead to numerous retirements in a short period of time by people who have already acquired the so-called industry-specific rights, but would otherwise be willing to continue to work, putting their retirement off until a little later. These are especially valuable employees because of their knowledge and experience. Their value is high, both for the quality of work and for the process of training younger staff. Their sudden departure in a short period of time could disrupt the generational continuity, which is being rebuilt in the Company, and thus the mild gradual staff turnover.

5.9.2.11 Risk of the employees of the Company being additionally employed in external entities cooperating with LW BOGDANKA

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

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

In 2013, the Company established EkoTrans Bogdanka (10 April 2013) and RG Bogdanka (11 September 2013), in order to improve its competitiveness with regard to outsourcing services rendered to LW BOGDANKA.

5.9.2.12 Key supplier risk

The specific nature of LW BOGDANKA operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under agreements concluded with the Company. This also applies to specialised providers of mining services, because due to a limited number of such providers on the Polish market, the Company may become dependent upon these entities.

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

5.9.2.13 Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements signed by LW BOGDANKA (particularly those relating to the purchase of specialist equipment and technology), it is exposed to a risk of an agreement being concluded on unfavourable terms. This risk also occurs where a business partner has a very strong negotiating position (e.g. in the case of a contract for deliveries from the only manufacturer of a particular product). The Company is taking the following measures to minimise the probability of this risk occurring and its impact:

– rigorous legal and substantive supervision of the process of concluding agreements resulting from tender procedures according to the procedures of public tenders and others;

– training in the logistics of concluding contracts and market analysis and training in negotiations and trading, particularly at the international level.

5.9.3 Financial risk

5.9.3.1 Liquidity risk

Important factors in the assessment of insolvency risk include the level of operating cash flows generated by the company, the amount of cash, and liquidity ratios. In the case of the Company, cash at hand as at 31 December 2013 amounted to PLN 177,898,000. The current liquidity ratio for the Company amounted to 0.78, and quick liquidity ratio – 0.63. In the entire 2013 net flows from operating activities generated by the LW BOGDANKA Group were 7.01% higher (as compared to the previous year). Therefore, as at the day of submitting the Report, there is no risk of the Company's insolvency. To avoid any potential risks in future and to mitigate the risk related to the Company's liquidity, long- and short-term analyses and forecasts are prepared, allowing cash needs to be determined. Those activities make it possible to plan revenues and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses.

Furthermore, in order to optimise cash management within the Company, a public procurement procedure is currently pending concerning the provision of a banking service involving the granting to the Company of an overdraft credit facility in PLN up to the amount of PLN 150 million.

5.9.3.2 Insurance risk

LW BOGDANKA S.A. insures its business. As is the case with other mining enterprises in the world, the threats most significant in terms of risk assessment are those related to the possibility of damage to the property used for mining operations. In this respect the Company holds insurance policies covering such risks of loss and damage to underground property as: underground fire, explosion, rock burst, rock and gas outburst, underground flooding, with the highest compensation limit among Polish mining enterprises. The remaining Company operations are covered by other insurance policies, such as third party liability insurance against damage caused in connection with business activity or property in the Company's possession, above-ground property insurance and all-risks insurance of rail vehicles. Given the very nature of insurance agreements which cover widest-available and at the same time specified scopes of insurance, it is not possible to fully transfer the risk faced by the Company on insurance companies. Therefore, it cannot be guaranteed that insurance policies taken out by the Company will prove sufficient for covering each and every loss or liability, which may exert an influence on its financial standing, results of its operations and the generated cash flow.

5.9.4 Risks associated with environmental protection

5.9.4.1 Risk associated with reclamation and mining damage

LW BOGDANKA is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be more strict. Any possible tightening of the standards in this respect may result in higher costs for the Company. As the mining area of the Company will be enlarged, the damage resulting from mining, both in buildings and agricultural land, will increase proportionately. Simultaneously with the coal extraction, the land settlement will enlarge within the mining area, which will result in a higher level of ground waters and local land undercuts. The growing damage resulting from mining will translate into higher outlays on the removal of the mining damage (possible 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.

The effects of extraction are monitored on an ongoing basis, including by way of gradual hydrographic works and prophylactic protection on the facilities within the boundaries of inflows.

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

The operations of LW BOGDANKA have a significant impact on the environment. Given the nature of that impact, the Company must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including BAT requirements - Best Available Techniques), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. As at the date of submitting the Report, the Company's operations are conducted in compliance with law and BAT requirements. The Company holds all permits required in connection with its operations, including, in particular, integrated permit for the installations covered with IPPS requirements (EkoKLINKIER Construction Ceramics Plant) and a permit for operating a mining waste utilisation facility. For the settlement period 2013÷2020, the Company was offered gratuitous CO_2 emission allowance. Furthermore, it must be stressed that since the environmental law regulations are subject to continuous changes, and the prevailing last years' trends in the EC environmental laws lead to tightening the standards of environmental protection, it cannot be ruled out that in future further legislative changes will introduce even stricter standards of the use of the environment which may apply to LW BOGDANKA. The changes may lead to the necessity of adjusting the Company's operations to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to LW BOGDANKA or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays and hence adversely affect the financial results. In order to lower the risk related to the provisions of the amended Mining Waste Act, in 2012 LW BOGDANKA obtained a permit for operating a mining waste utilisation facility. Therefore, the Company's operations in this respect have been adapted to the new regulatory requirements as from 1 May 2012.

In order to mitigate the risk related with the change in regulations with respect to the environment protection, the Company monitors on an ongoing basis, and adjusts its operations accordingly, within the prescribed time limits.

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

In connection with the extension of the mining area and increased extraction of coal, the amount of generated extraction waste significantly increased (in 2013 at the level of 5.06 million tonnes per year; the forecast for the period after 2013 in connection with a further increase in extraction is that the amount of waste in 2014 will range between 5.2 and 5.7 million tonnes). As of 31 December 2013, approx. 37% of extraction waste was recycled, whereas the remaining part was neutralised at the waste yard on the mine's premises (the waste is recycled by the mine or passed on to the entities authorised to deal with waste management for the purpose of recycling). Since – according to estimates – the storage capacity of the waste yard is sufficient for the next 3-5 years of storing, the Company (on the basis of a building permit) commenced works connected with increasing the height of the existing yard to 250 MASL, and undertook measures aimed at acquiring the adjacent areas in order to further extend the facility (increasing the area by approx. 144 ha to approx. 230 ha). The multi-stage 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, 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 mine will be forced to purchase those plots. Applications were submitted requesting that relevant amendments be made to the local spatial development plan. Considerable advancement has been made in this respect. Following social consultations, local community expressed its approval for the investment. Moreover, talks with the plot owners were already held, and preliminary consents for the purchase of plots were obtained. 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 extraction process and the necessity to search for alternative ways to manage the extraction waste. There is a risk that other solutions (in particular passing the waste to another entities for management, other waste yard location) may turn to be less cost effective which may affect the financial result.

In order to limit the risk related to acquiring waste utilisation sites, works connected with increasing the height of the existing mining waste utilisation facility were commenced. Such course of action will make it possible, without undue haste, to continue the work on acquiring new land to execute the next phases of extension of the yard and handle any formal and legal issues connected with this project.

5.9.4.4 Investment risks associated with protected areas

The mine is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the mining land and three others in close vicinity of the mining land). Those environmental conditions do not pose an obstacle for the activity in its present scope. Nevertheless, all the planned investment activities 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 the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter (e.g. an 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). These investment restrictions may require higher investment costs and therefore may affect the financial result.

5.9.5 Risk associated with proceedings and legal environment

5.9.5.1 Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken by the Company. Regular amendments to tax regulations and rigorous curative provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. Tax returns submitted by the Company may subject to inspection of fiscal authorities which, in the event of any irregularities, may calculate tax arrears including interest. Tax returns submitted by the Company may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions carried out within the Group as transactions of related entities, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

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

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

In 2013 fiscal proceedings were pending against the Company in order to determine the amount of real property tax due for the period between 2004 and 2012, instigated by the Heads of Puchaczów, Cyców and Ludwin communes.

In their decisions specifying the amount of real property tax due from the Company with regard to the period between 2003 and 2007, the authorities of the first instance determined that real property tax shall also apply to underground mining workings, including the infrastructure located within those workings. However, the decisions specifying the amount of real property tax due from the Company for 2008, issued both by the authorities of the first instance and the authority of the second instance [Local Government Appellate Court in Lublin], determined that real property tax was only due for the following infrastructure components located in underground mining workings: pipelines, slackline cableway routes and floor-mounted railways, which means that the real property tax base fails to include the value of underground mining workings in terms of the cost of their drilling. The decisions issued by the Local Government Appellate Court regarding the real property tax due for 2008 were challenged by the Company in full and submitted for a ruling to the Provincial Administrative Court in Lublin.

The position of fiscal authorities stated in their decisions concerning the real property tax for 2008 clearly reflects the unequivocal position of the Polish Constitutional Tribunal expressed in its ruling of 13 September 2011 in Case No. P 33/09 and the subsequent position of administrative courts based thereon. In the ruling referred to above the Constitutional Tribunal found that under the applicable provisions of law, imposing real property tax on the value of underground workings is, from the constitutional perspective, unacceptable. Underground workings are not building facilities (building equipment) within the meaning of the Polish Building Law, but space created as a result of mining and, in consequence, may not be classified as structures within the meaning of the Polish Building Law. Therefore, underground workings are not subject to real property tax either separately (i.e. as workings in the physical sense), or in combination with the infrastructure located in them (i.e. as workings defined comprehensively).

The position expressed in the above ruling by the Constitutional Tribunal and the related position of administrative courts questions the possibility to calculate real property tax on the value of underground workings in terms of the cost of their drilling. At the same time, the Constitutional Tribunal did not rule out the possibility of charging real property tax on structures and building equipment located in underground mining workings, with the proviso that real property tax on such structures and equipment could only be imposed if certain conditions, specified in detail in the ruling, were met.

Taking into account the position of the Tribunal expressed in the ruling referred to above and the position expressed by the fiscal authorities (Heads of communes and the Local Government Appellate Court in Lublin) in their decisions regarding the Company's real property tax liabilities for 2008 it should be stated that if this position prevails in the future, the risk of negative financial consequences related to the pending real property tax proceedings has been significantly reduced compared to the scale of repercussions resulting from the decisions of the authorities of the first instance concerning the real property tax for the period between 2003 and 2007.

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

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. The created pits are recorded in the accounting books as non-current 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 non-current 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:

- preparatory pits for liquidation – when the excavation from the exploitation field the preparatory pits are associated with ends, those pits are liquidated as useless for the remaining parts of the mine. Some of those pits which perform the function of near-wall pits are liquidated gradually along the progress of the exploited panel. The classification of this group of pits for liquidation is determined at the stage of planning the method of preparing the deposits for exploitation;
- 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;
- selector pits – they are used for deposit extraction (panels and cross-cuts). Those pits are liquidated when the extraction in the field of the panel is completed and when they are no longer necessary for operation of the remaining parts of the mine;
- 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 Non-Current Assets Classification. http://www.lw.com.pl

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

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken by the Company. Regular amendments to tax regulations and rigorous curative provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. Tax returns submitted by the Company may subject to inspection of fiscal authorities which, in the event of any irregularities, may calculate tax arrears including interest. Tax returns submitted by the Company may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions carried out within the Group as transactions of related entities, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities. In order to limit this type of risk, the Company applies various tax optimisation and tax planning methods, consequently limiting to a large extent the impact of such potential adverse events on the operations and financial performance of individual companies within the group.

5.9.5.5 Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. is listed on the Warsaw Stock Exchange, the Group is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Group's activity to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (uniform text, Dz. U. [Journal of Laws] 09.185.1439, uniform text). For failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the Company's activity from the perspective of disclosure requirements.

5.9.6 Integrated system of enterprise risk management — a summary

Following leading corporate benchmarks with respect to the fulfilment of the best international practices, the Company's obligations and activities supporting corporate governance, in 2011 LW BOGDANKA S.A. introduced the Integrated System of Enterprise Risk Management (ERM). In 2012, an IT (Risk Manager) system was implemented to support the enterprise risk management system, and the basic documents setting out the rules of system functioning, such as policies, procedures, risk register and risk valuation principles, were modified to adapt them to the implemented software. Currently, the risk management system of the Company covers all areas of the business and is aimed at identifying potential risks and opportunities for the enterprise. Risks are identified by Risk Owners (persons holding managerial positions in the organization), who then valuate them in accordance with predetermined scales of probability and potential impact of risk materialisation in five areas. Risks that received a total score in excess of a certain value are considered strategic risks – significant for the Company's business. For those risks, actions/plans aimed at minimising them and mitigating the possible effects of their occurrence are established and accepted by the Management Board. An important role in the risk management system of the Company is played by the Enterprise Risk Management Committee appointed by the Management Board, which Committee has its own specific competences at every stage of ERM operation, and which performs functions that involve accepting and issuing opinions on any identified risks and mitigation measures.

The Company presents information and reports on the results of ERM implementation and operation to the Supervisory Board and the Audit Committee. In subsequent periods, work is planned to further adapt the system to the needs of the Company to increase its role and effectiveness, based on the experience and performance of the system to date.

6 OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN 2013

6.1 Share capital

Since 10 June 2009 the LW BOGDANKA S.A.'s share capital has amounted to PLN 170,067,950 (one hundred seventy million sixty-seven thousand nine hundred and fifty zlotys) and was divided into 34,013,590 (thirty four million thirteen thousand five hundred and ninety) shares with a total value of PLN 5 (five zlotys) each. On 4 January 2012, 3,208,111 of the Company's registered shares acquired by entitled employees were dematerialised and introduced to trading on the Warsaw Stock Exchange. The dematerialisation and introduction to trading on the Warsaw Stock Exchange of another 34,754 shares took place on 4 February 2013. As at the date of preparing this Report, the share capital consists of 34,013,590 shares, including:

a) 34,013,455 Company shares marked PLLWBGD00016 (shares traded on the Warsaw Stock Exchange);

b) 135 series B registered shares.

A conditional increase in the Company's share capital – the Management Options Scheme

On 4 July 2013, the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. adopted Resolution No. 26 on the issue of up to 1,360,540 (one million three hundred and sixty thousand five hundred and forty) registered series A subscription warrants ("Warrants") with the exclusion of the pre-emptive right, a conditional increase in the Company's share capital by not more than PLN 6,802,700 (six million eight hundred and two thousand seven hundred zlotys) by issuing not more than 1,360,540 (one million three hundred and sixty thousand five hundred and forty) ordinary bearer series D shares with the par value of PLN 5.00 (five zlotys) each ("Series D Shares") with the exclusion of the pre-emptive right. Each Warrant will carry the right to acquire one Series D Share.

The issue price of Series D Shares, in accordance with the assumptions of the Scheme, will be equal to their par value, i.e. PLN 5.00 (five zlotys) per share. The right to acquire Warrants free of charge and the right to acquire Series D Shares at their issue price equal to their par value will act as an incentive for the Eligible Persons. This, in turn, will allow the alignment of personal interests of the Eligible Persons with the interests of the Company and, therefore, contribute to increasing the effectiveness of the Eligible Persons' measures aimed at improving the Company's financial results.

The Company announced the Scheme in Current Report No. 18/2013 of 29 May 2013 and Current Report No. 27/2013 of 5 July 2013.

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

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

Table 25 The number of the Company shares and shares in a subsidiary of the Company held by the members of the Management and the Supervisory Boards of LW BOGDANKA S.A.*

The Management Board					
	Number of Company shares as at 20 March 2014	Par value of shares (PLN)	Number of Company shares as at 7 November 2013	Par value of shares (PLN)	Number of shares in subsidiaries
Zbigniew Stopa	5,703	28,515	5,703	28,515	0
Roger de Bazelaire	0	0	0	0	0
Waldemar Bernaciak	2,162	10,810	2,162	10,810	0
Krzysztof Szlaga	0	0	0	0	0
Supervisory Board					
	Number of Company shares as at	Par value of shares (PLN)	Number of Company shares as at	Par value of shares (PLN)	Number of shares in subsidiaries

	21 March 2013		7 November 2012		
Witold Daniłowicz	0	0	0	0	0
Eryk Karski	0	0	0	0	0
Stefan Kawalec	0	0	0	0	0
Raimondo Eggink	0	0	0	0	0
Robert Bednarski	0	0	0	0	0
Dariusz Formela	0	0	0	0	0
Tomasz Mosiek	0	0	0	0	0
Michał Stopyra	0	0	0	0	0
Total	**Number of Company shares as at 20 March 2014**	**Par value of shares (PLN)**	**Number of Company shares as at 7 November 2013**	**Par value of shares (PLN)**	**Number of shares in subsidiaries**
	7,865	**39,325**	**7,865**	**39,325**	**0**

* According to the statements of the members of the Company's Management Board and Supervisory Board

The members of the Company's Management and Supervisory Boards do not hold any shares in the subsidiaries EkoTRANS Bogdanka Sp. z o.o. and RG Bogdanka Sp. z o.o.

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

On 4 July 2013, as part of the introduction of the Management Option Scheme at the Company, the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. adopted Resolution No. 26 on the issue of up to 1,360,540 registered series A subscription warrants. More information is provided in section 11.2 and 11.3 of the Report.

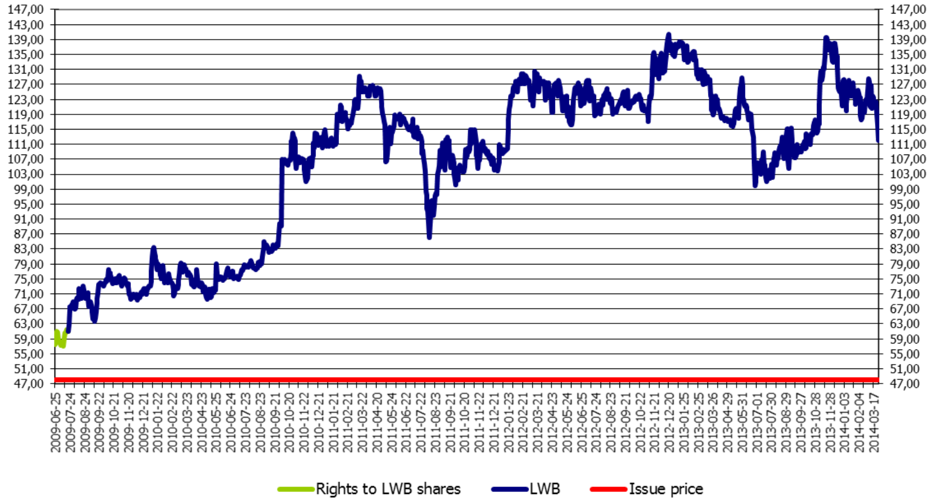
6.4 Acquisition of the Company's own shares

In 2013 the Company did not acquire any of its own shares.

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

Chart 15 Closing prices of the shares in LW Bogdanka S.A.

Chart - Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 19 March 2013



6.6 BOGDANKA in indices

6.6.1 BOGDANKA added to the WIG20 index

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

The debut listing of LW BOGDANKA S.A. in the WIG20 index took place at the first trading session after 18 March 2011. The Company, together with KERNEL, replaced Cyfrowy Polsat and Polimex Mostostal in the index. Companies listed in the WIG20 index undergo a quarterly review. New adjustments to the index may be introduced at the first session after 18 June 2011. On 31 January 2012, another ranking of the WIG20 index, and BOGDANKA kept in place in the group of WIG20 companies. As at the date of submitting this Report LW BOGDANKA remains in the WIG-20 index.

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

In 2013 LW BOGDANKA S.A. was qualified for the RESPECT Index Rating.

On 24 January 2013 the Warsaw Stock Exchange once again nominated 20 WSE-listed companies to be included in the prestigious RESPECT Index Rating. Among them was Lubelski Węgiel BOGDANKA S.A. – the first Polish coal mining company listed on the WSE. Publication of the index commenced on 1 February 2012.

On 31 July 2012 Lubelski Węgiel BOGDANKA S.A. was for the second time in 2012 included in the RESPECT Index Rating. This time, 20 public companies were included in the new index. Publication of the index in this composition commenced on 1 August 2012.

On 24 January 2013, for the first time in 2013 (and for the fifth time in general) LW BOGDANKA S.A. was included in the group of socially responsible companies.

In December 2013, for the first time ever, the Company was not included in the Index, however it made it to the last stage of verification.

6.6.3 WIG-surowce raw materials index

In March 2011 a new WIG-surowce raw materials sub-index was introduced on the Warsaw Stock Exchange. The index groups companies operating in the area of raw materials extraction and processing. As at the date of submitting this Report, LW BOGDANKA is listed in the WIG-surowce raw materials index.

6.6.4 New WIG30

Lubelski Węgiel Bogdanka S.A. qualified for the WIG30 index comprising the biggest and most liquid companies on the WSE Main List.

On 23 September 2013 WSE started publishing the WIG30 index. This index comprises 30 biggest and most liquid companies on the WSE Main List. WIG30 is a price index and thus when it is calculated it accounts only for the price of executed transactions. The WIG30 index may not include more than 7 companies from a single exchange sector and a single company's weight in the index capitalisation is capped at 10%. According to the projected timetable the WIG20 index will continue to be published until the end of December 2015. The enlargement of WSE main index portfolio also implies an increase in the number of participants in the mid-cap index – mWIG40 and the small-cap index – sWIG80.

7 PERSONNEL INFORMATION

7.1 Employment structure

Table 26 Employment status of the Company as at 31 December 2011, 2012 and 2013

Employment	2011	2012	2013	Dynamics 2013/2012 [%]
Total staff	**4,184**	**4,587**	**4,768**	**103.95**
Underground workers	2,697	3,010	3,167	105.22
Surface workers	891	956	958	100.21
Full-time employees underground	313	333	348	104.50
Full-time employees on the surface	283	288	295	102.43
Total underground	3,010	3,343	3,515	105.15
Total workers	3,588	3,966	4,125	104.01

Employment in 2013 increased by 181 people, i.e. by 3.95% in relation to the employment at the end of 2012. The table below presents staff turnover in a three-year period:

Table 27 Staff fluctuations in 2011÷2013

Item	2011	2012	2013
Beginning of year	**3,968**	**4,184**	**4,587**
Recruitments	425	580	428
Employees dismissed	209	177	247
End of year	**4,184**	**4,587**	**4,768**
Recruitment rate	10.71%	13.86%	9.33%
Dismissal rate	5.27%	4.23%	5.38

In 2013, 428 employees were hired, including 16 secondary school graduates, 17 university graduates, 395 persons from outside of the mining industry.

At the same time, 247 employees left the mine:

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

The employment structure of Lubelski Węgiel BOGDANKA S.A. by age, as at 31 December 2013, was as follows:

Table 28 Employment structure by age

Age	Number of employees			
	Women	Men	Total	%
Total staff	**243**	**4,525**	**4,768**	**100.00**
Below 30	26	1,617	1,643	34.46
Between 30 and 40	32	1,243	1,275	26.74
Between 40 and 50	86	1,032	1,118	23.45
Over 50	99	633	732	15.35

The employment structure by length of service of persons employed on the basis of employment contract at the end of 2013 was as follows:

Table 29 Employment structure by length of service at the end of 2013

Years of service	Number of employees in the year of service groups			
	Women	Men	Total	%
Total staff	**243**	**4,525**	**4,768**	**100.00**
Below 10	44	2,077	2,121	44.48
Between 10 and 15	8	503	511	10.72
Between 15 and 20	13	277	290	6.08
Between 20 and 25	29	363	392	8.22
Over 25	149	1,305	1,454	30.50

The above table shows that 2,136 employees (44.80%) working in the Company have over 15 years of service, which stands for a lot of experience and high qualifications.

7.1.1 Professional background of employees

Analysing professional background of the employees, it should be stated that the largest group is made of persons with secondary education. Their share in total employment at the end of December 2013 was 52.98%.

The table below presents employment structure by education as at 31 December 2013:

Table 30 Employment structure by education

Education	Number of employees			
	Women	Men	Total	%
Total staff	**243**	**4,525**	**4,768**	**100.00**
Higher	89	894	983	20.62
Secondary	125	2,401	2,526	52.98
Basic	27	1,077	1,104	23.15
Primary	2	153	155	3.25

7.1.2 Forms of performing work

The basic form of employment in the Company is an employment contract. Other forms of employment, such as a mandate contract or a performance contract, are used occasionally.

Employees are hired on the basis of an employment contract for an indefinite term. In the case of newly hired employees, contracts for an indefinite term are preceded by contracts for a probationary period or for a definite term. As at 31 December 2013 there were 979 people employed for a definite term.

7.2 Work productivity

Table 31 Total and underground productivity in LW BOGDANKA S.A. in 2011÷2013

Productivity	2011	2012	2013	Dynamics 2013/2012 [%]
Total [kg/man-day]	8,289	8,953	9,458	5.64%
Underground [kg/man-day]	21,559	20,768	21,968	5.78%

In 2013 total productivity (measured as a ratio of net output to total days of work) was higher than in 2012. Year-on-year an increase was noted from 8,953 kg/man-day (in 2012) to 9,458 kg/man-day (in 2013). The positive growth dynamics of this indicator are due to a greater increase in net output as compared to the change of total working days.

Underground productivity (measured as a ratio of gross output to days worked underground) increased in 2013 by 5.78% in comparison to 2012. The positive dynamics of this indicator are due to a larger increase in gross output as compared to underground working days.

7.3 Average monthly remuneration

Principles of remuneration in the Company in 2013 were regulated by the Collective Bargaining Agreement of 31 October 2001, concluded between the Management Board of the Company and trade organisations operating within the Company: Independent and Self-Governing Trade Union "Solidarność", Trade Union of Miners in Poland, Trade Union "Kadra" and Trade Union of Employees of Mechanical Coal Processing Plants "Przeróbka".

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

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

Table 32 Level of effected average monthly remuneration for work in 2012 and 2013 [in PLN]

Item	2012	2013	Dynamics 2013/2012 [%]
Total staff	**6,967.99**	**7,211.34**	**103.49**
Manual labourer	6,581.66	6,812.39	103.51
Underground workers	7,028.36	7,263.96	103.35
Surface workers	5,171.95	5,365.04	103.73
Full-time employees	9,407.97	9,722.49	103.34
Full-time employees underground	10,724.64	10,929.07	101.91
Full-time employees on the surface	7,905.86	8,317.56	105.21

Remuneration for the period of sick leave paid from the employer's funds and non-periodical components of remuneration have increased by more than 8%. The amount of long-service awards has increased by more than 8%, while the amount of severance pays has increased by more than 40% (in 2013 there were 191 people who retired or took disability benefits, which represents a growth by 57.85% as compared to 121 people in 2012).

7.4 Rules governing remuneration of the management and supervising personnel of the Company's and the value of such remuneration, awards or benefits payable to managing and supervising personnel in 2013

7.4.1 The Management Board and proxies:

Rules of remuneration of the Management Board members have been specified by the Company's Supervisory Board.

Members of the Management Board are employed on the basis of employment agreements, concluded between the Supervisory Board, represented by the authorised Members, and individual persons appointed to the Company's Management Board.

Depending on financial results and the performance of other tasks, the Management Board Members may be given an annual bonus in the maximum amount of 30% of their basic annual remuneration for the year preceding the year in which the award was granted.

The total gross remuneration paid to the Members of the Management Board in 2013 amounted to PLN 3,482,527.20. For the performance of their duties at the Company, Members of the Management Board were given remuneration only on account of employment agreements.

- Zbigniew Stopa - PLN 948,562.64
- Waldemar Bernaciak - PLN 721,940.52
- Yves Marie Gerard Roger de Bazelaire de Boucheporn - PLN 631,987.40 (from 4 March 2013)
- Krzysztof Szlaga - PLN 520,315.81 (from 11 March 2013)
- Krystyna Borkowska - PLN 350,467.65 (from 4 July 2013)
- Lech Tor - PLN 129,253.18 (from 4 July 2013)

In 2013 the former President of the Management Board Mr Mirosław Taras was paid the amount of PLN 180,000 as compensation for the non-competition clause.

The total gross remuneration paid to the Company's proxies in 2013 amounted to PLN 903,222.96. Within the duties at the Company, the proxies were given remuneration only in respect of an employment agreement.

7.4.2 Supervisory Board

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

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

Total gross remuneration paid in 2013 to the Supervisory Board Members for the performance of their duties at the Company amounted to PLN 843,420.00, including:

- Witold Daniłowicz - PLN 156,000.00
- Eryk Karski - PLN 133,200.00
- Stefan Kawalec - PLN 132,000.00
- Robert Bednarski - PLN 110,400.00

– Raimondo Eggink	-	PLN 110,400.00
– Tomasz Mosiek	-	PLN 110,400.00
– Dariusz Formela	-	PLN 88,800.00
– Michał Stopyra	-	PLN 2,220.00 (from 22 November 2013)

In 2013 one Member of the Management Board of LW Bogdanka S.A. received remuneration for the performance of duties in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o.

– Zbigniew Stopa PLN 46,500

Other Members of the Management Board and Supervisory Board of LW Bogdanka S.A. did not receive any remuneration for the performance of duties at the Company's subsidiaries.

Resolution No. 26 of the Annual General Shareholders Meeting of 4 July 2013 introduced the Management Options Scheme for 2013÷2017.

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013 – 2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672 Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Company's development. This was announced by the Company in Current Report No. 35/2013 of 30 September 2013. Options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares.

7.5 All agreements concluded in 2013 by and between LW BOGDANKA S.A. and the management personnel which provide for compensation in case of resignation or dismissal from their position for no cause or in case they are dismissed as a result of acquisition of LW BOGDANKA S.A.

Pursuant to the provisions of employment contracts concluded by and between LW BOGDANKA S.A. and the individual Members of the Management Board which were in force in 2013, in case they are dismissed or their employment contract is terminated before the expiry of their term for reasons other than violation of basic obligations arising from the employment relationship, a Member of the Management Board is entitled to a severance pay in the amount of three months' base remuneration. These provisions apply to agreements concluded with members of the Management Board appointed for the 8th term of office.

7.6 Employee social and welfare benefits

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

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

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

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

Table 33 Inflows and outflows from the Company Social Benefits Fund in 2012÷2013 [in PLN '000]

Type of benefit	**2012**		**2013**	
	inflows	**outflows**	**inflows**	**outflows**
Housing loans	2,326	2,767	2,855	2,488
Holidays for adults	0	1,467	0	1,787
Holidays for children	0	435	0	397
One-time benefits	0	141	0	158
TOTAL:	**2,326**	**4,810**	**2,855**	**4,830**

7.7 Occupational health and safety

7.7.1 Working conditions

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

7.7.2 Natural risks

The following natural threats occur in the mine:

- Methane hazard – category I (the lowest of four categories according to the classification).
- Fire hazard – the mine exploits the seams included in the fourth group of coal self-ignition hazard (according to five-group classification). High risk level requires conducting constant and intensive fire prevention measures and staff training in this respect. No fire occurred in 2013.
- Coal dust explosion risk – the seams where mining is taking place have been classified as category B in terms of coal dust explosion risk, and the long wall workings have been classified as no-risk, and category A and B in terms of coal dust explosion risk. At workings classified as category A and B in terms of coal dust explosion risk, zones inhibiting explosion propagation are maintained by stone dusting. At workings classified as category B in terms of coal dust explosion risk, anti-explosion dust and water barriers are used. Accumulation of the dangerous coal dust is limited by using dust volatility-inhibiting agents at sites where the dust originates (sprinkler systems in mechanical miners and heading machines and in dumping machines at output dump locations).
- Water risk – in 2013 all mining excavations were carried out at grade 1 water risk (the lowest one).

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

7.7.3 Technical risks

In 2013, on average 500 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present. Considerable growth as compared to 2012 results from a significant increase in the scope of works, and consequently, also an increase in the number of machines. Particularly dangerous machinery includes but is not limited to the machinery listed in Annex IV to Directive 98/37/EC implemented by virtue of the Regulation of the Minister of Economy, Labour and Social Policy of 10 April 2003 on the essential requirements relating to machinery and safety components (Dz. U. [Official Journal] No. 91, item 858). Particularly dangerous machinery includes but is not limited to locomotives, hydraulic-powered roof supports, presses, saws, etc. Reduction of technical risks and their impact on employees is effected gradually to reflect technological progress. New technological solutions in direct production, such as coal ploughing system, continue to be implemented. Moreover, at work stations indirectly associated with coal production, innovative technical solutions and small mechanisation equipment with improved safety norms are implemented. The Company monitors the market in terms of new safe machines and equipment. The staff is trained both in operating small mechanisation and machines, facilities and installations requiring appropriate qualifications. In addition to training carried out by the Training Department, the employees acquire skills and qualifications required for the Company in outside training sessions.

7.7.4 Harmful and nuisance factors

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

- measurements of hard coal dust, including the content of free crystalline silica, audible noise, and general and local vibrations are conducted by the accredited Work Environment Laboratory of Lubelski Węgiel BOGDANKA S.A.
- measurements of ionising radiation, harmfulness of welding gases and UV radiation are contracted to other external laboratories such as the Central Mining Institute (*GIG*).

7.7.5 Dustiness

In 2013, the number of staff working at work stations where health risk associated with the harmful factor of dust containing free crystalline silica in concentrations exceeding the maximum permissible concentration is present amounted to 1,389 people. Those employees were employed at workings classified as category A and B in terms of harmful dust risk.

In 2013 there was an increase in the number of persons employed at sites where maximum permissible concentration was exceeded. In spite of the preventive measures covered under the preventive measures program set forth in the Safety Document, the number of employees who work under threat of dust in excess of the maximum permissible concentration has raised, which is due to the fact that the mining work front has considerably expanded.

The preventive measures program involves the following:

1. Using efficient collective protection measures, including

   a) at face workings:

   - internal and external sprinklers on mechanical miner organs,
   - chemical agents to soften water,
   - maintain synchronisation with the wall plough in the sprinkling zone;

   b) at drift workings:

   - combined ventilation,
   - dry dust collectors,
   - internal and external sprinklers,
   - chemical agents to soften water,

   c) other measures at sites other than mine face:

   - sprinklers at dumping locations,
   - dust hoods at conveyors near air stopping,
   - washing and removal of accumulated dust.

2. Introducing new machines and technologies which limit the emission of dust to underground workings.

All employees exposed to harmful dust are equipped with appropriate personal protection equipment, depending on the category of dust risk. Each employee is informed of the existing danger and trained in how to use such personal protection equipment appropriately.

7.7.6 Audible noise

In 2013 there were 1,455 employees working under health risk from exposure to noise in excess of the maximum permissible level. An increase in this number results from considerable expansion of the machine park in underground workings. Preventive measures against noise are undertaken on a daily basis. This involves consistent implementation of a plan intended to eliminate or limit the existing sources of noise, especially those exceeding the maximum permissible levels. The new state-of-the-art machine park creates less noise, though sometimes at above-the-norm levels. Measures aimed at reducing the harmful impact of noise in relevant places are undertaken at several different levels:

- taking into account employee protection against noise at the stage of designing and creating a work station,
- monitoring the risk – noise – at work stations, analysis of findings and undertaking measures,
- limiting the employee's exposure to harmful noise during work at a work station,

- medical care – hearing tests,
- places where the maximum permissible levels of noise are exceeded are marked with signs warning against the threat of noise,
- personal protective equipment is widely used — all employees working in underground workings and those employed above ground in positions where the noise level is exceeded are equipped with relevant hearing protection equipment. Each employee is informed of the existing danger and receives training in appropriate use of personal protective equipment.

7.7.7 Mechanic vibration

2013 saw a decrease in the number of employees exposed to health risks from mechanical vibrations with intensity in excess of the maximum permissible levels. The decrease was from 90 people in the previous year to 64 people this year, and occurred despite the fact that the number of machinery, equipment and tools has raised.

The machinery, equipment and hand-held tools used in the production process generate mechanical vibration.

Depending on the site where vibrations penetrate the human body, they can be divided into two categories:

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

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

As for general vibrations, preventive measures involve using anti-vibration materials on machinery and equipment components which emit general vibrations, so that they do not propagate along structural components to which the employee may be exposed.

Table 34 Number of employees working at work stations where maximum permissible levels and maximum permissible concentrations are exceeded

Year	Underground				
	dustiness	**noise**	**vibrations**	**chemical agents**	**other**
2011	1,097	1,205	34	-	-
2012	961	1,222	90	-	-
2013	**1,389**	**1,455**	**64**	**-**	**-**

7.7.8 Nuisance factors

Nuisance factors in work environment are such factors the impact of which may cause an employee to feel unwell or excessive fatigue but does not lead to permanent health deterioration. Such factors may, however, lead to prolonged absence due to illness and decreased efficiency.

The main nuisance factors present at the Company, and specifically associated with underground mining operations, include:

- microclimate,
- lighting,
- excessive physical effort.

Measurements of microclimate components (temperature, humidity, pressure, cooling intensity) and lighting are conducted by authorised departments of the Company, in accordance with the relevant applicable legal regulations. Reducing the impact of such nuisance factors is effected through a number of technological and organisational solutions. Measurements of microclimate parameters are conducted on a regular basis. In 2013, 738 employees on average were working daily in hot microclimate conditions (temperature above 25° C). This was yet another year with a decrease (from 789 in 2012) in this respect. The reason for that is the introduction of the central air-conditioning system in the Stefanów Field and the large-scale use of local air-conditioners.

In 2013, there was also a decrease in the number of employees exposed to excessive physical effort, from 250 people per day in the previous year to 193 people. The Company keeps introducing equipment to improve the comfort and conditions of work, including in particular shunting tractors for short-distance transport.

7.7.9 Work accidents

In 2013, there were 87 minor accidents at work. This shows a significant reduction of accidents with a simultaneous growth in employment at LW Bogdanka S.A. The number of accidents and basic accident rates are presented in the table below.

Table 35 Number of accidents and accident rates at the Company in 2009÷2013

Year	2011	2012	**2013**
Number of accidents – total	93	103	**87**
including: fatal	-	-	**-**
causing serious injury	-	1	**-**
frequency rate (per 1000 employees)	22.81	23.05	**18.85**
frequency rate (per 100,000 workdays)	11.03	11.19	**9.19**

Table 36 Work accident costs at the Company in 2009÷2013

Year	**Number of accidents**	**including:**		**benefits paid (in PLN '000)**
		fatal	**serious**	
2011	93	-	-	332.3
2012	103	-	1	412.2
2013	**87**	**-**	**-**	**268.7**

7.8 Trade Unions

Four union organisations operate at the Company.

As at 31 December 2013, the size of the individual trade unions was as follows:

1. "Solidarność" Independent Self-Governing Trade Union 1,174 members
2. Trade Union of Miners in Poland 1,412 members
3. "Kadra" Trade Union 283 members
4. "Przeróbka" Trade Union 270 members

As at 31 December 2013, there were 4,768 employees employed at the Company. In total, 3,139 employees belonged to union organisations, which constitutes 65.83% of the total head count.

Each of these union organisations includes members who belong to several union organisations – approx. 74 employees.

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

7.9 Collective disputes

There were no collective disputes in 2013.

7.10 Information on the control system of employee share schemes

In 2013, no control system of employee share schemes was in place at LW BOGDANKA S.A.

8 ENVIRONMENTAL PROTECTION

8.1 Location of the Company

The entire infrastructure of the mine and the "Puchaczów V" mining area are surrounded with protected land. In the immediate vicinity the Polesie National Park and Łęczna Lake District Landscape Park are located. In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west.

The Polesie Protected Landscape Area is located in the north-west, while in the south-east there is the Chełm Protected Landscape Area.

The mine does not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-environmental actions, implementation of an Integrated Quality, Environmental and Health and Safety Management System, and obtaining a relevant certificate in accordance with PN EN ISO 14001, 9001 and 18001.

8.2 Natural environment protection measures

8.2.1 Air protection

LW BOGDANKA has an organised emitter which emits dust and gas into the atmosphere. It is the Construction Ceramics Plant where the main source of gas and dust emissions include: brick tunnel kiln, and ground material preparation unit. The EkoKLINKIER Construction Ceramics Production Branch has an integrated permit no. PZ 17/2006 of 29 December 2006, which specifies, among other things, the conditions and permissible amounts of pollutants which may be emitted from the plant into the air. The permit was amended by virtue of decision PZ 21/2009 of 6 July 2009 and decision No. 2/2012 of 31 January 2012. In 2012, the EkoKLINKIER Construction Ceramics Production Branch emitted 2,960 Mg of dust and gas without violating the permit. In accordance with the applicable laws, environmental charges for air emissions from the Construction Ceramics Plant were charged and paid at the end of the calendar year.

The Construction Ceramics Plant is included in the European Union Emissions Trading Scheme and, pursuant to the National Allocation Plan, the plant received 12,049 Mg of CO_2 per annum in the 2nd trading period 2008÷2012. The proposed allocation to the Plant for the trading period 2013÷2020 is 10,700 Mg of CO_2 per annum. The report for 2013 on CO_2 emissions will, upon verification by an authorised company, be sent to the National System Administrator – Institute of Environmental Protection. Time limit stipulated by the law — the end of the 1st quarter after the end of the trading year.

The second emitter is the waste rock disposal area, which may be a source of dust on dry and windy days.

8.2.2 Water and sewage management

Water and sewage management in terms of mine water involves:

- rock mass drainage at working sites,
- controlled drainage of Jurassic layers (limited amounts due to safety and technical issues),

- use of water for fire and process purposes (air-conditioning, machinery cooling, fighting dust risk),
- pumping water to the surface,
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczyńska Energetyka Sp. z o.o.),
- retention of mine water in surface tanks in order to reduce suspension,
- discharge of water from tanks through the Rów Żelazny ditch into the Świnka River.

In 2013, the average annual water supply to workings amounted to 6,203,677 m^3, average total mineralisation 2,411.91 mg/dm^3, Cl + SO_4 ion content – 997 mg/dm^3. The Cl + SO_4 ion content classifies the mine water of Lubelski Węgiel BOGDANKA S.A. into category II of industrial water (in accordance with the Central Mining Institute *(Główny Instytut Górnictwa*) classification) – as was the case in previous years.

The quantity of mine water used in 2013 for industrial purposes underground and on the surface amounted to a total of approx. 13,157 m^3/day, out of which approx. 11,582 m^3/day was used underground for the purpose of supplying the fire-fighting system and climatic systems. On the surface, water was used primarily by the Mechanical Coal Processing Plant in the quantity of 1,547 m^3/day for process purposes (water supplementation in closed circulatory system) and by Łęczyńska Energetyka – 28 m^3/day.

Tests of physicochemical properties of mine water are conducted on a regular basis, once a year, by Pomiar – GIG Lublin. In 2013, as was the case in previous years, 35 samples were taken for the purpose of physicochemical analyses of mine water which reaches the workings.

In 2013, tests of radioactive substances in mine water were conducted by the Radiometry Laboratory of the Central Mining Institute (*Główny Instytut Górnictwa*), and revealed the following concentrations: Radium ^{226} in the range of < 0.01 – 0.09 KBq/m^3, Radium ^{228} < 0.07 - 0.12 KBq/m^3. In the last 10 years, the results of water radioactivity analyses have been stable and show values significantly below the permissible norms.

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

a) drainage of the LW BOGDANKA S.A. mine in Bogdanka in quantities which shall not exceed:

   Qdavg = 20,000 m^3 /d, Qmax = 22,000 m^3/d,

   Qhmax = 917 m^3 /h, until 31 December 2010, and

   Qdavg = 26,700 m^3 /d, Qmax = 32 000 m^3/d,

   Qhmax = 1,400 m^3 /h, from 1 January 2011 until 31 December 2017.

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

In 2013, 15,422 m^3/day of water from mine drainage was discharged into the river. Mine water discharged into the surface water – the Świnka River – exceeds the parameters specified for category II of water quality only in terms of chloride content (on average 970.84 mg/dm^3).

Basic indicators of pollutants in the discharged water do not exceed the values specified in the water permit decision.

Drinking water and water for household purposes is supplied to Lubelski Węgiel BOGDANKA S.A. from the water mains of "Łęczyńska Energetyka" Sp. z o.o., which holds valid water permit decisions for:

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

Documentation maintained by "Łęczyńska Energetyka" Sp. z o.o. confirms compliance with the conditions specified in the decisions.

Pursuant to legal requirements, twice a year – after the end of each calendar year, LW BOGDANKA calculated and paid a charge for Cl + SO_4 load in unused mine water discharged into the receiving water body – the Świnka River.

In 2013, in compliance with the water permit, routine maintenance of the perimeter ditch of the dumpsite and the "Żelazny" drainage ditch which discharges mine water into the Świnka River was conducted.

8.2.3 Surface protection

In 2013, the impact of mining on the surface – as to date – manifested itself mainly as an increase in the surface scope of impact, with the following maximum soil settlement values in the following regions:

- approx. 2.50 m in the area of the former ZRH (Agriculture and Stock Farm) in Puchaczów, and in the area of such villages as Kobyłki-Kolonia Szczecin, Nadrybie Dwór, Nadrybie Ukazowe and to the east of the buildings in the Dratów village,

- approx. 2.00 m in the area of the village of Uciekajka and western part of the village of Kaniwola,

- approx. 2.00 m east of Puchaczów (near the course of the side-track),

- approx. 0.30 m south of the mining area (in the area of 7/VII ploughing panel exploitation).

In the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I) – after mining two seams – maximum soil settlement remains at the same level and amounts to approx. 5.00 m in the central part of the settlement basin.

Damage to buildings in 2013 – as to date – were primarily related to rural buildings, i.e. small-size residential and farm buildings. The reported damage to those buildings did not constitute a threat to their users and were removed immediately; also, protection against further impact was provided. In total, damage was removed and protection was provided in 17 buildings (in 10 residential and 7 farm ones).

In 2013, the buy-out of the developed properties that were affected most with the negative effects of mining exploitation, which started in 2010, was continued. In order to repair unremovable damage caused by mining in 2013 another three properties located in the Puchaczów commune were bought together with buildings situated on these properties.

As part of mining damage repair, dressing of damaged asphalt roads and dirt roads was carried out (in sections of commune and district roads) within a total distance of approx. 6.2 km.

Damage to farmland in 2013 manifested itself – as was the case in previous years – as persisting permeation of land, with the areas of permeation of land gradually becoming larger in the following regions:

- the area east of the village of Dratów, i.e. in the area where faces 10/I, 9/I, 8/I and 7/I in seam 382 are mined,

- the area west of the villages of Kaniwola and Nadrybie Ukazowe, i.e. in the area of previous mining of faces 6/II, 7/II and 8/II in seam 382,

- the area of the villages of Uciekajka and Kobyłki, i.e. after mining faces 10/II, 11/II and 12/II in seam 382.

- in the area of the railway line east of Puchaczów, i.e. in the area where faces 1/IV, 2/IV, 3/IV and 4/IV in seam 385 are mined.

The affected land owners in this area received suitable compensation for lost profits from the land affected by permeation in the total amount of PLN 2.6 million.

The costs of removing damage caused by mining in 2013 amounted to a total of approx. PLN 7.5 million. Total expenditure incurred in 2013 in connection with removing damage caused by mining increased in relation to the expenditure incurred in 2012, which amounted to approx. PLN 5.2 million.

In 2013, supplementary water engineering works connected with controlling hydrographic conditions in the area of the villages of Kobyłki were continued.

Reclamation

In 2013, Lubelski Węgiel BOGDANKA S.A. did not conduct land reclamation works in post-industrial areas, however it regularly nurtured the greenery, and took care of the facility used as the mining waste dump, and previously remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

In 2014 and in the years to follow, it is forecast that another developed farming plots in the Puchaczów and Ludwin communes will be bought back, due to irreparable to-date and forecast further damages caused by mining exploitation processes (i.e. permanent continuous undercuts). In 2014 about 8 developed real properties are planned to be purchased (applications in this regard were submitted in 2012 and 2013).

As a part of removing mining damage, in 2014 it is also planned:

- replacement of several overhead power lines with cable power lines, and replacement of some power lines with isolated networks.

Due to further exploitation, and thus ground settling (about 2.0m - exploitation of panels No. 1/IV/385, 2/IV/385, 3/IV/385 and 4/IV/385), there were local floodlands in the area of the mining water outflow ditch which prevented gravitational outflow of the mining water. After performance of hydro works in previous years, this area is being monitored regularly in order to prevent possible obstructions in outflow of this water to the Świnka river.

8.2.4 Waste management

In 2013, the total mining waste amounted to 5,064,500 tonnes. Approximately 37% of the waste was recovered and reused.

Waste recovery for industrial purposes in the installation of EkoKLINKIER Construction Ceramics production amounted to a total of 18,152 tonnes of waste.

Waste recovery for non-industrial purposes (i.e. remediation of post-mining areas, using waste to strengthen roads, yards, and for other purposes) amounted to 1,846,421 tonnes.

Mining waste is mostly (approx. 99% of all managed waste) used for the purpose of rehabilitation of degraded land (different types of post-mining pits). It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation. That takes place in accordance with the "Program of Mineral Resources Post-Mining Pit Remediation in the Territory of the Lublin Province" developed by the Environmental Protection Department of the Province Governor's Office in Lublin and approved by the Lublin Province Governor.

Owners of remediated land hold appropriate decisions of environmental protection authorities (district governor's office).

The table below shows dynamic quantities of waste obtained, waste recovered, and waste treated by depositing it in the facility used as the mining waste dump – in accordance with the Act on waste (Dz. U. [Journal of Laws] No. 62, item 628, 2001, as amended).

Table 37 Waste

Item	2013	2012
Mining waste (Mg)	5,064,500	4,742,458
Deposited waste (Mg)	3,199,928	2,395,292***
Reused waste (Mg)	1,864,572	2,554,471

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

***/including: 207,305 Mg stored from 2011 and 2,187,987 Mg stored from current production

In 2013, the Company did not pay for waste storage, which is in line with the new Act on mining waste of 10 July 2008 (Article 26.3) (consolidated text, Dz. U. [Journal of Laws] of 2013, item 1136).

Lubelski Węgiel BOGDANKA S.A. obtained a decision of the Lublin Province Governor no. SiR VII. 6620/32/2004 of 10 September 2004, as amended, permitting the production, recovery and treatment of waste, including a specification of the manner of waste management. The decision – in accordance with the applicable legislation – is applicable to all waste generated by the mine.

In 2013, pursuant to I.10.4. of the integrated permit, tests of the physicochemical composition of waste rock were carried out, and they will be carried out on a regular basis, annually, in accordance with the aforementioned permit.

To date, analyses of Carboniferous waste rock carried out by "Pomiar-GIG" have demonstrated stability of the physicochemical properties of that waste and showed their suitability for, among other things, engineering works connected with levelling of terrain degraded by mining activity, works connected with separators at landfills, non-soil remediation, and road rehabilitation.

LW BOGDANKA also conducts post-industrial waste management (scrap, waste wood, used oil, etc.) and contract treatment of waste (to specialised companies) which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).

8.2.5 Environmental protection sanctions and charges to which the Company is exposed

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

Table 38 Cost related to environmental protection [in PLN '000]

No.	Type of cost	2013	2012
1.	Protection costs (remediation, monitoring)	609.24	803.39
2.	Post-mining waste management and post-industrial waste treatment	26,892.90	40,459.02
3.	Cost of certified reports, opinions, documentation, designs, etc.	21.50	200.05
4.	Environmental charges, including:	456.26	408.08
	- emissions of gas and dust from means of transport, Construction Ceramics Plant and climatic equipment	193.94	168.09
	- waste [1]	-	-
	- discharge of sewage	262.32	239.99
5.	**Total costs**	**27,979.90**	**41,870.54**

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

Lubelski Węgiel BOGDANKA SA meets ecology norms and no penalties for violating environmental conditions specified in the applicable legal regulations were imposed on it in 2013.

Charges for operations conducted under the Geological and Mining Law include a mining operations charge and an exploitation charge.

The exploitation charge was paid quarterly to the accounts of communes where exploitation was conducted (60%) and towards the National Environmental Protection Fund (40%).

Table 39 Exploitation charge and mining use charge [in PLN '000]

No.	Type of charge	2013	2012
1	Exploitation	14,945.18	14,181.41
2	Mining operations	-	-

9 COURT AND OUT OF COURT PROCEEDINGS

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

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

9.1 Arrangement proceedings

In 2013, the Company was not a party in arrangement proceedings.

9.2 Court cases

9.2.1 Bankruptcy proceedings

1. A debt claim for the amount of PLN 3,838.01 in bankruptcy proceedings against Mega System Sp. z o.o. in Kołobrzeg conducted by the District Court in Koszalin, case No. VII GUp 13/12 (previously VII Gu 4/09). Under order of 13 July 2012, the Court reversed the arrangement option and changed the proceedings from proceedings with arrangement option to proceedings involving liquidation of the bankrupt's estate. Proceedings pending.
2. A debt claim for the amount of PLN 2,336.41 in bankruptcy proceedings against BUDGOR Spółka Akcyjna in liquidation in Lublin. At the moment, the proceedings are conducted by the Lublin-Wschód District Court in Lublin, based in Świdnik, IX Commercial Division, case No. IX Gup 4/11 (previously XVIII Gup 18/04).
3. A debt claim for the amount of PLN 4,163.79 in bankruptcy proceedings against Dolnośląskie Zakłady Metalurgiczne DOZAMET S.A. in liquidation in Nowa Sól. At the moment, the proceedings are conducted by the District Court in Zielona Góra, case No. V U 17/99.
4. A debt claim for the amount of PLN 32,225.61 in bankruptcy proceedings with arrangement option against CONBELTS Bytom S.A. in Bytom. The proceedings are conducted by the District Court in Katowice, X Commercial Division, Judge-Commissioner: district court judge Renata Michalak, Case No. X Gup 45/09/12.

   Under order of 22 May 2012, the Katowice-Wschód District Court in Katowice ended the bankruptcy proceedings and discontinued the enforcement and injunction proceedings against CONBELTS BYTOM S.A. Under the terms of the arrangement, creditors whose total debt claims did not exceed the sum of PLN 10,000 as at the day of bankruptcy (i.e. 17 December 2009) will be repaid with a single payment by 31 May 2013, and other creditors will be repaid in 20 quarterly instalments, starting from the end of June 2013.
5. A debt claim for the amount of PLN 1,019.35 in bankruptcy proceedings against WPHUP RUREX Sp. z o.o. in Bytom in liquidation. The proceedings are conducted by the District Court Katowice-Wschód in Katowice, case No. X GUP 44/09/8. Proceedings pending. On 14 December 2012, a partial demerger plan was developed.
6. A debt claim for the amount of PLN 8,536.21 in bankruptcy proceedings against ZPH Olszewski S., Olszewska A. JAKOL Sp.j. in liquidation in Kopina. The proceedings are conducted by the Lublin-Wschód District Court in Lublin, based in Świdnik, case No. IX GUp 11/12. Proceedings pending.
7. A debt claim for the amount of PLN 109.76 in bankruptcy proceedings against KPBP BUDUS SA in liquidation in Katowice, conducted by the Katowice-Wschód District Court in Katowice, X Commercial Division for Bankruptcy and Reorganisation, case No. X GUp 41/12/4. Proceedings pending.
8. A debt claim for the amount of PLN 17,936.50 in bankruptcy proceedings against EL-MART P.J. Sp. z o.o. with registered office in Lublin, filing for bankruptcy with arrangement option. At the moment the proceedings are conducted by the District Court for Lublin-Wschód in Lublin, based in Świdnik,

IX Commercial Division for Bankruptcy and Reorganisation, case No. IX GUp 30/12. Proceedings pending.

9.2.2 Commercial lawsuits

9.2.2.1 Lawsuits against the Company

1. A lawsuit filed by the Consortium of: BUDIMEX S.A. with its registered office in Warsaw, Ferrovial Agroman S.A. with its registered office in Madrid, and Mostostal Kraków S.A. with its registered office in Krakow, for payment of damages in the total amount of PLN 10,125,411.00 plus statutory interest from 2 November 2010 to the date of payment, pending before the Regional Court in Lublin, IX Commercial Division, case No. IX GC 245/11. The case is at the stage of evidence proceedings before the Court of first instance. On 27 November 2012, the Court admitted an opinion by a court expert. The next date of court hearing has not been set.
2. A lawsuit filed by Ms Olga Koza, pursuing business activity under the name Przedsiębiorstwo Wielobranżowe Monter with its registered office in Lisów, for payment of PLN 29,862.83 in statutory interest for the Company's delay in payment for goods delivered by Ms Olga Koza. By virtue of an order to pay of 19 March 2012, the District Court in Częstochowa, in the case No. VIII GNc 696/12, awarded the Claimant the amount of PLN 29,862.83 plus statutory interest from 22 February 2012 and the amount of PLN 2,791 as reimbursement for the costs of the proceedings from the Company. The Company challenged the aforesaid order. By virtue of a decision of 7 May 2012, the District Court in Częstochowa found it was not competent in the case and referred it to the District Court Lublin-Wschód in Lublin with seat in Świdnik (case No. VIII GC 1196/12). The Claimant limited the claim to PLN 14,931.42. By virtue of a judgment of 25 April 2013, the Court dismissed the claim and awarded the Company the amount of PLN 2,559.50 from the Claimant as reimbursement for the costs of the proceedings. On 06 June 2013, the Claimant lodged an appeal with the Court. By virtue of a judgment of 6 February 2014, the Regional Court in Lublin in case ref. IX Ga 269/13 dismissed the appeal and awarded the Company the amount of PLN 1,200 as reimbursement for the costs of representation in the lawsuit. The judgment is final and legally binding.
3. A lawsuit filed by Ms Olga Koza, pursuing business activity under the name Przedsiębiorstwo Wielobranżowe Monter with registered office in Lisów, and Mr Zdzisław Koza, pursuing business activity under the name Zakłady Metalowe KOZAMEX ZPChr Zdzisław Koza with registered office in Lisów, for payment of the amount of PLN 14,931.42 to each of the Claimants for the Company's delay in payment for goods delivered by the Claimants. By virtue of an order to pay of 7 December 2012, the District Court Lublin – Wschód in Lublin with seat in Świdnik, VIII Commercial Division, awarded each of the Claimants the amount of PLN 14,931.42 plus statutory interest from 29 November 2012 to the date of payment from the Company. On 2 January 2013, the Company challenged the aforesaid order to pay. Presently, the case is at the stage of proceedings before the Court of first instance. The Claimant Olga Koza withdrew the suit and currently only Zdzisław Koza claiming from the Company the amount of PLN 14,931.42 is the Claimant in this case. Presently, the case is at the stage of proceedings before the Court of first instance (VIII GC 76/13). The next date of Court meeting has been set at 1 April 2014.
4. A lawsuit filed by VENITEC Sp. z o.o. with registered office in Katowice, by virtue of an order to pay of 29 May 2012, the District Court Katowice Wschód in Katowice, in the case No. VI GNc 1680/12/2, awarded the Claimant the amount of PLN 10,484.61 plus statutory interest from 19 December 2011 and the amount of PLN 136 as reimbursement for the costs of the lawsuit from the Company. On 19 June 2012, the Company challenged the aforesaid order. By virtue of a decision of 27 July 2012, the District Court in Katowice found it was not competent territorially in the case and referred it to the District Court Lublin – Wschód in Lublin with seat in Świdnik. The dispute concerns whether it was justified by the Company to set off the receivables owed to the Company by VENITEC Sp. z o.o. under contractual penalties against the receivables owed by the Company to VENITEC Sp. z o.o. under the price for delivered goods. By virtue of a judgment of 30 April 2013, the Court dismissed the claim and awarded the Company the amount of PLN 2,417.00 from the Claimant as reimbursement for the costs of the proceedings. The Claimant appealed against the aforesaid judgment. The Company submitted a response to the appeal. By virtue of a judgment of 17 January 2014, the Regional Court in Lublin in case ref. IX Ga 254/13, changed the judgement of the Court of first instance in such a way so that it awarded VENTILEC Sp. z

o.o. from the Company the amount of PLN 10,848 plus statutory interest from 19 December 2011 by the payment date and the amount of PLN 2,960 as reimbursement for the costs of proceedings plus PLN 2,943 as reimbursement for the costs of the appeal proceedings. The judgment is final and legally binding.

5. A lawsuit regarding complaint filed by Dębieńsko Sp. z o.o. with registered office in Czerwionka – Leszczyny requesting resumption of the proceedings ended with a final and legally binding judgment in default of the Regional Court in Gliwice, X Commercial Division, of 16 July 2008, case No. X GC 60/08, value of litigation: PLN 14,431,837.31 – pending before the Regional Court in Gliwice, case No. X GC 242/12. By virtue of the order of 5 April 2013, the Court suspended the proceedings.
6. A lawsuit filed by Mr Jan Stachowicz and Ms Urszula Stachowicz, pending before the District Court Lublin – Wschód in Lublin with seat in Świdnik, case ref. I C 611/12, for payment of the amount of PLN 63,940.00 plus statutory interest from 30 September 2010 as lost income in consequence of inability to resume farming and damages for attachment of real property needed for water engineering purposes. With the decision of 24 April 2013, the District Court in Lublin-Wschód with the seat in Świdnik suspended the proceedings in the case upon a joint motion of the Parties. With the letter of 25 July 213, the plenipotentiary of the Claimants filed a motion for resuming the suspended proceedings. By the time of making this list, the Court has not set the date of the meeting. On 11 September 2013, the Court resolved to resume the suspended proceedings and admitted an opinion by a court expert in the field of farming. The information received from the Court suggests that the court expert provided the opinion together with the case files on 21 November 2013. By the time of making this list, the Court has not yet delivered the opinion to the Company.
7. The case brought by Marzena Kostecka, Elwira Flisiak and Iga Lis for approval of a declaration on evading legal effects of failure to make a declaration on the mode of acceptance of the estate of the deceased Krzysztof Szadkowski of 20 August 2013, pending before the District Court in Chełm, VIII Local Civil Division with the seat in Wrocław, case ref.: VIII Ns 434/13 and refers to the case brought by the Company for acknowledgment of acquisition of the estate of the deceased Krzysztof Szadkowski, described in item 1.2.2.B.4 of the list.

   In response to the aforesaid petition of Marzena Kostecka, Elwira Flisiak and Iga Lis for approval of a declaration on evading legal effects, the Company in its letter of 7 October 2013 moved for dismissal of this petition. By virtue of a decision of 19 December 2013, the Court dismissed the petition of the Petitioners for approval of a declaration on evading legal effects of failure to make a declaration on the mode of acceptance of the estate. The Company applied to the Court requesting that the rationale for the aforesaid judgment be prepared in writing.

   Presently, the case is at the stage of preparing the rationale for the aforesaid judgment in writing by the Court.
8. A lawsuit filed by Wit Kotnarowski, Stanisław Stachowicz and Janusz Chmielewski for payment of PLN 32,001,512.00, pending before Regional Court I Civil Division, case no. I C 942/13. The first trial was scheduled for 8 May 2014. In the statement of claim, the Claimants request the Company to return the amount of a fee, as covered by the statement of claim, for the use of the Company of an invention secured by patent no. 206048.

9.2.2.2 Lawsuits filed by the Company

1. A lawsuit filed by the Company against Aleksander Kabut and Marek Sitarz for payment of PLN 29,555,090.00, pending before the Regional Court, Commercial Court, in Gliwice, case No. X GC 122/11. Under this lawsuit, the Company seeks award of the demanded sum from the defendants on account of their liability as members of Management Board of Dębieńsko Sp. z o.o. with registered office in Czerwionka Leszczyny under Article 299.1 of the Polish Commercial Companies Code. By virtue of a judgment of 18 April 2013, the Court awarded the Company jointly and severally from the Defendants the amount of PLN 23,023,415.00 plus statutory interest from 14 April 2011 by the payment date and the amount of PLN 80,332.12 as reimbursement for the costs of the proceedings, while in the remaining part it dismissed the claim. The judgment is not final and legally binding. The Defendants appealed against the aforesaid judgment and lodged the motions for exemption from costs. With the decision of

21 May 2013, the Court exempt the Defendant Aleksander Kabut from court fee for an appeal in the amount of PLN 250 and dismissed the motion in the remaining scope. The Company submitted responses to the aforesaid appeal. At the meeting on 26 February 2014, the Appellate Court, due to an excused absence of one of the Defendants, adjourned the meeting. The date of the next appellate meeting has not been set by the Court yet.

2. Lawsuits against the consortium Olga Koza and Zdzisław Koza for payment of PLN 196,353.00 in contractual penalties for delay in deliveries under Agreement No. 1314/Z/2010. By virtue of an order to pay of 24 May 2013, the Regional Court in Lublin IX Commercial Division awarded to the Company the amount of PLN 196,352.60 together with statutory interest thereon from 13 May 2013 until the date of payment, and the amount of PLN 6,072.00 as reimbursement for the costs of the proceedings. The Defendants challenged the aforesaid order. At present, the case is being heard before the Court of first instance (case No. IX GC 342/13).

3. The case brought by the Company for acknowledgment of acquisition of the estate of Krzysztof Szadkowski, pending before the District Court in Chełm, VIII Local Civil Division with the seat in Wrocław, case ref.: VIII Ns 122/13. In the said case, the Company moves for acknowledgment of acquisition of the estate of the deceased Krzysztof Szadkowski who was the Company's debtor. By virtue of a judgment of 17 October 1995, the Provincial Court in Lublin awarded the Company the amount of PLN 39,438.80 plus the interest. The enforcement proceedings were suspended towards K. Szadkowski due to the court enforcement officer becoming aware of the K. Szadkowski's death and discontinued towards the wife of K. Szadkowski, due to cessation of the marital joint property upon the death of K. Szadkowski.

   By virtue of a decision of 5 December 2013, the Court suspended the proceedings until the final decision is issued in the case brought by Marzena Kostecka, Elwira Flisiak and Iga Lis for approval of a declaration on evading legal effects of failure to make a declaration on the mode of acceptance of the estate of the deceased Krzysztof Szadkowski of 20 August 2013, pending before the District Court in Chełm, VIII Local Civil Division with the seat in Wrocław, case ref.: VIII Ns 434/13.

9.2.2.3 Cases pending before labour courts

1. A lawsuit filed by Mr Wojciech Drozd against the Company, claiming payment, by the Company, of a compensatory pension, pending before the District Court in Lublin, VII Labour Division, case no. VII P 859/08. The value of litigation is PLN 29,200. The claimant has claimed payment of a compensatory pension of PLN 1,000 per month starting from July 2008, to be subject to annual indexation by the inflation rate, and payment of PLN 13,200 as the aggregate amount of compensatory pension payments for the period from October 2005 to June 2008, and a compensatory pension of 1,000 per month starting from July 2008, to be subject to annual indexation by the inflation rate. By virtue of judgement of 6 November 2013 the Regional Court in Lublin quashed in full the judgement in case no. VII Pa 121/13 entered by the court of first instance and sent the case back to the court of first instance for re-examination.

2. A lawsuit filed by Wiktor Czajkowski against the Company, for determination of workplace accident, pending before the District Court Lublin-Zachód in Lublin, VII Labour and Social Insurance Division, case ref. VII P 1025/12. The case is currently at the stage of evidence proceedings before the Court of first instance. The case is currently at the stage of evidence proceedings before the Court of first instance. On 3 January 2014, the opinion by a court expert on internal diseases and cardiology was delivered. The Company made reservations to the aforesaid opinion by a court expert.

3. A lawsuit filed by Jerzy Wierzbicki with the claim of 17 June 2013 (served on 16 September 2013) for awarding the Claimant from the Company the amount of PLN 231,000.00 as money equivalent for the harm sustained plus statutory interest calculated from the day of the statement of claim delivery until the payment date and for awarding the Claimant a monthly pension in the amount of PLN 1,000.00, starting from January 2013, payable by the tenth day of each month plus statutory interest in case of failure to meet the deadline for payment of any instalment, pending before the Regional Court in Lublin, VII Labour Division, case ref. VII P 10/13. With the letter of 30 September 2013, the Company lodged a response to the statement of claim wherein it moved for dismissing the claim in full. Presently, the

case is at the stage of proceedings before the Court of first instance. With the letter of 1 October 2013, the Company moved for bringing a third party action against the insurers: Sopockie Towarzystwo Ubezpieczeń Ergo Hestia Spółka Akcyjna and Powszechny Zakład Ubezpieczeń Spółka Akcyjna as third party defendants. The case is currently at the stage of evidence proceedings before the Court of first instance.

9.2.2.4 Administrative cases

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

   The proceedings are pending before the authority of the first instance. By virtue of the decision of 27 January 2014, the Head of the Puchaczów commune notified that it was expected that the proceedings would conclude on 28 March 2014.

2. Proceedings to determine the amount of real property tax liability for 2004 instigated by the Head of the Cyców commune. On 30 November 2009, the Head of the Cyców issued the decision specifying the real property tax liability for 2004 to amount to PLN 1,387,486.90 as well as past due tax liability of PLN 1,031,010.00. The authority of the first instance made the abovementioned decision immediately enforceable. On 22 December 2009, the Head of the Lubelski Tax Office in Lublin, acting under the writs of enforcement issued by the Head of the Cyców commune as regards the tax liabilities along with interest, as specified in the abovementioned decision, seized the Company's movables in the form of machines and equipment. On the same day the Company made a payment, to the bank account of the Lubelski Tax Office in Lublin, of the amount of past due tax with interest, as specified in the writs of enforcement issued by the Head of the Cyców commune along with the enforcement costs. On 28 December 2009, the Company filed to the Local Government Appellate Court in Lublin an appeal from the decision of the Head of the Cyców commune of 30 November 2009. The Local Government Appellate Court in Lublin has extended several times the time limit for examination of the appeal filed by the Company. The Local Government Appellate Court in Lublin, with the decision of 14 December 2011, case ref. No. SKO.41/231/P/2010, quashed the decision of the authority of the first instance in full and ordered the matter to be re-examined by the authority of the first instance. By virtue of the decision of 31 December 2013, the Head of the Cyców commune notified that it was expected that the proceedings would conclude on 31 March 2014.

3. Proceedings to determine the amount of real property tax for 2005, instigated by the Head of the Ludwin commune. On 20 October 2010, the Head of the commune issued a decision (case ref. No. Fn.3110/15-9/2010 2005) determining the amount of real property tax for 2005 at PLN 405,401.90 and past due tax to amount to PLN 399,540.80. In addition, the Head of the Ludwin commune issued a decision on 12 November 2010 making the above decision immediately enforceable. The Company paid to the authority of the first instance the amount of past due tax set in the decision referred to above along with interest. The Company appealed against the above decision. By virtue of a decision dated 19 April 2011, the Local Government Appellate Court quashed the decision of the authority of the first instance and dismissed the proceedings. The Prosecutor filed with the Provincial Administrative Court in Lublin the appeal against the aforesaid decision to the Provincial Administrative Court in Lublin, case ref. No.

I SA/Lu 581/11. The Provincial Administrative Court in Lublin, by virtue of a judgement dated 21 December 2011 quashed the above decision issued by the Local Government Appellate Court in Lublin. On 4 April 2012 the Company filed a cassation complaint against the aforesaid judgement with the Supreme Administrative Court. The case is currently being examined by the Supreme Administrative Court, case ref. No. II FSK 1145/12. The date of the hearing before the Supreme Administrative Court has not been set yet.

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

   In its decision dated 28 November 2012, the Local Government Appellate Court quashed the decision of the authority of the first instance and sent the case back for re-examination by the authority of the first instance. The case is currently being re-examined by the authority of the first instance. By virtue of the decision of 31 December 2013, the Head of the Cyców commune notified that it was expected that the proceedings would conclude on 31 March 2014.

5. Proceedings to determine the amount of real property tax for 2006, instigated by the Head of the Ludwin commune. On 21 November 2011, the Head of the Ludwin commune issued a decision (case ref. No. FN. 3120.15.23.2011) determining the amount of the Company's real property tax for 2006 at PLN 405,406.79 and past due tax to amount to PLN 399,540.79. In addition, with the determination of 12 December 2011, the Head of the Ludwin commune made the aforementioned decision immediately enforceable. On the basis of the aforesaid determination, the Head of the commune issued enforcement orders and filed a request with the Head of Lublin Tax Office for instigation of administrative enforcement proceedings. The Company paid the enforcing authority the amount of tax arrears, plus interest, as specified in the aforesaid decision. On 21 December 2011, the Company filed with the Local Government Appellate Court the appeal against the aforesaid decision. In its decision dated 28 November 2012, the Local Government Appellate Court quashed the decision of the authority of the first instance and sent the case back for re-examination by the authority of the first instance. The case is currently being re-examined by the authority of the first instance. By virtue of the decision of 30 January 2014, the Head of the Ludwin commune notified that it was expected that the proceedings would conclude on 31 March 2014.

6. The proceedings for declaring the final decision issued by the Local Government Appellate Court in Lublin on 29 January 2013, case ref. SKO.41/155/P/2012 invalid. By virtue of a decision of 14 February 2014, case ref. SKO.41/508/P/2014, the Local Government Appellate Court in Lublin, due to the objection, as defined by Article 186 of the Code of Administrative Procedure, of the District Public Prosecutor in Lublin, instigated *ex officio* the proceedings for declaring the aforesaid final decision of Local Government Appellate Court of 29 January 2013 invalid; the said decision of the Local Government Appellate Court in Lublin quashed the decision of the Head of the Puchaczów commune of 18 November 2011 on determining the amount of the Company's liability under real property tax for 2006. As can be concluded from the language of the rationale for the aforesaid decision, in its objection, the Public Prosecutor accused the Local Government Appellate Court of flagrant breach of Article 208.1 of the Tax Ordinance which objection comes down to flagrant breach of the aforesaid provision by discontinuation of the proceedings when there were still the premises for issuing the decision adjudicating on the merits of the case. In its objection, the Public Prosecutor quoted the views expressed in the legal question to the Supreme Administrative Court in Warsaw included in the decision of 19 June 2013, case ref. II FSK 513/13. Moreover, in the aforesaid objection, the Public Prosecutor moved for suspending by the Local Government Appellate Court in Lublin of the proceedings for declaring the aforesaid decision invalid and for withholding execution of this decision by the Local Government Appellate Court in Lublin.

7. Proceedings to determine the amount of real property tax for 2007, instigated by the Head of the Cyców commune. On 14 June 2012, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. Next, on 30 November 2012, the Head of the Cyców commune issued a decision determining the amount of the Company's real property tax for 2007 at PLN 2,653,249.00 and past due tax to amount to PLN 2,239,582.00. The aforesaid decision was served to the Company on 4 December 2012. On 18 December 2012, the Company appealed against the aforesaid decision. By virtue of a decision of 29 March 2013, the Local Government Appellate Court in Lublin quashed the decision of the first instance authority in full and discontinued the proceedings to determine the Company's real property tax for 2007 due to expiry of the tax liability. The abovementioned decision of the Local Government Appellate Court is final. On 5 October 2013, the deadline for lodging by the Public Prosecutor a complaint with the Provincial Administrative Court lapsed.

8. Proceedings to determine the amount of real property tax for 2007, instigated by the Head of the Ludwin commune. On 10 July 2012, the Head of the Ludwin commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. Next, on 29 November 2012, the Head of the Ludwin commune issued a decision determining the amount of the Company's real property tax for 2007 at PLN 405,451.00 and past due tax to amount PLN 399,541.00. The aforesaid decision was served to the Company on 4 December 2012. It was immediately enforceable and the Company paid the amount of tax arrears with interest on 10 December 2012. On 18 December 2012, the Company appealed against the aforesaid decision. By virtue of a decision of 4 April 2013, the Local Government Appellate Court in Lublin quashed the decision of the first instance authority in full and discontinued the proceedings to determine the Company's real property tax for 2007 due to expiry of the tax liability. The abovementioned decision of the Local Government Appellate Court is final. On 8 October 2013, the deadline for lodging by the Public Prosecutor a complaint with the Provincial Administrative Court lapsed. In turn, by virtue of a decision of 10 January 2014, case ref. SKO.41/5694/P/2013, the Local Government Appellate Court in Lublin, due to the objection, as defined by Article 186 of the Code of Administrative Procedure, of the District Public Prosecutor in Lublin, instigated *ex officio* the proceedings for declaring the final decision of the Local Government Appellate Court of 4 April 2013 invalid. As can be concluded from the language of the rationale for the aforesaid decision, in its objection, the Public Prosecutor accused the Local Government Appellate Court in Lublin of flagrant breach of Article 208.1 of the Tax Ordinance which objection comes down to flagrant breach of the aforesaid provision by discontinuation of the proceedings when there were still the premises for issuing the decision adjudicating on the merits of the case. In its objection, the Public Prosecutor quoted the views expressed in the legal question to the Supreme Administrative Court in Warsaw included in the decision of 19 June 2013, case ref. II FSK 513/13. Moreover, in the aforesaid objection, the Public Prosecutor moved for suspending by the Local Government Appellate Court in Lublin of the proceedings for declaring the aforesaid decision invalid and for withholding execution of the decision of 4 April 2013 by the Local Government Appellate Court in Lublin. With the decision of 4 February 2014, case ref.: SKO.41/606/P/2014, the Local Government Appellate Court in Lublin refused to withhold execution of the final decision of the Local Government Appellate Court in Lublin of 4 April 2013. Next, by virtue of a decision of 7 February 2014, case ref. SKO.41/607/P/2014, the Local Government Appellate Court in Lublin refused to suspend the proceedings for declaring the final decision of the Local Government Appellate Court in Lublin of 4 April 2013 invalid. In its decision of 20 February 2014, the Local Government Appellate Court in Lublin gave notice that it was expected that the case would be resolved on 20 April 2014.

9. Proceedings to determine the amount of real property tax for 2007, instigated by the Head of the Puchaczów commune. On 22 June 2012, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. Next, on 29 November 2012, the Head of the Puchaczów commune issued a decision determining the amount of the Company's real property tax for 2007 at PLN 9,326,024.00 and past due tax to amount to PLN 4,586,751.00. The aforesaid decision was served to the Company on 30 November 2012. It was immediately enforceable and the Company paid the amount of tax arrears with interest on 5 December 2012. On 14 December 2012, the Company appealed against the aforesaid decision. By virtue of a decision of 22 March 2013, the Local Government Appellate Court in Lublin quashed the decision of the first instance authority in full and discontinued the proceedings to determine the Company's real property tax for 2007 due to expiry of the tax liability. The

abovementioned decision of the Local Government Appellate Court is final. On 28 September 2013, the deadline for lodging by the Public Prosecutor a complaint with the Provincial Administrative Court lapsed.

10. Proceedings to determine the amount of real property tax for 2008, instigated by the Head of the Cyców commune. On 10 May 2013, the Head of the Cyców commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. Next, on 25 September 2013, the Head of the commune issued a decision determining the amount of the Company's real property tax for 2008 at PLN 1,124,096.00 and past due tax to amount to PLN 673,059.00. In this decision, the authority of the first instance deemed the elements of the infrastructure located in underground mining excavations of the Company in the form of reconstruction of underground excavations, pipelines, suspended railway routes and tracks of floor railway as subject to taxation and determined the amount of the real property tax on these elements. On 10 October 2013, the Company filed with the Local Government Appellate Court in Lublin the appeal against the aforesaid decision. With the decision of 19 December 2013, the Local Government Appellate Court in Lublin upheld the decision of the Head of the Cyców commune. The Company filed with the Provincial Administrative Court a complaint against the aforesaid decision of the Local Government Appellate Court in Lublin.

11. Proceedings to determine the amount of real property tax for 2008, instigated by the Head of the Ludwin commune. On 30 April 2013, the Head of the Ludwin commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. Next, on 10 October 2013, the Head of the commune issued a decision determining the amount of the Company's real property tax for 2008 at PLN 173,974.00 and past due tax to amount to PLN 168,017.00. In this decision, the authority of the first instance deemed the elements of the infrastructure located in underground mining excavations of the Company in the form of reconstruction of underground excavations, pipelines, suspended railway routes and tracks of floor railway as subject to taxation and determined the amount of the real property tax on these elements. On 28 October 2013, the Company filed with the Local Government Appellate Court in Lublin the appeal against the aforesaid decision. With the decision of 19 December 2013, the Local Government Appellate Court in Lublin upheld the decision of the Head of the Ludwin commune. The Company filed with the Provincial Administrative Court a complaint against the aforesaid decision of the Local Government Appellate Court in Lublin.

12. Proceedings to determine the amount of real property tax for 2008, instigated by the Head of the Puchaczów commune. On 4 June 2013, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. Next, on 10 October 2013, the Head of the commune issued a decision determining the amount of the Company's real property tax for 2008 at PLN 6,399,906.00 and past due tax to amount to PLN 1,285,151.00. In this decision, the authority of the first instance deemed the elements of the infrastructure located in underground mining excavations of the Company in the form of reconstruction of underground excavations, pipelines, suspended railway routes and tracks of floor railway as subject to taxation and determined the amount of the real property tax on these elements. On 28 October 2013, the Company filed with the Local Government Appellate Court in Lublin the appeal against the aforesaid decision. With the decision of 19 December 2013, the Local Government Appellate Court in Lublin upheld the decision of the Head of the Puchaczów commune. The Company filed with the Provincial Administrative Court a complaint against the aforesaid decision of the Local Government Appellate Court in Lublin.

13. Proceedings to determine the amount of real property tax for 2009, instigated by the Head of the Cyców commune. On 10 May 2013, the Head of the Cyców commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance. In its decision of 31 January 2014, the Head of the Cyców commune notified that it was expected that the proceedings would conclude on 31 March 2014.

14. Proceedings to determine the amount of real property tax for 2009, instigated by the Head of the Ludwin commune. On 30 April 2013, the Head of the Ludwin commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance.

15. Proceedings to determine the amount of real property tax for 2009, instigated by the Head of the Puchaczów commune. On 4 June 2013, the Head of the Puchaczów commune issued a decision notifying

about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance. In its decision of 27 January 2014, the Head notified that it was expected that the proceedings would conclude on 28 March 2014.

16. Proceedings to determine the amount of real property tax for 2010, instigated by the Head of the Cyców commune. On 10 May 2013, the Head of the Cyców commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance. In its decision of 31 January 2014, the Head of the Cyców commune notified that it was expected that the proceedings would conclude on 31 March 2014.
17. Proceedings to determine the amount of real property tax for 2010, instigated by the Head of the Ludwin commune. On 30 April 2013, the Head of the Ludwin commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance.
18. Proceedings to determine the amount of real property tax for 2010, instigated by the Head of the Puchaczów commune. On 4 June 2013, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance. In its decision of 27 January 2014, the Head notified that it was expected that the proceedings would conclude on 28 March 2014.
19. Proceedings to determine the amount of real property tax for 2011, instigated by the Head of the Cyców commune. On 10 May 2013, the Head of the Cyców commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance. In its decision of 31 January 2014, the Head of the Cyców commune notified that it was expected that the proceedings would conclude on 31 March 2014.
20. Proceedings to determine the amount of real property tax for 2011, instigated by the Head of the Ludwin commune. On 30 April 2013, the Head of the Ludwin commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance.
21. Proceedings to determine the amount of real property tax for 2011, instigated by the Head of the Puchaczów commune. On 30 April 2012, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance.
22. Proceedings to determine the amount of real property tax for 2012, instigated by the Head of the Cyców commune. On 10 May 2013, the Head of the Cyców commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance. In its decision of 31 January 2014, the Head of the Cyców commune notified that it was expected that the proceedings would conclude on 31 March 2014.
23. Proceedings to determine the amount of real property tax for 2012, instigated by the Head of the Ludwin commune. On 30 April 2013, the Head of the Ludwin commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance.
24. Proceedings to determine the amount of real property tax for 2012, instigated by the Head of the Puchaczów commune. On 04 June 2013, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings *ex officio*. The proceedings are pending before the authority of the first instance. In its decision of 27 January 2014, the Head notified that it was expected that the proceedings would conclude on 28 March 2014.
25. Proceedings following the Company's request for return of the amount of PLN 350,440.65 collected as enforcement costs (covers enforcement costs collected from the Company by the Head of the Lublin Tax Office in Lublin on the enforced amount due under the decision of the Head of the Puchaczów commune determining the Company's real property tax for 2004, which was subsequently quashed).

On 6 February 2012, the Company requested the Head of the Lublin Tax Office in Lublin to return the aforesaid amount, collected as enforcement costs. On 22 March 2012, the Head of the Lublin Tax Office issued a decision refusing to instigate the proceedings. The complaint against the aforesaid decision filed by the Company on 17 April 2012 was not admitted as on 25 May 2012 the Director of the Fiscal Chamber in Lublin issued a decision and upheld the challenged decision of the Head of the Lublin Tax Office. On 2 July 2012, the Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision of the Director of the Fiscal Chamber in Lublin. By virtue of a judgment of 9 November 2012, case No. I SA/Lu 671/12, the Provincial Administrative Court in Lublin quashed both the decision of the Fiscal Chamber Director and the preceding decision of the Head of the Lublin Tax Office. By virtue of a decision of 23 April 2013 [case ref.: EA/7241-21/13] the Head of the Lublin tax Office in Lublin refused to return the amounts collected as the enforcement costs plus statutory interest. The complaint filed by the Company on 10 May 2013 was not admitted as on 20 June 2013 the Director of the Fiscal Chamber in Lublin issued a decision whereunder he upheld the challenged decision of the Head of the Tax Office. On 24 July 2013, the Company filed a complaint with the Provincial Administrative Court. By virtue of a judgment of 15 November 2013 in case ref. I SA/Lu 949/13, the Provincial Administrative Court in Lublin dismissed the complaint of the Company.

26. Proceedings following the Company's request for return of the amount of PLN 119,947.95 collected as enforcement costs (covers enforcement costs collected from the Company by the Head of the Lublin Tax Office in Lublin on the enforced amount due under the decision of the Head of the Cyców commune determining the Company's real property tax for 2004, which was subsequently quashed).

On 1 February 2012, the Company requested the Head of the Lublin Tax Office in Lublin to return the aforesaid enforcement amount. On 22 March 2012, the Head of the Lublin Tax Office issued a decision refusing to instigate the proceedings. The complaint against the aforesaid decision filed by the Company on 17 April 2012 was not admitted as on 25 May 2015 the Director of the Fiscal Chamber in Lublin issued a decision and upheld the challenged decision of the Head of the Lublin Tax Office. On 2 July 2012, the Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision of the Director of the Fiscal Chamber in Lublin. By virtue of a judgment of 9 November 2012, case No. I SA/Lu 672/12, the Provincial Administrative Court in Lublin quashed both the decision of the Fiscal Chamber Director and the preceding decision of the Head of the Lublin Tax Office. By virtue of a decision of 23 April 2013 [case ref.: EA/7241-20/13] the Head of the Lublin tax Office in Lublin refused to reimburse the amounts collected as the enforcement costs plus statutory interest. The complaint filed by the Company on 13 May 2013 was not admitted as on 20 June 2013 the Director of the Fiscal Chamber in Lublin issued a decision whereunder he upheld the challenged decision of the Head of the Tax Office. On 24 July 2013, the Company filed a complaint with the Provincial Administrative Court. By virtue of a judgment of 10 January 2014 in case ref. I SA/Lu 950/13, the Provincial Administrative Court in Lublin dismissed the aforementioned complaint.

27. Proceedings with respect to the Head of the Puchaczów commune returning the overpayment (part of the overpayment not returned to date) in real property tax for 2003 in the amount equal to the interest on tax arrears plus interest for the period from the date of payment to the date of return totalling PLN 760,178.00. By virtue of a decision of 20 December 2011 (case ref.: PD-3110/001/108/06/0708/10/2011) the Head of the Puchaczów commune discontinued as unfounded the proceedings to return to the Company the overpayment in real property tax for 2003. On 3 January 2012, the Company appealed against the aforesaid decision to the Local Government Appellate Court in Lublin. By virtue of a decision of 22 October 2012 (case ref.: SKO.41/399/P/2012), the Local Government Appellate Court in Lublin quashed the decision of the first instance authority in full, determined the overpayment in real property tax for 2003 in the amount of PLN 78,027.00, refused to find and determine the overpayment in that tax in the amount of PLN 600,654, and determined the interest on the overpayment calculated as at the date of decision issue in the amount of PLN 33,850. In execution of the abovementioned decision, on 7 November 2012, the Head of the Puchaczów commune reimbursed to the Company account the amount of PLN 112,373.00 composed of:

– the amount of PLN 78,027.00 being the overpayment in real property tax for 2003,

– the amount of PLN 33,850.00 being the interest on overpayment in real property tax as at the decision issue date, i.e. 22 October 2012,

– the amount of PLN 496.00 being the interest on overpayment calculated from 23 October 2012 by the date of its reimbursement, i.e. 7 November 2012

The Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision. By virtue of its judgement of 27 March 2013, the Provincial Administrative Court in Lublin quashed the challenged decision of the Local Government Appellate Court in Lublin (case ref. I SA/Lu 1004/12) and ordered the matter to be re-examined by the Local Government Appellate Court in Lublin. By virtue of a decision of 04 November 2013, the Local Government Appellate Court in Lublin quashed the decision of the Head of the Puchaczów commune in full, stated and determined the overpayment in real property tax for 2003 in the amount of PLN 606,078.00, and determined the interest on the overpayment in real property tax for 2013 calculated as at the date of decision issue from 11 June 2008 in the amount of PLN 400,825.00.

By virtue of a decision of 16 December 2013, the Head of the commune applied the tax instalment for December 2013 in the amount of PLN 639,604 towards the overpayment in real property tax for 2013. By virtue of a decision of 11 February 2014, the Head of the commune applied the overpayment in real property tax for 2013 plus interest towards the tax liability under part of the first instalment of real property tax for 2014 in the amount of PLN 376,759.00. That means that the amount of overpayment in real property tax for 2013 was settled in full.

28. Proceedings to return, by the Head of the Puchaczów commune, the overpayment in real property tax for 2005 in the amount of PLN 4,942,035.30 plus due interest.

In a decision of 18 May 2012 (case ref.: PD.3110/98/06/07/08/09/10/11/2012), the Head of the Puchaczów commune suspended the proceedings to return the overpayment to the Company because of the need to resolve a preliminary issue first. The Company complained against the aforesaid decision to the Local Government Appellate Court in Lublin. By virtue of a decision of 18 September 2012 (case ref.: SKO.41/2753/P/2012), the Local Government Appellate Court in Lublin upheld the decision of the first instance authority. The Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision of the Local Government Appellate Court. By virtue of a judgment of 18 January 2013 (case ref.: I SA/Lu 956/12), the Provincial Administrative Court in Lublin quashed the challenged decision of the Local Government Appellate Court in full. In consequence, the Local Government Appellate Court in Lublin when re-examining the case on 20 August 2013 issued a decision (case ref.: SKO.41/2598/P/2013), whereunder it quashed the decision of the Head of the Puchaczów commune regarding suspension of the proceedings in the case for return of overpayment in real property tax for 2005 in full and discontinued as unfounded the proceedings in the said case.

With the letter of 31 January 2014, the Company notified the Head of the Puchaczów commune about total expiry as of the end of 31 January 2014 of the current Company's tax liability under the part of the first instalment of the real property tax for 2014 and the current liability under the maintenance fee for 2013 of PLN 1,658,525.40 and the obligation to issue a decision stating that the part of the overpayment in real property tax for 2005 is to be applied towards the remaining part of the first instalment of real property tax for 2014 and towards the liability under the maintenance fee for H2 2013.

In response to the aforementioned letter, the Head of the Puchaczów commune with its letter of 11 February 2014, despite the legal obligation, did not issue a decision stating application under Article 76a.1 of the Tax Ordinance of the overpayment in real property tax for 2005 towards the aforementioned Company's tax liabilities, but he only sent to the Company the aforementioned letter where invoking the decision of the Supreme Administrative Court of 19 June 2013 in the case ref. II FSK 513/13, he resolved that it was too early to state that the real property tax amount for 2005 overpaid by the Company obtained the status of overpayment and that it was yet to be resolved by the Supreme Administrative Court in the seven-judge bench in case ref. II FSK 513/13.

On 20 February 2014, the Company filed a petition to the Head of the Puchaczów commune to supplement the latter's decision of 11 February 2014 [case ref.: PD-3110/001/116/06/0708/09/10/11/12/13/14] on application of overpayment in real property tax for 2003 plus interest, under the decision of the Local Government Appellate Court in Lublin of 4 November 2013, case ref.: 41/3079/P2013, towards the tax liability under the first instalment of the real property tax for 2014 in the amount of PLN 376,759.00, by supplementing the decision by resolving that part of the overpayment in real property tax for 2005 plus the interest is to be applied towards the Company's tax liability under part of the first instalment of real property tax for 2014 (January 2014) in the amount of PLN 326,449.00 and towards the Company's liability under the maintenance fee for H2 2013 in the amount of PLN 1,658,525.40 as well as by proper supplementation of the legal grounds and rationale. The aforementioned petition has not been examined by the Head of the commune so far.

On 20 February 2014, the Head of the Puchaczów commune sent to the Company a reminder No. Up 1 [delivered to the Company on 24 February 2014], wherein it called upon the Company to pay within 7 days the amounts due under part of the first instalment of real property tax for 2014 (for January 2014) in the amount of PLN 326,449.00. In response, the Company in its letter of 27 February 2014, informed the Head of the commune that the aforementioned reminder was completely unfounded and was issued in violation of the effective provisions of law and therefore it does not provide for instigating administrative enforcement procedure in relation to the aforementioned amount against the Taxpayer under Article 15.1 of the Act on Enforcement Proceedings in Administration of 17 June 1966 (consolidated text in Dz. U. [Journal of Laws] of 2012 item 1015, as amended). At the same time, the Company reminded that the Taxpayer's real property tax liability for 2014 in the form of the first instalment of this tax – for January 2014 in the amount of PLN 703,208.00 expired in full with the end of 31 January 2014, and as a result no liability covered by the aforesaid reminder exists.

On 4 March 2014, in view of continuing inactivity of the Head of the commune in the said case, the Company filed with the Local Government Appellate Court in Lublin a reminder about failure to resolve the case in due time, as set forth in Article 139.2 of the Tax Ordinance, consisting in failure by the Head of the Puchaczów commune to issue a decision stating application as of the end of 31 January 2014 of the overpayment in real property tax for 2005 plus the interest towards the Taxpayer's liability under part of the first instalment of the real property tax for 2014 (for January 2014) in the amount of PLN 326,449.00 and towards the Taxpayer's liability under the maintenance fee for H2 2013 in the amount of PLN 1,658,525.40. At the same time, the Company filed a petition for immediate review of the aforesaid reminder.

II.

Further, with the letter of 14 February 2014 (delivered to the Head of the commune on 17 February 2014), the Company informed the Head of the Puchaczów commune about total expiry as of the end of 17 February 2014 of the current Company's tax liability under the part of the second instalment of the real property tax for 2014 in the amount of PLN 687,107.00 and about the obligation to issue a decision stating that the part of the overpayment in real property tax for 2005 is to be applied towards the second instalment of real property tax for 2014. In response to the aforementioned letter, the Head of the Puchaczów commune, despite the legal obligation, did not issue a decision stating application under Article 76a.1 of the Tax Ordinance of the overpayment in real property tax for 2005 towards the aforementioned Company's liability, but he only sent to the Company the letter of 18 February 2014 where again, as in the case of applying part of the overpayment in real property tax for 2005 towards part of the first instalment of the real property tax for 2014 and towards the liability under the maintenance fee for H2 2013, invoking the decision of the Supreme Administrative Court of 19 June 2013 in the case ref. II FSK 513/13, he resolved that it was too early to state that the property tax amount for 2005 overpaid by the Company has obtained the status of overpayment and that it was yet to be resolved by the Supreme Administrative Court in the seven-judge bench in the case ref. II FSK 513/13.

On 17 March 2014, provided that by this date the Head of the commune does not fulfil the obligation under Article 76a.1 of the Tax Ordinance, the Company intends to file with the Local Government Appellate Court in Lublin a reminder about failure to resolve the case in due time, as set forth in Article 139.2 of the Tax Ordinance, consisting in failure by the Head of the Puchaczów commune to issue a decision stating application as of the end of 17 February 2014 of part of overpayment in real property tax for 2005 plus the interest towards the Taxpayer's liability under the second part of instalment of the real property tax for 2014 in the amount of PLN 687,107.00.

29. Proceedings to return, by the Head of the Cyców commune, the overpayment in real property tax for 2005 in the amount of PLN 1,837,437.00 plus due interest.

    By virtue of a decision of 16 December 2011 (case ref.: SKO.41/3813/P/2011), the Local Government Appellate Court in Lublin quashed in full the decision of the Head of the Cyców commune on refusal to instigate the proceedings to return the overpayment in real property tax for 2005, and referred the case for re-examination by the first instance authority.

    In a decision of 21 May 2012, the Head of the Cyców commune informed the Company that the case would be handled by 20 July 2012. On 15 June 2012, the Company requested the Head of the Cyców commune in writing to remove violation of the law as regards the excessive lengthiness of the proceedings. In a letter of 28 June 2012, served on the Company on 17 July 2012, the Head of the Cyców commune presented a response to the aforesaid request to remove violation of the law.

    On 13 August 2012, the Company filed with the Provincial Administrative Court in Lublin a complaint against the failure of the tax authority to act and the excessive lengthiness of the tax proceedings to return the overpayment. By virtue of an order of 28 September 2012, the Provincial Administrative Court in Lublin divided the complaint filed by the Company into two separate complaints, and namely: case following the complaint against the authority's failure to act - case No. I SAB/LU 11/12, and case following the complaint against the excessively lengthy proceedings - case No. I SAB/LU 12/12 . Next, the Provincial Administrative Court in Lublin ordered that both of the aforesaid complaints be examined under one case No., i.e. I SAB/Lu 11/12, and by virtue of its judgment of 1 March 2013, rejected the aforesaid complaints by the Company finding that the measures of such type are not available to the Company in the said case.

    On 28 February 2013 (case ref.: Fn.3113-5-08/10), the Head of the Cyców commune issued a decision wherein he refused to find and determine the overpayment in real property tax for 2005 in the amount of PLN 1,837,437.00. On 19 March 2013, the Company appealed against the aforesaid decision to the Local Government Appellate Court in Lublin. With the decision of 7 June 2013 (case ref.: SKO.41/1536/P/2013) the Local Government Appellate Court quashed the decision of the first instance authority in full and determined the overpayment in the amount of PLN 1,837,437.00 plus due interest accrued thereon for the period from the overpayment occurrence date, i.e. from 16 November 2010 to the date of overpayment return in the amount equal to the amount of interest for the delay charged on tax arrears. On 30 December 2013, the Head of the Cyców returned to the Company part of the overpayment in real property tax for 2005 in the amount of PLN 1,114,000.00. With the letter of 28 January 2014, the Company applied to the Head of the Cyców commune to issue a decision stating application as of the end of 31 January 2014 of part of the overpayment in real property tax for 2005 (PLN 300,000.00) towards the current Company's tax liability under real property tax, i.e. towards part of the first instalment of this tax for January 2014 as regards the amount of PLN 300,000.00.

    Moreover, with the letter of 12 February 2014, the Company applied to the Head of the Cyców commune to issue a decision stating application as of the end of 15 February 2014 of part of the overpayment in real property tax for 2005 (PLN 250,000.00) towards the current Company's tax liability under real property tax for 2014, i.e. towards part of the second instalment of this tax as regards the amount of PLN 250,000.00.

    By virtue of a decision of 24 February 2014, the Head of the commune applied part of the overpayment in real property tax for 2005 towards part of the first instalment of real property tax for January 2014 in the amount of PLN 300,000.00. By virtue of a decision of 25 February 2014, the Head of the commune applied part of the overpayment in real property tax for 2005 towards the tax liability under part of the second instalment of real property tax for 2014 in the amount of PLN 250,000.00.

30. Proceedings to return, by the Head of the Ludwin commune, the overpayment in real property tax for 2005 in the amount of PLN 636,657.08 together with interest due thereon. In a decision of 27 January 2012 (Ref. No. Fn.3120.15.3.2012), the Head of the Ludwin commune suspended the proceedings to return the overpayment to the Company because of the need to resolve a preliminary issue first. The Company complained against the aforesaid decision to the Local Government Appellate Court in Lublin. By virtue of a decision of 12 September 2012 (case No. SKO.41/1360/P/2012), the Local Government

Appellate Court in Lublin upheld the decision of the first instance authority. The Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision of the Local Government Appellate Court. By virtue of a judgement of 8 February 2013 (case No. I SA/Lu 898/12), the Provincial Administrative Court in Lublin quashed the challenged decision of the Local Government Appellate Court in full. In consequence, the Local Government Appellate Court in Lublin when re-examining the case on 13 June 2013 issued a decision (case ref.: SKO.41/2142/P/2013), whereunder it quashed the decision of the Head of the Ludwin commune regarding suspension of the proceedings in the case for return of overpayment in real property tax for 2005 in full and discontinued the proceedings in the case.

31. Proceedings for declaring overpayment in real property tax for 2011 conducted by the Head of the Puchaczów commune.

With the letter of 28 February 2012, the Company filed a petition for declaring overpayment in real property tax for 2011 in the amount of PLN 101,208.00. Presently, the proceedings are pending before the authority of the first instance.

9.2.2.5 Return of overpayments for 2006÷2007

1. Return of the overpayment in real property tax for 2006 in the amount of PLN 4,584,638.00 plus due interest – Puchaczów commune

On 8 April 2013, the Company lodged a call for return of overpayment, however by now, despite the final nature of the decision of the Local Government Appellate Court in Lublin of 29 January 2013 (case ref: SKO.41/155/P/2012) quashing the decision of the authority of the first instance and discontinuing the proceedings to determine the amount of real property tax liability for 2006, the Head of the Puchaczów commune has not returned the real property tax for 2006 overpaid by the Company.

2. Return of the overpayment in real property tax for 2007 in the amount of PLN 7,428,537.00 plus due interest – Puchaczów commune

On 23 April 2013, the Company lodged a call for return of overpayment, however by now, despite the final nature of the decision of the Local Government Appellate Court in Lublin of 22 March 2013 (case ref: SKO.41/13/P/2013) quashing the decision of the authority of the first instance and discontinuing the proceedings to determine the amount of real property tax liability for 2007, the Head of the Puchaczów commune has not returned the real property tax for 2007 overpaid by the Company.

3. Return of the overpayment in real property tax for 2007 in the amount of PLN 3,626,105.00 plus due interest – Cyców commune

On 29 April 2013, the Company lodged a call for return of overpayment, however by now, despite the final nature of the decision of the Local Government Appellate Court in Lublin of 29 March 2013 (case ref: SKO.41/54/P/2013) quashing the decision of the authority of the first instance and discontinuing the proceedings to determine the amount of real property tax liability for 2007, the Head of the Cyców commune has not returned the real property tax for 2007 overpaid by the Company.

4. Return of the overpayment in real property tax for 2007 in the amount of PLN 646,438.00 plus due interest – Ludwin commune

On 15 May 2013, the Company lodged a call for return of overpayment, however by now, despite the final nature of the decision of the Local Government Appellate Court in Lublin of 04 April 2013 (case ref: SKO.41/55/P/2012) quashing the decision of the authority of the first instance and discontinuing the proceedings to determine the amount of real property tax liability for 2007, the Head of the Ludwin commune has not returned the real property tax for 2007 overpaid by the Company.

On 31 January 2014, the Taxpayer filed with the Ludwin commune Office the letter [case ref.: FK/669/2014] informing about the expiry as of the end of 31 January 2014, under Article 59.1.4 of the Tax Ordinance in conjunction with Article 77.1.1.b and Article 73.1.1 of the Tax Ordinance in conjunction with Article 142.1 of the Geological and Mining Law Act of 09 June 2011 (Dz. U. [Journal of Laws] of 2011 No. 163 item 981), of the current Taxpayer's liability under the maintenance fee for H2 2013 – as regards the amount of PLN 646,438.00, payable under Article 137.2 in conjunction with Article 137.1 of the Geological and Mining Law Act by 31 January 2014, which liability became due as of the end of

31 January 2014 and which would become tax arrears thereafter, has it not expired due to its application *ex lege* towards the said liability in the amount of PLN 646,438.00, and about the need for immediate issue by the Head of the Ludwin commune of a decision stating application under Article 76a.1 of the Tax Ordinance in conjunction with Article 142.1 of the Geological and Mining Law Act upon the expiry of 31 January 2014 of the overpayment in real property tax for 2007 plus the interest, towards the current Taxpayer's liability under the maintenance fee for H2 2013 as regards the amount of PLN 646,438.00.

In response to the aforementioned letter, the Head of the Ludwin commune, despite the legal obligation, did not issue a decision stating application under Article 76a.1 of the Tax Ordinance of the overpayment in real property tax for 2007 plus the interest, towards the aforementioned Company's liability, but he only sent to the Company the letter of 10 February 2014 where invoking the objection of the District Public Prosecutor in Lublin to the decision of the Local Government Appellate Court in Lublin of 04 April 2013 quashing the decision of the Head of the Ludwin commune of 29 November 2012 and discontinuing the proceedings, it stated that the 30-day period for return of overpayment calculated as of the date of issuing a decision on declaring the decision determining the amount of the tax liability invalid has not started running and as a result it proved that it is too early to state that the real property tax amount for 2007 overpaid by the Company has obtained the status of overpayment.

On 4 March 2014, in view of continuing inactivity of the Head of the commune in the said case, the Company filed with the Local Government Appellate Court in Lublin a reminder about failure to resolve the case in due time, as set forth in Article 139.2 of the Tax Ordinance, consisting in failure by the Head of the Ludwin commune to issue a decision stating application as of the end of 31 January 2014 of the overpayment in real property tax for 2007 plus the interest towards the Taxpayer's liability under the maintenance fee for H2 2013 as regards the amount of PLN 646,438.00. At the same time, the Company filed a petition for immediate review of the aforesaid reminder.

9.2.2.6 Enforcement proceedings

At present, the Company is a party to enforcement proceedings for the total amount receivable of PLN 584,923.05.

9.2.2.7 Lawsuit filed by Mirosław Taras – former President of the Management Board of LW BOGDANKA S.A.

The Company granted to an attorney at law Marcin Radwan-Rohrenschef, a legal advisor Katarzyna Petruczenko and an attorney at law Bartosz Piechota from the law firm Radwan-ROHRENSCHEF sp.k. a power of attorney ad litem to represent the Company in the proceedings held before the Regional Court in Lublin, case No. IX GC 470/12, initiated on 4 October 2012 by Mirosław Taras, former President of the Management Board of the Company (hereinafter the "Claimant").

The Claimant requests in the present case that resolution no. 21/VIII/2012 adopted by the Supervisory Board of the Company on 27 September 2012, removing him from the position of the President of the Management Board, be found invalid or quashed. In the Claimant's opinion, the resolution is invalid because of the infringement of good customs by the Supervisory Board, having powers, according to the Commercial Companies Code and the Articles of Association of the Company, to remove the President of the Management Board at any time. In addition, the Claimant points to the lack of any factual grounds for his removal.

On 27 December 2012, the Claimant extended the claim and requested that a resolution no. 33/VIII/2012 adopted by the Supervisory Board of the Company on 23 November 2012, appointing Mr Zbigniew Stopa as the President of the Management Board, be found invalid or quashed.

In the course of the proceedings evidence will be taken from witness testimonies and documents. The nearest Court meeting has been set at 20 May 2014.

The case concerns non property rights. Therefore, it is not possible to assess its financial consequences at present.

10 EXTERNAL INSPECTIONS AND AUDITS CARRIED OUT AT THE COMPANY

In 2013 the following inspections were conducted in the Company.

Table 40 Inspections carried out at the Company in 2013

No.	Inspection dates		Inspection body	Scope of the inspection
	Inspection commencement date	Inspection completion date		
1.	8 Jan. 2013	11 Jan. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Inspection concerning the execution of mining works by the preparatory and excavation works department, power machinery hazards, geological and mining measurement issues, operation of the OHS team and fire prevention activities
2.	28 Jan. 2013	28 Jan. 2013	Marshal Office (*Urząd Marszałkowski*) in Lublin	Launch of the investigation into noise nuisance caused by the trestle bridge used for transporting the coal output in Stefanów.
3.	30 Jan. 2013	1 Feb. 2013	State District Sanitary Inspectorate (*Państwowy Powiatowy Inspektorat Sanitarny*) in Łęczna	Inspection concerning the occupational health and safety conditions at the Bogdanka Field
4.	5 Feb. 2013	19 Feb. 2013	State Labour Inspection (*Państwowa Inspekcja Pracy*), Labour Inspector of the Regional Labour Inspectorate (*Okręgowy Inspektorat Pracy*) Branch in Lublin	Inspection concerning compliance with the labour law
5.	05.02.2013	08.02.2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Inspection concerning measurements of the blasting team, operation of excavation workings and execution of preparatory works
6.	12 March 2013	15 March 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Limited inspection concerning mining damage, health protection, OHS training for employees, methane hazards and hazards posed by electrical machinery, devices and installations
7.	20 March 2013	28 March 2013	State District Sanitary Inspector (*Państwowy Powiatowy Inspektor Sanitarny*) in Łęczna	Intervention inspection
8.	17 Apr. 2013	17 Apr. 2013	State District Sanitary Inspector (*Państwowy Powiatowy Inspektor Sanitarny*) in Łęczna	Follow-up inspection
9.	16 Apr. 2013	19 Apr. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Limited inspection

No.	Inspection dates		Inspection body	Scope of the inspection
	Inspection commencement date	Inspection completion date		
10.	18 Apr. 2013	22 Apr. 2013	Office for Railway Transport (*Urząd Transportu Kolejowego*) – Local Branch in Lublin	Inspection concerning technical check-ups and maintenance of rail vehicles
11.	25 Apr. 2013	26 Apr. 2013	State Labour Inspection (*Państwowa Inspekcja Pracy*) in Lublin	Inspection concerning the protection and working hours of rail vehicle operators
12.	14 May 2013	17 May 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Inspection concerning coal dust explosion hazards, transportation systems, mining operations, power machinery, geological issues and deposit management
13.	15 May 2013	15 May 2013	National Atomic Energy Agency (*Państwowa Agencja Atomistyki*) in Warsaw	Inspection of regulatory compliance with regard to operations involving the risk of exposure to ionising radiation
14.	19 May 2013	21 May 2013	Specialised Mining Office (*Specjalistyczny Urząd Górniczy*) in Katowice	Inspection concerning mining shaft hoists, mining plant building structures, high and medium voltage installations and networks powering structures, machinery and devices
15.	21 May 2013	21 May 2013	State District Sanitary Inspection (*Państwowa Powiatowa Inspekcja Sanitarna*) in Lubartów	Inspection concerning the sanitary conditions at the Stary Tartak facility and water pipeline
16.	23 May 2013	28 May 2013	Office of Electronic Communications (*Urząd Komunikacji Elektronicznej*) in Lublin	Inspection concerning the compliance with telecommunication regulations, decisions and provisions and frequency management and inspection of technical parameters of transmitters and transceivers used in the dispatch-type land mobile radio system
17.	27 May 2013	29 May 2013	State Mining Authority (*Wyższy Urząd Górniczy*)	Inspection concerning water management
18.	28 May 2013	28 May 2013	Marshal of the Lublin Province	Inspection concerning compliance with the terms of the water supply and sewage effluent disposal consent for special water usage, i.e. disposal of sewage into the ground using the existing ditch
19.	4 Jun. 2013	7 Jun. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Inspection concerning mining operations, power machinery, electrical devices and installations, Mechanical Coal Processing Plant
20.	17 Jun. 2013	21 Jun. 2013	State Mining Authority (*Wyższy Urząd Górniczy*) in Katowice	Inspection concerning the risk of falling rocks and cave-ins, compliance of the mining works with agreements, methane hazards and organisation of rescue services
21.	24 Jun. 2013	24 Jun. 2013	State District Sanitary Inspector	Inspection concerning the marketing of substances/mixtures/products

No.	Inspection dates		Inspection body	Scope of the inspection
	Inspection commencement date	Inspection completion date		
			(*Państwowy Powiatowy Inspektor Sanitarny*) in Łęczna	
22.	2 Jul. 2013	5 Jul. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Limited inspection concerning the operation of OHS services, construction works, the operation by the mining plant of excavation and liquidation workings and preparatory works in conditions of natural hazards and hazards posed by machinery and electrical devices and installations
23.	7 Aug. 2013	9 Aug. 2013	State Mining Authority (*Wyższy Urząd Górniczy*) in Katowice	Inspection concerning the operation of OHS services, the accuracy of post-accident documentation and registration of accidents and hazardous events, underground work stations and positions, working faces operated by KWK and third parties, the Safety Document, occupational hazard assessment for workstations and positions, staff training
24.	20 Aug. 2013	23 Aug. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Inspection concerning environmental protection, measurements, building structures, the operation by the mining plant of excavation and liquidation workings and preparatory works in conditions of natural hazards and hazards posed by machinery and electrical devices and installations
25.	28 Aug. 2013	17 Sep. 2013	State Labour Inspection (*Państwowa Inspekcja Pracy*) in Lublin	Inspection concerning the legal protection of labour, including occupational health and safety and compliance with working time regulations
26.	8 Sep. 2013	10 Sep. 2013	Specialised Mining Office (*Specjalistyczny Urząd Górniczy*) in Katowice	Limited inspection concerning the mining plant's building structures, major and minor shafts, including equipment
27.	10 Sep. 2013	13 Sep. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Inspection concerning mining operations, power machinery, electrical installations and environmental protection – water management and land remediation
28.	22 Sep. 2013	25 Sep. 2013	Specialised Mining Office (*Specjalistyczny Urząd Górniczy*) in Katowice	Telephone exchanges and dispatch rooms, including communication systems, safety and warning systems and the main telecommunications networks, mining shaft hoists
29.	25 Sep. 2013	25 Sep. 2013	Marshal of the Lublin Province in Lublin	Inspection concerning compliance with and the application of environmental protection provisions with regard to the use by the Company of an installation covered by the EU CO_2 emissions trading scheme
30.	25 Sep. 2013	25 Oct. 2013	Lublin Province Environmental Protection Inspector (*Lubelski Wojewódzki Inspektor Ochrony*	Inspection concerning compliance with environmental regulations and administrative decisions

No.	Inspection dates		Inspection body	Scope of the inspection
	Inspection commence-ment date	Inspection completion date		
			Środowiska) in Lublin	
31.	1 Oct. 2013	8 Oct. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Inspection of OHS team activities
32.	3 Nov. 2013	5 Nov. 2013	Specialised Mining Office (*Specjalistyczny Urząd Górniczy*) in Katowice	Limited inspection – telephone exchanges and dispatch rooms, including communication systems, safety and warning systems and the main telecommunications networks, major and minor shafts, including equipment
33.	5 Nov. 2013	8 Nov. 2013	State Mining Authority (*Wyższy Urząd Górniczy*) in Katowice	Limited inspection concerning the accuracy and completeness of measurement and geological records, the impact of current and projected mining excavations on land surface, protection of mining land against flooding, prevention of flood land formation and land undercuts
34.	12 Nov. 2013	15 Nov. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Limited inspection concerning fire hazards, building structures, measurements and geological surveys, operation by the mining plant of excavation and liquidation workings and preparatory works in conditions of natural hazards and hazards posed by machinery and electrical devices and installations
35.	1 Dec. 2013	2 Dec. 2013	Specialised Mining Office (*Specjalistyczny Urząd Górniczy*) in Katowice	Inspection requested by the company – inspection of technical acceptance
36.	1 Dec. 2013	2 Dec. 2013	Specialised Mining Office (*Specjalistyczny Urząd Górniczy*) in Katowice	Ad hoc inspection requested by the Head of Mining Supervision in Mining Facility
37.	10 Dec. 2013	13 Dec. 2013	Regional Mining Authority (*Okręgowy Urząd Górniczy*) in Lublin	Limited inspection concerning mining damage, environmental protection, measurements and geological surveys, market supervision, operation by the mining plant of excavation and liquidation workings and preparatory works in conditions of natural hazards and hazards posed by machinery and electrical devices and installations

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

11.1 Free of charge shares for eligible employees

On 4 January 2012, a total of 3,208,111 employee shares of Lubelski Węgiel BOGDANKA S.A. acquired free of charge by the Company's employees, were introduced to the Warsaw Stock Exchange. On the same day, the Company's shares were registered with the National Depository for Securities. On 4 February 2013, a total of 34,754 employee shares were dematerialised and introduced to the Warsaw Stock Exchange. At present, there are 135 registered shares traded outside of a regulated market. This was the final stage in the introduction of the employee shares to the Warsaw Stock Exchange. Since the Company's IPO, the entire process has been described in detail in the Company's subsequent annual reports.

11.2 Resolution on the issue of series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Company's share capital with the exclusion of a pre-emptive right, consent to carry out the Management Options Scheme in 2013÷2017

On 4 July 2013, the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. adopted Resolution No. 26 on the issue of up to 1,360,540 (one million three hundred and sixty thousand five hundred and forty) registered series A subscription warrants ("Warrants") with the exclusion of a pre-emptive right, a conditional increase in the Company's share capital by not more than PLN 6,802,700 (six million eight hundred and two thousand seven hundred zlotys) by issuing not more than 1,360,540 (one million three hundred and sixty thousand five hundred and forty) ordinary bearer series D shares with a nominal value of PLN 5.00 (five zlotys) each ("Series D Shares") with the exclusion of a pre-emptive right. Each Warrant will carry the right to acquire one Series D Share. The Warrants will be offered to the members of the Company's Management Board and to senior management members of key importance for the Company's development, i.e. to employees of the Company and of its subsidiaries as named in a list prepared by the Management Board and approved by the Supervisory Board ("Eligible Persons"), as a result of exercising the options granted by the Company's Supervisory Board ("Options") as part of the Management Options Scheme in place at the Company in 2013÷2018 ("Scheme"). The Warrants are to be issued free of charge, which is justified by the nature of the issue.

The issue of Series D Shares, in accordance with the assumptions of the Scheme, will be equal to their nominal value, i.e. PLN 5.00 (five zlotys) per share. The right to acquire Warrants free of charge and the right to acquire Series D Shares at their issue price equal to their nominal value will act as an incentive for the Eligible Persons. This, in turn, will allow for aligning the personal interests of the Eligible Persons with the interests of the Company and, therefore, contribute to increasing the effectiveness of the Eligible Persons' measures aimed at improving the Company's financial results.

The Company notified about the Scheme in Current Report No. 18/2013 of 29 May 2013 and Current Report No. 27/2013 of 5 July 2013.

11.3 Adoption of Terms and Conditions of Management Options Scheme in 2013÷2017 by the Supervisory Board and allocation of the options

By virtue of a Resolution of 30 September 2013 the Supervisory Board adopted the Terms and Conditions of the Management Options Scheme in 2013÷2017 (the "Scheme"). The Resolution was adopted on the basis of Resolution No. 26 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 4 July 2013 on the issue of series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Company's share capital with the exclusion of a pre-emptive right, consent to carry out the Management Options Scheme in 2013÷2017, which was announced by the Company in Current Report No. 27/2013 of 5 July 2013.

By virtue of the Resolution of 30 September 2013 and as part of the Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013÷2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672 Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Company's development.

Options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares.

The base price is equal to the average price of shares in the Company (calculated based on the closing prices of shares) for the three months preceding the date on which the General Shareholders Meeting adopted the Resolution, i.e. 4 July 2013 and amounts to PLN 117.75.

In each subsequent calendar month the base price is indexed by 0.35%, with the first date of base price indexation being 1 August 2013, and thereafter the date of indexation being the first day of each subsequent month.

The Strike Price of Options is equal to the base price less the cumulative dividend paid by the Company from the date of exercising the Options calculated for one share, starting from the dividend for 2012.

The exercise of the allocated Options will be conditional upon the fulfilment of business criteria in line with the Company's strategic plans, in accordance with parameters defined in Resolution No. 26 the Annual General Shareholders Meeting on 4 July 2013 and the Terms and Conditions of Management Options Scheme in 2013÷2017 and the resolution regarding the business criteria which, if met, may trigger the exercise of Options in the Management Options Scheme adopted by the Supervisory Board on 30 September 2013.

The exercise of the allocated Options will be conditional upon the satisfaction of EPS and UCCPr criteria, which will entitle the Participants to the exercise of 50% of available Options in each case.

In each year of the Scheme, the Supervisory Board shall adopt a resolution confirming satisfaction of (or failure to satisfy) the conditions entitling to the exercise of Options at a meeting held to assess the Company's financial statements for the previous financial year.

Within three years from the date of adopting resolution confirming satisfaction of the conditions, Participants may decide to exercise Options four times a year, within 10 business days after an interim report is published, except in lock-up periods. Following the exercise of the Options, half of the Warrants will be kept in the mandatory Loyalty Portfolio, with limited possibilities to convert them into shares and sell.

Number of Subscription Warrants a Participant may take up is determined as the quotient of the Option intrinsic value as at the Option exercise date (calculated as (market price of shares as at the Option exercise date less strike price) x number of Options) and the market price of shares as at the Option exercise date (Option intrinsic value/market price of the Company's shares). The Participant will be entitled to acquire the Company shares in the number equivalent to the number of warrants held.

Detailed information regarding the Scheme, including the Terms and Conditions of Management Options Scheme in 2013÷2017 was provided in Current Report No. 35/2013 of 30 September 2013.

11.4 Marketing activities conducted by the Company in 2013

The execution of marketing activities at LW BOGDANKA S.A. in 2013 was based on the following documents:

- Approved "Technical and Business Plan for Lubelski Węgiel BOGDANKA for 2013";
- "Sponsorship strategy for Lubelski Węgiel BOGDANKA S.A. for 2010 ÷ 2014" (Resolution of the Supervisory Board No. 75/VII/2010 of 28 September 2010) together with a review of the said document (Resolution of the Supervisory Board No. 32/VIII/2012 of 23 November 2012).

The following promotional activities are carried out in Lubelski Węgiel Bogdanka S.A.:

1. advertising sponsorship, sports is understood as all activities conducted by sports clubs or sports event organisers that involve the provision of sports advertising in exchange for the sponsorship of sports clubs or sports event organisers in various disciplines, significant from the viewpoint of the adopted strategy, promotional reach and image of a socially-responsible organisation.
2. advertising sponsorship, other is understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. This promotion channel applies in particular to CSR activities.
3. promotion – promotional mix for the BOGDANKA corporate brand is understood as public relations, Corporate Social Responsibility and publicity activities correlated with a media campaign aimed at promoting the Company's corporate image. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion]. These tasks are executed in-house by the Company's marketing, PR and CSR unit, as well as outsourced to advertising agencies in case of official media campaigns.

The rationale behind the marketing activities undertaken:

1. advertising sponsorship, sports and other

a) achieving marketing objectives

- continued creation of company image as a leader of the mining industry on the Polish and European market. An increase in the value of the Company's brands through a range of advertising services provided by sponsored entities. Obtaining high media coverage whose value in terms of advertising more than doubles the funds engaged in sponsorship;
- emphasising the pro-environmental image of the Company by promoting the accompanying brand in the market of construction materials, emphasising the ecological aspect of the activity conducted in all opinion-forming environments. Strengthening and authenticating the eco-friendly nature of the Company's brands;
- manifesting the success of the enterprise, confirming its credibility in the eyes of current and future contractors and investors;
- achieving the influence of the dynamic and modern image of sport on the image of the Company. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines;
- promotion of the image of the Company and its shareholders by sponsorship. Promotion of the Company products within the message directed to the target group, which is to be influenced by sponsoring;
- ensuring dynamics of the Company image in the capital market. Creating the image of the Company on the national and international arena in the context of its own plans of expansion and development, and consequently the increase of the value of the Company on the capital market;
- development of appropriate for the Company public relations in Poland and in the region. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness;

b) achieving social aims:

- minimising high risk of conflicts in the Company between the employer and trade unions, maintaining social order in the Company. Mitigating possible social tensions and creating an atmosphere of friendly attitude towards the Company's projects;
- maintaining good relations with employees, which translates into continued high performance of work provided by them;
- satisfying expectations of the local community in the region, which is one of the poorer regions of Poland;
- involvement of local youth into sport and social events of educational dimension, properly forming personalities of prospective future employees of the Company — in particular at the Górnik Łęczna Sports Academy;
- activating the community of the Lublin region into sport, social and cultural events, which would not be initiated without the support of the Company;
- creating the image of a socially responsible company, caring about employees and their families;

2) promotion of the BOGDANKA corporate brand and the EkoKLINKIER associated brand

- creating BOGDANKA's Corporate Identity as a modern and highly profitable mining and power company, attractive to capital market investors due to its programme of development and expansion, in accordance with the applicable strategy 2x2;
- emphasising the social dimension of the corporate and associated brand by sports, social and cultural sponsorship, which stimulates the activity of local communities in the Lublin region;
- highlighting the pro-environmental image of the Company by promoting the "EkoKLINKIER" associated brand on the construction materials market, consistently stressing the ecological aspect of the company's operations in all opinion-making circles.

Since 2013, one of the common aims of the above promotional activities is to undertake promotional activities that would comply with the CSR strategy currently in place at LW Bogdanka S.A.

Execution of the 2013 advertising budget

Promotional activities for **the BOGDANKA corporate brand** focused on:

1) the product and on the brand image – from June to September 2013 the Company ran an advertising and educational campaign whose slogan read "Don't wait too long, don't pay too much – buy now", with the aim of raising customer awareness of the benefits associated with purchasing coal ahead of the start of the heating season. The campaign also promoted the benefits of using coal for heating purposes, but focused primarily on environmental factors related to the burning of dry coal in modern heating systems. The campaign generated greater demand for Bogdanka coal already in early autumn among individual buyers, but also small-sized enterprises.

2) the brand image — these activities were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's advertising was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business (building the success dimension of the brand), as well as a reliable employer, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates [building the social dimension of the brand]. The fundamental PR operations conducted in 2013 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies in connection with the Company's presence on the Warsaw Stock Exchange and to build a positive image in the eyes of the existing and future shareholders.

   Advertising at cultural and scientific events greatly contributed to the creation of positive brand image in the community, as well as among researchers, decision- and opinion makers and emphasised the importance of Lubelski Węgiel BOGDANKA S.A. for the Lublin region as one of few large and expansive companies in the area.

   The promotional activities involved mainly displaying the logos of brands belonging to LW BOGDANKA S.A. at events considered important for the region and the corporate brand from the point of view of advertising and target groups. Information about the range of products offered by the Company was actively distributed at cultural, educational and other events.

   The advertising activities listed above had a significant impact on the promotion of the BOGDANKA brand. Radio and television broadcasts of sports tournaments and sponsored social or sports events, articles about sports teams sponsored by the Company and their photographs published in the press demonstrated the Company's commitment to the promotion of sports and an active lifestyle. All these activities were aimed at promoting the Company's Corporate Identity – domestic and international success, good relations with the general public, earning the trust of the Company's stakeholders.

In conclusion, the sponsorship of sports clubs, in particular GKS Bogdanka / Górnik Łęczna and Lubelski Węgiel KMŻ Lublin, as well as the purchase of advertising in nationwide media, promoted the BOGDANKA brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of LW BOGDANKA S.A. brands among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Advertising at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers, greatly enhancing the social dimension of the brand in the region. The promotion of the corporate and associated brands was strengthened by the success of sports clubs sponsored through advertising, as well as by advertisements shown at sports events or tournaments involving other clubs, with whom promotional co-operation had been established.

Execution of promotional budgets

The implementation of the advertising budgets both of the Bogdanka corporate brand and the associated EkoK-LINKIER brand stood at 94.89% and 66.48%, respectively. The sports sponsorship budget was executed in 93.55%, whereas the execution of the budget allocated to other sponsorship stood at 46.25%*.

Table 41 Advertising budget execution in 2013 [in PLN '000]

Item	Advertising budget item	Execution in 2013 [PLN net]
1	Promotion of the BOGDANKA corporate brand	759.15
2	Promotion of the EkoKLINKIER associated brand	332.38
3	Advertising sponsorship, sports	5,800.00
4	Advertising sponsorship, other	185.00
TOTAL		**7,076.53**

11.5 Donations for causes related to education, culture, fitness and sports, health care and social services, religious worship

Lubelski Węgiel BOGDANKA is a valued employer in the region. The Company's biggest asset are its people, who identify with the business and its mission. The Company's personnel, together with their families, numbers over 10,000 individuals who are directly and indirectly associated with and financially dependent on the mine.

In its operations, apart from achieving positive economic results, the Company has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. Moreover, the Company sponsors sports and cultural activities. This philosophy benefits the Company, helps to promote a favourable image of a business that cares about non-economic activities and, first and foremost, encourages local initiative.

In 2013, the Company's Management Board allocated to donations in the form of cash and non-cash donations a total amount of PLN 510,201.41 (five hundred ten thousand two hundred and one zloty 41/100).

In 2013, the Management Board allocated funds for the following purposes:

- health care and promotion	-PLN 182,989.65
- culture, art, protection of culture and tradition	-PLN 213,609.07
- promotion of sports	-PLN 11,615.26
- public order and safety	-PLN 13,011.63
- education and science	-PLN 88,975.80

Pursuant to Article 32.2.3 of the Company's Articles of Association, the Supervisory Board's approval is required for contracts of donation whose value exceeds the PLN equivalent of EUR 5,000.

In 2013 one contract of donation was concluded which required approval of the Company's Supervisory Board.

All beneficiaries are required by the provisions of the contract to issue a written statement confirming the acceptance of a donation, followed by a report on the use of the donation for the purpose specified in the contract. Such reports are submitted by the beneficiaries in the form of statements, descriptions, photocopies of invoices and other documents proving due execution of the contract of donation.

11.6 CSR strategy for 2012÷201

Since 2012, the Company has applied the Corporate Social Responsibility Strategy (CSR) for 2012÷2015. This basic corporate document presents the vision and objectives that Bogdanka intends to achieve through sustainable development. It was created on the basis of key CSR challenges faced by the worldwide mining industry.

For many years now, LW BOGDANKA S.A. has been applying a number of corporate responsibility practices to its business activities. The Strategy has allowed the Company to introduce order to some of these practices and undertake new measures in such areas as:

- ethics and communication transparency in business practice — in 2013 all employees familiarised themselves with the Code of Ethics and signed a conflict of interest report;
- security and development of the company employees;
- innovative and active influence on the surroundings and the environment;
- achieving business objectives in accordance with the rules of sustainable development.

The CSR Strategy for LW BOGDANKA S.A. is also a commitment of constant monitoring of all the yardsticks of the activities undertaken, and to report the company's social engagement, for instance in sports and culture sponsorship, environmental protection, or improvement of the employees' security and self-development.

In the fourth quarter of 2013 the Company revised its existing social responsibility strategy adopted for the period 2012÷2015. The purpose of the revision was both a standard assessment of the degree of implementation of the set goals, and – first and foremost – the assessment whether these goals are update and adequate to the challenges the Company is facing. In consequence of a process, which lasted several months, at the beginning of 2014 a new strategy was adopted setting objectives and directions for activities to be undertaken in 2014÷2017. The priorities of social responsibility set therein, are now, in the management's opinion, more clear and comprehensible for the addressees and better reflect key areas of social and environmental activity. An easy perception makes the strategy a credible means in the communication within and outside the Company. At the same time a team of employees assisted by an external advisor are preparing the first CSR Report for the LW BOGDANKA Group, i.e. an opening report for 2012 and 2013, which will be published in the first half of 2014.

12 INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT

On 27 June 2012, the Supervisory Board adopted a resolution on appointing Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) with registered office in Warsaw, al. Jana Pawła II 19, as an entity authorised to:

- review the Group's financial statements and consolidated financial statements for the first halves of 2012, 2013 and 2014,
- audit the Company's financial statements and the consolidated financial statements of the Group for 2012, 2013 and 2014.

The agreement with the auditor was concluded on 17 July 2012 for a term within which the auditor is able to carry out the audit.

The Company has not used the services of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) in previous years.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) was entered on 7 February 1995 under number 73 on the list of entities licensed to audit financial statements. The list is maintained by the National Chamber of Statutory Auditors.

The Company's Supervisory Board selected the auditor in accordance with Article 32.1.4 of the Company's Articles of Association, in compliance with the applicable legislation and professional standards.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) along with Deloitte Advisory Sp. z o.o., Deloitte Doradztwo Podatkowe Sp. z o.o., Deloitte Business Consulting S.A., Deloitte Polska Sp. z o.o., Deloitte PP Sp. z o.o., Deloitte Strategy and Research Sp. z o.o., Deloitte Services Sp. z o.o. and Deloitte Legal, Pasternak, Korba i Wspólnicy Kancelaria Prawnicza Sp. k. jointly referred to as - Deloitte PL – are associated entities of Deloitte Central Europe Holdings Limited.

Table 42 Fee for the auditor authorised to audit the financial statements [PLN '000]

Deloitte PL	2013	2012
– auditing annual financial statements	60*(1)	66*(1)
– other certifying services, including a review of financial statements	40*	44*
– tax advisory services	1.4**	14**
– other services	32* 5***	123.59***
Total	**138.4**	**203.59**

* Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.)

** Deloitte Doradztwo Podatkowe Sp. z o.o.

***Deloitte Advisory Sp. z o.o.

(1) of which PLN 20,000 (2012 — PLN 22,000) is payable after a preliminary audit, and PLN 40,000 (2012 — PLN 44,000) after the Company is provided with final versions of the Opinion and the Report of the audit of separate financial statements and the Opinion and the Report of the audit of consolidated financial statements

13 STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

13.1 Corporate governance rules applicable at LW BOGDANKA S.A.

In 2013, LW BOGDANKA S.A. complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules in the form of the "Code of Best Practice for WSE Listed Companies" were attached as Appendix to the resolution of the Board of the Warsaw Stock Exchange No. 12/1170/2007 of 4 July 2007. Additionally, the Supervisory Board of the Warsaw Stock Exchange adopted on 19 May 2010 Resolution No. 17/1249/2010 on adopting changes to "Code of Best Practice for WSE-listed Companies". Those changes have been effective as of 1 July 2010. Currently, the Company applies the rules of corporate governance based on the "Code of Best Practice for WSE Listed Companies" passed with the resolution of the Board of the Stock Exchange No. 19/1307/2012 of 21 November 2012, effective from 1 January 2013. "Code of Best Practice for WSE Listed Companies" is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - www.corp-gov.gpw.pl.

On 1 January 2013 amendments to the Code of Best Practice for WSE Listed Companies, introduced by virtue of resolution no. 19/1307/2012 of the WSE Board of 21 November 2012, became effective. In relation to these amendments, the Company announced the deviation from the rule contained in part IV section 10 of the Code of Best Practice for WSE Listed Companies, on providing the shareholders with the possibility to participate in the general shareholders meeting with the use of electron communication means, which consists in real-time transmission of the general meeting sessions as well as both-way real-time communication, enabling the shareholders, who are not physically present at the general meeting venue, to speak during the meeting. The Company announced the above in Corporate Governance Report 1/2013 of 29 May 2013.

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

Lubelski Węgiel BOGDANKA S.A. draws up separate and consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties.

Control mechanisms intended for implementation of the following control aims have been implemented in LW BOGDANKA S.A.:

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;
- Reliability and completeness –all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;
- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and finance personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

Lubelski Węgiel BOGDANKA S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The same principles apply in the companies forming the Lubelski Węgiel BOGDANKA Group, for which LW is the parent entity.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel BOGDANKA S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Audit and Internal Control Department within the Company's organisational structure, operating pursuant to the Rules of Audit and Internal Control, is also of significance. The internal audit system at Lubelski Węgiel BOGDANKA S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues a relevant opinion. A chartered auditor is appointed by the Company's Supervisory Board from among reputable audit firms in accordance with recommendations made by the Audit Committee, which, among other things, pays due attention to ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.

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

Table 43 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report,

i.e. 7 November 2013 and 20 March 2014

Shareholder	7 November 2013		20 March 2014	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)*	Number of shares/ Number of votes at the GSM	Share in the share capital (%)*
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,107,181	15.02	5,060,091	14.88
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	20,575,885	60.49	20,622,975	60.63
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

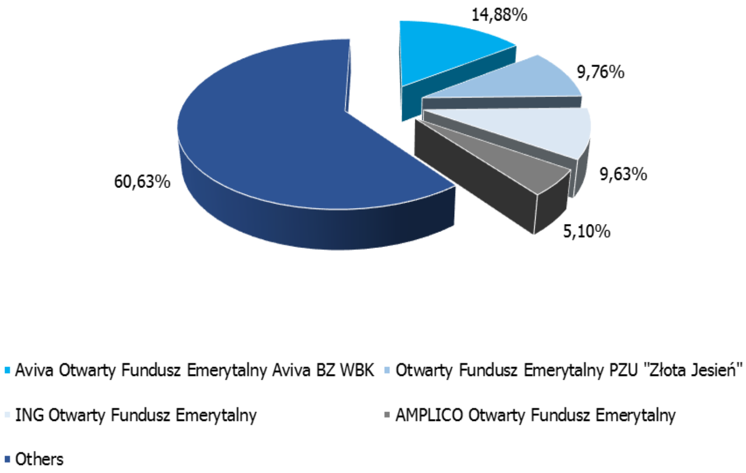
* According to the Notification received on 7 January 2014, described in Current Report No. 1/2014.

**According to the Notification received on 18 March 2010, described in Current Report No. 10/2010.

***According to the Notification received on 11 August 2010, described in Current Report No. 35/2010.

****According to the Notification received on 12 May 2010, described in Current Report No. 17/2010.

Chart 16 The shareholding structure of LW BOGDANKA S.A. as at 20 March 2014



13.4 Owners of all the securities which entitle to special control rights

LW BOGDANKA S.A. has not issued any securities which would entitle shareholders to special control rights.

13.5 Restrictions on exercising the voting right

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on exercising the voting right at the General Shareholders Meeting of the Company.

13.6 Restrictions on transferring ownership of the Company's securities

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on transferring ownership of the Company's securities.

13.7 Description of the rules governing the amendments made to the Company's Articles of Association

Amendments to the Articles of Association of LW BOGDANKA S.A. shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Company's Articles of Association as well as provisions of the Commercial Companies Code.

If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

After the General Shareholders Meeting amends these Articles of Association, the Management Board shall draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, in the event of amending the Articles of Association, the Regulation of the Minister of Finance of 19 February 2009 (Dz. U. [Journal of Laws] 09.33.259, as amended) on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.

13.8 Governing bodies

13.8.1 Management Board

13.8.1.1 Description of rules regarding appointment and dismissal of management officers as well as their rights, and in particular the right to make a decision on the issue or purchase of shares

13.8.1.2 Appointment of Management Board members

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.;

Pursuant to the Articles of Association of Lubelski Węgiel BOGDANKA S.A., the Management Board shall be composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board shall be appointed for a joint term of office lasting three years.

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

13.8.1.3 Dismissal of Management Board members

In compliance with the Company’s Articles of Association currently in effect, each Management Board member may be dismissed or suspended from office by the Supervisory Board.

13.8.1.4 Management Board for the 7th / 8th term of office

Table 44 Composition of the Management Board for the 7th / 8th term of office

<table>
<tr><th></th><th>Management Board appointed on 5 March 2010</th><th>As at 3 March 2011</th><th>As at 27 September 2012</th><th>As at 23 November 2012</th><th>As at 4 March 2013</th><th>As at 11 March 2013</th><th>As at 20 March 2014</th></tr>
<tr><td>Mirosław Taras</td><td colspan="2">President of the Management Board</td><td>Dismissal from the position of the President of the Management Board</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Zbigniew Stopa</td><td colspan="2">Vice-President of the Management Board, Technical Affairs</td><td>Acting President of the Management Board</td><td colspan="4">President of the Management Board</td></tr>
<tr><td>Krystyna Borkowska</td><td colspan="4">Vice-President, Economic and Financial Affairs, Chief Accountant</td><td colspan="2">Vice-President of the Management Board – Chief Accountant</td><td></td></tr>
<tr><td>Waldemar Bernaciak</td><td colspan="7">Vice-President of the Management Board, Trade and Logistics</td></tr>
<tr><td>Lech Tor</td><td></td><td colspan="5">Member of the Management Board, elected by the employees</td><td></td></tr>
<tr><td>Roger de Bazelaire</td><td></td><td></td><td></td><td></td><td colspan="3">Vice-President of the Management Board, Economic and Financial Affairs</td></tr>
<tr><td>Krzysztof Szlaga</td><td></td><td></td><td></td><td></td><td></td><td colspan="2">Member of the Management Board, Procurement and Investments</td></tr>
</table>

13.8.1.5 Management Board for the 8th term of office

The Management Board for the 8th term of office appointed by the Supervisory Board shall consist of:

1.	Zbigniew Stopa	- President of the Management Board
2.	Yves, Marie, Gerard, Roger de Bazelaire de Boucheporn	- Vice-President of the Management Board, Economic and Financial Affairs
3.	Waldemar Bernaciak	- Vice-President of the Management Board, Trade and Logistics
4.	Krzysztof Szlaga	- Member of the Management Board, Procurement and Investments

Zbigniew STOPA - President of the Management Board

Zbigniew Stopa graduated in 1984 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree, specialising in Deposits Exploitation Technology. In 1997 he completed postgraduate studies at the Central Mining Institute in Katowice in the field of Occupational Health and Safety Management. He attended a wide range of training sessions and specialist courses (the fundamentals of economics, human resource management, finance for managers) as well as completed a course for supervisory board members of State Treasury companies.

Zbigniew Stopa's career has always been connected with Lubelski Węgiel BOGDANKA S.A. and its legal predecessors. In 1984-1985 he underwent a training programme underground, while from 1985 to 1987 he worked as an underground overman. In 1987 he was appointed to the position of an underground shift foreman, and towards the end of that year, to the position of an underground section foreman. In 1991÷2006 he worked as an underground chief foreman. From May to December 2006 he served as the Manager of Mining Works of Nadrybie mining field. On 15 December 2006 he was appointed Vice–President of the Management Board - Production Director. On 27 September 2012, Mr Zbigniew Stopa was entrusted, by the Supervisory Board, with the task of acting President of the Management Board, and since 23 November 2011 Mr Zbigniew Stopa has been holding the position of the President of the Management Board of Lubelski Węgiel Bogdanka S.A.

Zbigniew Stopa holds the following qualifications approved by the State Mining Authority: head of the mining works department (1997), higher-rank mining supervisor (1991). In 2007 he was appointed a member of the Mining Occupational Health and Safety Committee affiliated with the State Mining Authority in Katowice by the President of the State Mining Authority.

Waldemar BERNACIAK - Vice-President of the Management Board for Trade and Logistics

Waldemar Bernaciak graduated in 1979 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree in mining and geology, specialising in Mine Design and Construction. In 1999 he completed postgraduate studies in the field of management and logistics and received a diploma of the University of Illinois at Urbana – Champaign. In 2001 he graduated from the School of Controlling in Katowice. Furthermore, he attended a number of specialist training courses (including a course on planning and production management in a coal mine at the Silesian University of Technology, logistics, materials management and stock optimisation). He also completed a course for supervisory board members of State Treasury companies.

From the outset his career has been in the mining industry. From 1979 to 1997 he was employed by Kombinat Budownictwa Górniczego WSCHÓD and its legal successors, where he held various positions, starting with a trainee miner, through an overman, shift foreman, section foreman, senior mining, engineering and construction specialist to the chief foreman (deputy mining works manager). For a decade, from 1997, he served as the Head of Materials and Machine Management Department at Lubelski Węgiel BOGDANKA S.A., while from February to August 2007 as the Head of Logistics. In August 2007 he was appointed Vice–President of the Management Board - Director for Mine Expansion, Trade and Logistics. Next, for several months he served as the acting President of the Management Board – Managing Director. On 16 February 2008 he returned to the position of Vice–President of the Management Board - Director for Mine Expansion, Trade and Logistics. In October 2008 he was appointed Vice-President of the Management Board for Trade and Logistics and has held that position ever since.

Waldemar Bernaciak holds the following qualifications recognized by the District Mining Authority in Lublin: Lower–rank mining supervisor, intermediate-rank mining supervisor, higher-rank mining supervisor, mining works manager.

Roger DE BAZELAIRE - Vice-President of the Management Board for Economic and Financial Affairs

Roger de Bazelaire has had more than 15 years of experience in investment and operational finance with companies operating in Central and Eastern Europe. In Poland since 1995, Mr Roger de Bazelaire worked with Dresdner Kleinwort Capital, as an Investment Director, in charge of restructuring and developing a portfolio of industrial companies (1995÷2002). He subsequently joined Telekomunikacja Polska S.A., Poland's largest telecom operator listed on the Warsaw Stock Exchange, as Chief Financial Officer and member of the Management Board (2002÷2005). In 2009÷2011, Mr Roger de Bazelaire has been Chief Financial Officer and member of the Management Board with Canal + Cyfrowy, a leading platform of pay TV in Poland. Mr Roger de Bazelaire has also gained experience as Chief Financial Officer in Russia (telecom), Romania and Bulgaria (retail). Earlier in his career, Mr Roger de Bazelaire worked six years in accounting and finance on infrastructure projects in Latin America with the French construction group Spie-Batignolles.

A French national, Mr Roger de Bazelaire was born in 1955 and graduated with HEC Paris in business and finance (Master Grande Ecole - 1978) and with Universite de Paris – Sorbonne (BA in philosophy - 1979). In addition to his native French, Mr Roger de Bazelaire is fluent in English, Spanish and Polish.

Since 4 March 2013, Mr Roger de Bazelaire s performed the function of the Vice-President of the Management Board responsible for Economic and Financial Affairs.

Krzysztof SZLAGA – Member of the Management Board for Procurement and Investments

Mr Krzysztof Szlaga (38), in 2001 graduated from the University of Economics in Kraków, Faculty of Finance and Banking with an MA degree. In 2001 graduated from the University of Economics in Kraków, Faculty of Finance and Banking with an MA degree. In 2001 he also received a Diplom-Betriebswirt degree given by the University of Applied Sciences in Kiel (Germany), the Faculty of Economics.

Since 2001, Mr Krzysztof Szlaga was with KPMG Deutsche Treuhand-Gesellschaft, as Audit Senior at the Assurance Commercial Clients Department. In 2004 he joined Ernst & Young Audit Spółka z o.o., as Audit Senior at the Assurance and Business Services Department. In 2005÷2008 he worked as Project Manager at the Restructuring/Operational Excellence and Corporate Finance at Roland Berger Strategy Consultants Spółka z o.o. In 2008÷2010 he performed as the Member of the Management Board, Supply Chain Management Director at CTL Logistics S.A. In 2010÷2012 he was a Supply Chain Management Director at Ruch S.A.

Mr Krzysztof Szlaga has fluent command of German and English.

Since 11 March 2013, Mr Krzysztof Szlaga has performed the function of the Member of the Management Board responsible for Procurement and Investments.

13.8.1.6 Description of operations and authorisations

Pursuant to the Company's Articles of Association, the Management Board of LW BOGDANKA S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board.

In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

1. adopting the Rules of Procedure for the Management Board,
2. adopting the Company's Organisational Rules,
3. creation and liquidation of the Company branches,
4. appointment of a proxy,
5. contracting loans,
6. adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
7. assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
8. acquiring non-current assets with a value exceeding the amount of PLN 100,000.00 (one hundred thousand zloty),
9. disposing of non-current assets with a value exceeding the amount of PLN 50,000.00 (fifty thousand zloty),
10. any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW BOGDANKA S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW BOGDANKA S.A. pays due attention to transparency and efficiency of the management system of the Company and to the maintenance of its affairs in compliance with the provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Declarations of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The power of proxy may be revoked by any and each of the Management Board members.

13.8.1.7 Tasks and obligations of the members of the Management Board in 2013

In accordance with the Company's Organisational Rules:

The President of the Management Board (D):

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards.
2. Represents the Company in relations with third parties.
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
    a) company organisation,

b) supporting the operations of the Company's governing bodies,

c) privatisation, Company restructuring,

d) ownership supervision and capital investments,

e) internal structural and ownership transformations,

f) providing information and reports to investors, shareholders and stock exchange institutions,

g) implementing the LW BOGDANKA S.A.'s strategy and the Company's long-term plans, as well as implementing strategic management and project management at the Company,

h) project management,

i) co-operation with the media and the information policy,

j) current records archive and general secretariat,

k) internal audit in the Company,

l) matters of defence,

m) HR policy, employee and social issues,

n) occupational health and safety, training courses,

o) future plans with regard to the development and modernisation of the production process,

p) protection of personal data and confidential information,

q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,

r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,

s) management of risks at the Company,

t) ethics,

u) monitoring the quality of construction ceramics.

5. Indirectly supervises the performance of assignments by organisational units, whose scope of activity covers:

   a) extracting and producing commercial coal,

   b) maintaining and developing production capacity,

   c) environmental protection, stone management and mining damage,

   d) deposit management planning,

   e) keeping surveyor and geological records, as well as production records,

   f) technical and financial advancement,

   g) organising and planning the production and development of the mine,

   h) research and implementations.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

The Vice-President for Economic and Financial Affairs (DE)

The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:

1. Managing the Company's finances.
2. Pay and insurance policies.
3. Economic and financial analyses.
4. Reporting and statistics.
5. Budgeting and controlling.
6. Supervising Company value management.
7. Supervising financial and accounting services.
8. Supervising the accountancy and settlements with business partners.
9. Economic effectiveness of investment projects.
10. Developing the rules for managing short-term securities.
11. Computerisation of the Company.
12. Inventory.

The Vice-President for Trade and Logistics (DH)

The Vice-President for Trade and Logistics organises and supervises the Company's operations in the following areas:

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Material and machinery management.
4. Analysis and optimisation of the usage of production capacity, including machinery and equipment.
5. Market analyses.
6. Rail transportation.

Member of the Management Board for Procurement and Investments (DI)

Member of the Management Board for Procurement and Investments organises and supervises the Company's operations in particular in the following areas:

1. Investment activity, capex planning, machinery purchases and overhauls as well as maintenance of buildings and structures.
2. Budgeting and estimating costs of services and purchases.
3. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues.
4. Waste utilisation and recycling.
5. Production and sales of construction ceramics.
6. Logistics.

13.8.1.8 Information about Management Board meetings and the resolutions adopted

In the reporting year 2013 the Management Board appointed for the 7th term held 53 minuted meetings and adopted a total of 918 resolutions, while the Management Board appointed for the 8th term held 50 minuted meetings and adopted a total of 817 resolutions.

The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Company's ordinary management and at the request of individual Management Board members.

13.8.1.9 Information on powers of proxy granted and revoked

In 2013 there was no change in the composition of the Company's proxies.

On 11 January 2013 the power of proxy for Mr Janusz Chmielewski was revoked by the Company's Management Board.

On 16 July 2013 the Management Board granted the power of proxy to Mr Sławomir Karlikowski.

13.8.2 The Supervisory Board

13.8.2.1 Appointment and removal from office of the Supervisory Board members

The rules concerning appointment and removal from office of the Supervisory Board members of the Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.

In accordance with the Articles of Association of LW BOGDANKA S.A., the Supervisory Board consists of 5 (five) to 9 (nine) members. The members of the Supervisory Board are appointed and removed from office by the General Shareholders Meeting for a joint term of office of three years. Members of the Supervisory Board may be removed from office by the General Shareholders Meeting at any time.

A Supervisory Board member shall file his/her resignation in writing to a member of the Management Board or to a proxy. The Management Board member or the proxy who receives the resignation shall promptly notify the other members of the Management and Supervisory Boards of the same.

The mandates of the Supervisory Board Members expire not later than on the date when the General Shareholders Meeting approves the report on operations and the financial statements for the last full financial year when the Supervisory Board Members performed their function.

13.8.2.2 Composition of the Supervisory Board

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting.

The Supervisory Board operating in 2013 was appointed for the 8th term of office by the Annual General Shareholders Meeting on 27 April 2012. On 22 November 2013 the Extraordinary General Shareholders Meeting appointed Mr Michał Stopyra as a member of the Supervisory Board for the 8th term of office. As at 31 December 2013 and as at the day this Report was submitted the composition of the Supervisory Board was as follows:

On 27 April 2012, the Annual General Shareholders Meeting appointed members of the Supervisory Board of the 8th term of office in the following composition:

3. Witold Daniłowicz · Chairman of the Supervisory Board,
4. Stefan Kawalec · Vice-Chairman of the Supervisory Board,
5. Raimondo Eggink · Secretary of the Supervisory Board,
6. Robert Bednarski · Member of the Supervisory Board,
7. Dariusz Formela · Member of the Supervisory Board,
8. Eryk Karski · Member of the Supervisory Board,

9. Tomasz Mosiek · Member of the Supervisory Board,
10. Michał Stopyra · Member of the Supervisory Board.

13.8.2.3 Description of activities

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations. The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

1. The responsibilities of the Supervisory Board include:
   1) assessment of the Directors' Report on the Company's operations and financial statements for the preceding financial year regarding their conformity with books, documents and facts, as well as the assessment of the consolidated financial statements of the capital group, if such a report is prepared.
   2) assessing motions of the Management Board regarding the distribution of profits or covering of losses;
   3) submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
   4) selecting a chartered auditor to audit annual financial statements and consolidated financial statements of the Company's capital group;
   5) determining the scope and deadlines for the Management Board's submission of annual material and financial plans (technical and economic) and long-term strategic plans;
   6) approving of the Company's long-term strategic plans as well as changes thereto;
   7) approving of the Company's annual business plans (specifying the tasks to be performed and the related budgets) as well as changes thereto,
   8) adopting rules laying down the detailed procedure followed by the Supervisory Board;
   9) adopting for the Company's internal purposes the uniform text of the Company's Articles of Association prepared by the Company's Management Board,
   10) approving the Management Board rules;
   11) approval of the Rules of Procedure of Internal Audit and Control as well as changes thereto.
2. The powers of the Supervisory Board shall include granting consent to the Management Board for the following:
   1) acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 250,000.00;
   2) acquisition, sale or production of non-current assets, non-current assets in construction or intangible assets which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, if the value of one or more related transactions exceeds the PLN equivalent of EUR 5,000,000;
   3) establishment of a security regarding any liability of the Company or a third party, if the value of one or more related transactions exceeds the PLN equivalent of EUR 1,000,000;
   4) entering into an agreement by the Company or performing any other legal act other than those indicated in 2a) or 2b), which is not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, where the total value of the Company's benefits or receivables (with respect to one or more related legal actions and regardless of a period

which they cover), exceeds the PLN equivalent of EUR 10,000,000, except for agreements entered into as part of the Company's core business;

5) conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 10,000, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association;

6) entering by the Company or by its subsidiary into a significant contract with an entity related to the Company, a member of the Supervisory Board or a member of the Management Board, and with entities related to them. The obligation to express consent does not concern typical arm's length transactions concluded as part of the operating activity by the Company and a subsidiary in which the Company holds a majority equity interest;

7) entering by the Company into a credit, loan, or surety agreement or any similar agreement with a member of the Management Board, a proxy, a liquidator, or for the benefit of any of those persons;

8) contracting liabilities, i.e. a loan, credit, security or similar, which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, whose value (except for interest on repayable funds) exceeds the PLN equivalent of EUR 25,000,000, except for the issue of securities referred to in Article 52.3.5;

9) granting by the Company of a loan, a guarantee, issuing a bill of exchange or granting other indebtedness;

10) granting consent to the creation of foreign branches of the Company;

11) granting consent to paying to the Shareholders an advance for the expected dividend at the end of a financial year.

3. Additionally, the Supervisory Board's powers shall include in particular:

1) appointing and dismissing members of the Management Board,

2) establishing the remuneration rules and remuneration amounts to be received by the Management Board members,

3) suspending the members of the Management Board from office for important reasons,

4) delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,

5) representing the Company in agreements and disputes between the Company and the Management Board members,

6) granting permission to Management Board members for accepting positions on the governing bodies of other entities,

7) approval of dismissal of a person in charge of the Company's organisational unit responsible for internal audit and control.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, are defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee and the Appointment and Remuneration Committee are standing committees at the Supervisory Board.

13.8.2.4 Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2013.

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of no less than three members, at least one of whom shall meet the requirement of being an independent member within the meaning of the Polish Act on Chartered Auditors. The task of the Audit Committee shall be advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its Group, as well as chartered auditors auditing the Company's financial statements. In particular, the duties of the Audit Committee shall include:

- monitoring the process of financial reporting and performing audits,
- monitoring the effectiveness of the following systems: internal control, internal audit and risk management,
- cooperation with the chartered auditor auditing the financial statements of the Company, as well as monitoring the autonomy of the chartered auditor and an entity authorised to audit the financial statements, and recommending to the Supervisory Board the chartered auditor to be selected,
- discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and
- providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

In 2013 the **Audit Committee** operated in the following composition:

1. Eryk Karski — Chairman
2. Robert Bednarski
3. Raimondo Eggink,
4. Tomasz Mosiek

13.8.2.5 Appointment and Remuneration Committee

In 2013 the Appointment and Remuneration Committee operated in the following composition:

1. Dariusz Formela — Chairman
2. Stefan Kawalec
3. Tomasz Mosiek

The Appointment and Remuneration Committee in cooperation with a legal counsel finalised draft contracts of employment for all members of the new term Management Board. In addition, the Appointment and Remuneration Committee continued the project to implement a share-based incentive scheme carried out by the previous Supervisory Board.

13.8.2.6 Strategy Committee

On 3 March 2014, a Strategy Committee was appointed in the following composition:

1. Stefan Kawalec — Chairman
2. Raimondo Eggink,
3. Michał Stopyra

13.8.3 General Shareholders Meeting

13.8.3.1 Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting

The General Shareholders Meeting of LW BOGDANKA S.A. holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and Article 44 of the Company's Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website, in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the General Shareholders Meeting with the right to vote.

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A., members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.

Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.

The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports,
- adopt a resolution on the distribution of profit or coverage of loss,
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties,
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members,
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts.
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon,
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator,
- increase in or reduction of the Company's share capital,
- issue of bonds of any type,
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code,
- mandatory redemption of shares in accordance with the Commercial Companies Code,
- creation, use and release of capital reserves,
- use of statutory reserve funds,
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company,
- merger, transformation or demerger of the Company,
- amendments to the Company's Articles of Association, including changes to the Company's business profile,
- dissolving and liquidating the Company.
- establishment of another company by the Company,
- subscription for or acquisition of shares in another company,

  disposal of subscribed for or acquired shares in another company.

13.8.3.2 Information of General Shareholders Meetings held in 2013

In 2013 two General Shareholders Meetings were held:

– Annual General Shareholders Meeting of 27 June 2013, which was held in the Company's registered office in Bogdanka

and

– Extraordinary General Shareholders Meeting of 22 November 2013, which was held in the Giełda Papierów Wartościowych w Warszawie S.A.'s (Warsaw Stock Exchange) registered office in Warsaw.

Agenda of the Annual General Shareholders Meeting of 27 June 2013:

1. Opening of the General Shareholders Meeting.
2. Electing the Chairman of the General Shareholders Meeting.
3. Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting the agenda.
5. Electing the Ballot Counting Committee of the General Shareholders Meeting.
6. Considering the Financial Statements and Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2012.
7. Considering the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group and the Consolidated Director's Report on Operations of the Lubelski Węgiel BOGDANKA Group for 2012.
8. Presentation of the Management Board's motion regarding the distribution of net profit for 2012.
9. Presentation of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for 2012.
10. Adopting resolutions on:
    (a) approval of the Financial Statements of Lubelski Węgiel BOGDANKA S.A. for 2012,
    (b) approval of the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. for 2012,
    (c) approval of the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group for 2012,
    (d) approval of the Directors' Report on Operations of Lubelski Węgiel BOGDANKA Group for 2012,
    (e) granting discharge to the members of the Management Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2012,
    (f) approval of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for 2012,
    (g) granting discharge to the members of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2012,
    (h) distribution of net profit for the financial year 2012,
    (i) specifying a dividend date and a date of the dividend payment.
11. Adopting a Resolution on the issue of series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Company's share capital with the exclusion of a pre-emptive right, consent to carry out the Management Options Scheme in 2013÷2017.
12. Adopting resolutions on amendments to the Company's Articles of Association.
13. Miscellaneous.
14. Closing of the General Shareholders Meeting.

Agenda of the Extraordinary General Shareholders Meeting of 22 November 2013:

1. Opening of the General Shareholders Meeting.
2. Electing the Chairman of the General Shareholders Meeting.
3. Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting the agenda.
5. Adopting resolutions on changes in the Supervisory Board by the General Shareholders Meeting.
6. Miscellaneous.
7. Closing of the General Shareholders Meeting.

Information on adopted resolutions, as well as on all other documents, is available on the Company's website at www.ri.lw.com.pl, in the General Shareholders Meeting tab.

13.8.3.3 Dividend policy

The dividend policy forming part of the approved Strategy for the 2013÷2015 period provides for the payout to Company shareholders of a dividend standing at 60% of the consolidated net profit.

The adoption of such dividend payout ratio will allow the Company, on the one hand, to finance development investments using part of the net profit, while on the other hand it will guarantee the shareholders a rate of return on the investment in Company shares in the form of an above-average dividend for the coal-mining sector.

The change in the Management Board's recommendation with regard to the dividend payout ratio can be attributed to the change in the assumptions concerning:

- Company growth and further expansion plans;
- execution of the adopted investment programme;
- plans to maintain adequate cash flow;

as well as:

- net profit recorded in the Company's separate financial statements;
- projected investment expenditure and other capital outlays;
- current possibilities and costs of obtaining debt financing;
- decision taken by the General Shareholders Meeting establishing a dividend payout rate different to that recommended by the Management Board;
- other factors having significant impact on the Company's financial standing.

13.8.3.4 Dividend for 2012

On 27 June 2013 the Annual General Shareholders Meeting adopted a resolution on the distribution of net profit for 2012.

The net profit generated by the Company in 2012 amounting to PLN 287,026,808.52 (two hundred eighty-seven million twenty-six thousand eight hundred and eight zlotys 52/100), was distributed by the Annual General Shareholders Meeting as follows:

1. The amount of PLN 172,108,765.40 (one hundred two million one hundred eight thousand seven hundred and sixty-five zlotys 40/100) shall be distributed among the shareholders, i.e. paid out as dividend of PLN 5.06 (five zlotys 06/100) per share.

2. The amount of PLN 114,918,043.12 (one hundred fourteen million nine hundred eighteen thousand and forty-three zlotys 12/100) shall be allocated towards the Company's capital reserve.

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

The General Shareholders Meeting set the dividend date for 15 September 2013 and dividend payment date for 1 October 2013, as per a request filed by a Company's shareholder during the Annual General Shareholders Meeting.

Tables

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Zbigniew Stopa	President of the Management Board
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics
Roger de Bazelaire	Vice-President of the Management Board, Economic and Financial Affairs
Krzysztof Szlaga	Member of the Management Board, Procurement and Investments

Bogdanka, 18 March 2014