DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the 3rd quarter of 2011

ended on 30 September 2011

BOGDANKA, NOVEMBER 2011

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1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure of the Lubelski Węgiel BOGDANKA Group

As at 30 September 2011, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", the "G", the "LW BOGDANKA Group", "LW BOGDANKA G" or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the parent undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka", "subsidiary undertaking") as the subsidiary undertaking.

The associated undertaking is EKSPERT Sp. z o.o. held in 50% by Łęczyńska Energetyka Sp. z o.o.

As at the date of submitting this Report (hereinafter referred to as the "Report"), i.e. 9 November 2011, LW BOGDANKA S.A. also held 24.41% of the shares of the bankrupt company Kolejowe Zakłady Maszyn KOLZAM S.A., with a total par value of PLN 168,050.00. The ownership title to the shares was transferred to LW BOGDANKA S.A. as security for settlements for performing transportation services. That company has not been included in the consolidation.

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

The subsidiary undertaking ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. was included in the abridged consolidated quarterly financial statements of the LW BOGDANKA Group for the third quarter of 2011 (hereinafter referred to as the "abridged consolidated interim financial statements") by the full consolidation method.
The Group's associated undertaking – EKSPERT Sp. z o.o. was included in the Abridged Consolidated Quarterly Financial Statements of the LW BOGDANKA Group by the equity method.

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

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

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

Business activities:

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

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

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

The Company's supplementary activities

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

1.2.2 Information on the subsidiary and associated undertakings

Direct subsidiary undertaking:

Łęczyńska Energetyka Sp. z o.o.

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

Share capital (as at 30 September 2011): PLN 82,677,000.00 is divided into 82,677 shares of PLN 1,000.

Share capital

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

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

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

Associated undertaking:

EKSPERT Sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów, Lublin Province
Tel. (81) 462 20 62
Fax: (81) 462 20 62
Website: -
e-mail: wkekspert@wp.pl
industry identification number (REGON): 432693862
tax registration number (NIP): 505-000-15-99

Share capital (as at 30 September 2011): PLN 50,000.00 is 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 is 50.00%.

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

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

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

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

2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN THE THIRD QUARTER OF 2011

Shareholders holding at least 5% of the total number of votes at the General Shareholders Meeting (the "GSM"), either directly or indirectly, as at the date of submitting this quarterly report, and indicating changes in the ownership structure of substantial shareholdings in the period from the publication of the previous periodic report.

Table 1 The shareholding structure of LW BOGDANKA S.A. as at 31 August 2011 and 9 November 2011

Shareholder	31 August 2011		9 November 2011	
	Number of shares/ Number of votes at the GSM	**The share in the share capital and the share in the total number of votes at the GSM (%)**	**Number of shares/ Number of votes at the GSM**	**The share in the share capital and the share in the total number of votes at the GSM (%)**
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,014,644	14.74	5,014,644	14.74
Otwarty Fundusz Emerytalny PZU "Złota Jesień" **	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny***	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10
Other	20,668,422	60.77	20,668,422	60.77
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

* According to the notification received on 25 March 2010, described in Current Report No. 11/2010.
** According to the notification received on 18 March 2010, described in Current Report No. 10/2010.
*** According to the notification received on 11 August 2010, described in Current Report No. 35/2010
*** According to the notification received on 12 May 2010, described in Current Report No. 17/2010.

2.1 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them (options) by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the quarterly report and indication of the changes in shareholdings in the period from submitting the previous periodic report, separately for each person

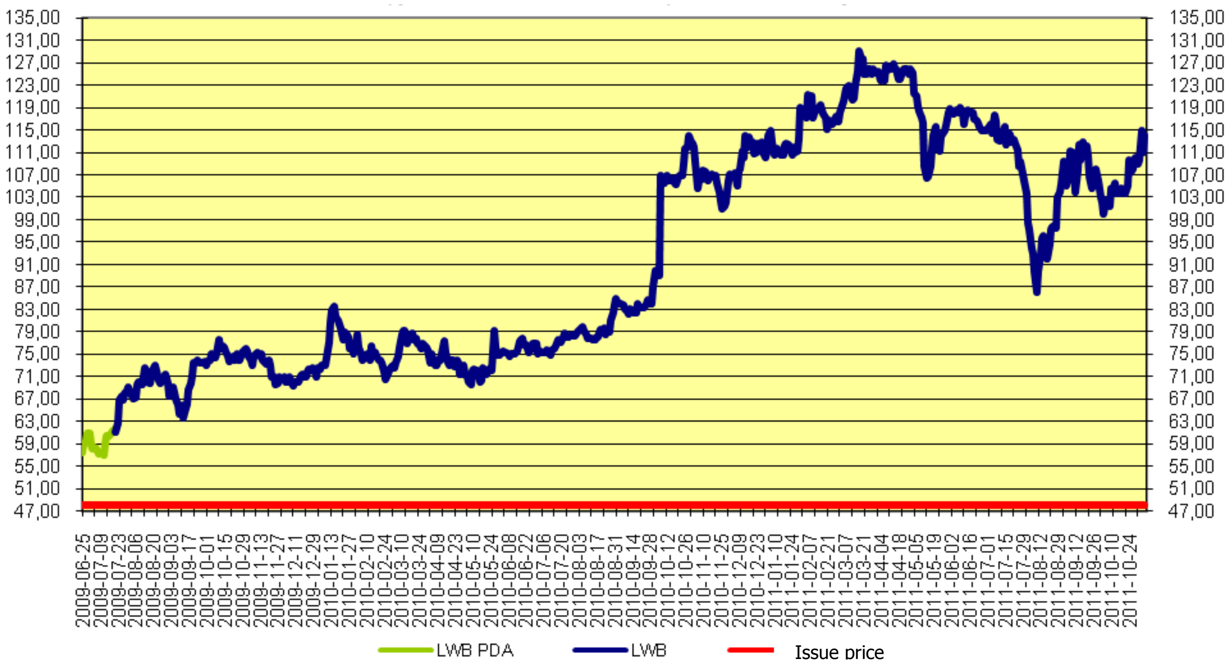
Table 2 Table of shareholdings of LW BOGDANKA S.A.*

	Number of shares as at the date of submitting the Report H1 2011 (31 August 2011)	**Number of shares as at the date of submitting the Report Q3 of 2011 (9 November 2011)**
The Management Board		
Mirosław Taras	2,737	2,737
Krystyna Borkowska	1,299	1,299
Zbigniew Stopa	5,703	5,703
Waldemar Bernaciak	2,162	2,162
Lech Tor	1,124	1,124
The Supervisory Board		
Eryk Karski	0	0
Andrzej Lulek	0	0
Ewa Pawluczuk	0	0
Stefan Kawalec	0	0
Jadwiga Kalinowska	1,024	1,024
Adam Partyka	1,024	1,024
Total	**15,073**	**15,073**

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

2.2 Price of Rights to Shares/ Shares of the Company since its debut on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Chart - **Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 7 November 2011**



4. Analysis of and information on the basic economic and financial values disclosed in the abridged consolidated quarterly financial statements of the LW Bogdanka group for the three quarters of 2011, i.e. from 1 January 2011 to 30 September 2011.

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

4.1 Selected financial information

Table 3 Selected financial information of the Group (in PLN '000)

Item	Q3 2011	Q3 2010	Change [%] (2011/2010)	3 Qs 2011	3 Qs 2010	Change [%] (2011/2010)
Revenue on sales	283,680	356,125	-20.34%	865,761	934,224	-7.33%
Gross profit	61,264	134,129	-54.32%	182,880	317,232	-42.35%
EBITDA	75,477	142,749	-47.13%	220,662	337,458	-34.61%
EBIT (Operating profit)	31,282	106,502	-70.63%	101,691	233,140	-56.38%
Profit before taxation	32,070	109,046	-70.59%	109,099	241,865	-54.89%
Net profit	25,880	86,060	-69.93%	88,043	192,980	-54.38%
Operating cash flow	70,037	123,443	-43.26%	237,989	283,836	-16.15%

Investing cash flow	-180,361	-182,561	-1.21%	-553,143	-447,443	23.62%
Financing cash flow	-50,619		-	-56,619		-

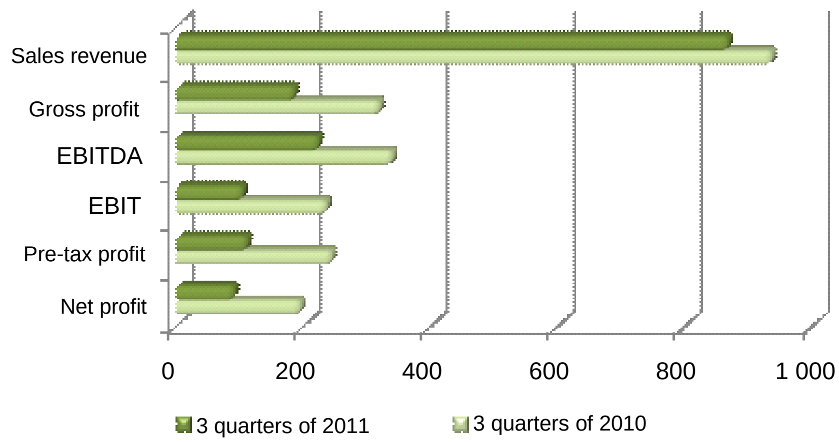
Table 4 Selected financial information of the Group - continued (in PLN '000)

Item	30.09.2011	31.12.2010	Change [%] (2011/2010)
Total assets	2,877,339	2,828,045	1.74%
Fixed assets	2,587,138	2,163,972	19.56%
Current assets	290,201	664,073	-56.30%
Shareholders' equity	2,009,443	1,969,019	2.05%
Provisions and liabilities	867,896	859,026	1.03%

The financial statements prepared for the period from 1 January 2011 to 30 September 2011 show that the Lubelski Węgiel BOGDANKA S.A. Group's revenue on sales was PLN 865,761,000, which represents a decrease by 7.33%, or by PLN 68,463,000, compared to the same period of the previous year. Only in the third quarter of 2011 the Group's revenue amounted to PLN 283,680,000, i.e. 20.34% lower than in the analogous period of the previous year.

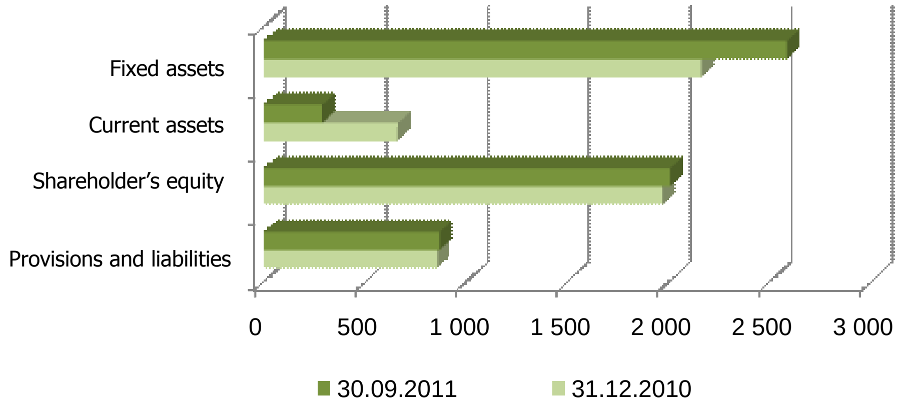
In the first nine months of 2011 the Group's operating profit decreased from PLN 233,140,000 to PLN 101,691,000 (a change of -56.38% on a year-to-year basis). EBITDA (operating profit increased by depreciation/amortisation) was PLN 220,662,000 for the period from 1 January 2011 to 30 September 2011 as compared to PLN 337,458,000 for the same period of 2010. The decrease in operating profit was a consequence of the lower revenue on sales generated (due to lower average output of commercial coal) and higher costs of products, goods and materials sold (by above 10%), which resulted, among other things, from an increase in costs of drilling and mining services and costs of materials (due to the extended scope of works in the Stefanów Field).

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



The net profit for the three quarters of 2011 was PLN 88,043,000, compared to PLN 192,980,000 for the same period of 2010, which means a decrease by 54.38%, or by PLN 104,937,000. The net profit for the third quarter of 2011 was PLN 25,880,000 compared to PLN 86,060,000 for the third quarter of 2010 (a decrease by 69.93%).

Analysis of the statement of financial position (PLN million)



The consolidated statement of financial position prepared as of 30 September 2011 shows an increase in the balance-sheet total up to PLN 2,877,339,000, or by PLN 49,294,000, compared to the value of assets and liabilities as of 31 December 2010. The value of fixed assets increased from PLN 2,163,973,000 (31 December 2010) to PLN 2,587,138,000 (30 September 2011) – such an increase (+19.56%) results primarily from the investment programme of development of the Stefanów Field implemented by the Group. In the period under analysis the value of the current assets fell from PLN 664,073,000 to PLN 290,201,000 (PLN -373,872,000 or -56.30%), which is mostly a consequence of a decrease in cash held by the Group (resulting from expenditure on the implemented investment programme).

On the side of equity and liabilities, shareholders' equity increased to PLN 2,009,443,000 (i.e. by 2.05%). This is a result of recalculating the net profit for nine months 2011 under shareholders' equity and settlement of the financial result for 2010 (a dividend was paid). In the analysed period the Group's total provisions and liabilities grew by PLN 8,870,000, as a result of:

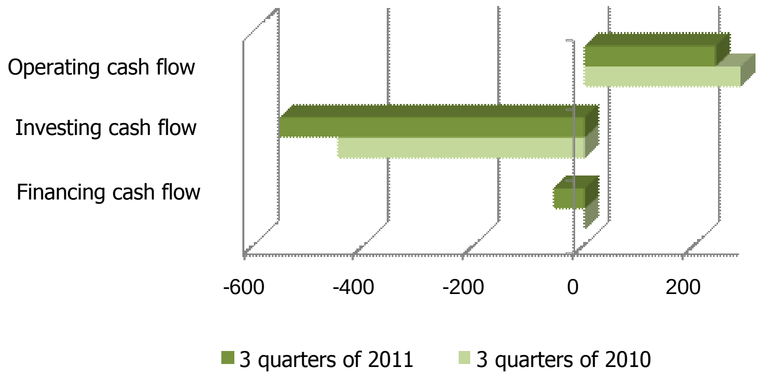
- a decrease in long-term liabilities by PLN 2,138,000 (to PLN 453,749,000),
- an increase in short-term liabilities by PLN 11,008,000 (to PLN 414,147,000).

Among short-term obligations, the value of credits and loans increased by PLN 6,000,000 - this change did not result from incurring new obligations by the Group, but from the reclassification of a part of a working capital loan held by the Parent Undertaking from long-term to short-term (with maturity of less than 12 months). According to the schedule attached as appendix to the loan agreement, an amount of PLN 41,000,000 is planned to be repaid by 31 December 2011, and an amount of PLN 15,000,000 – in the period from 1 January to 30 September 2012.

Shareholders' equity accounted for 69.84% and 69.62% of the equity and liabilities as of 30 September 2011 and 31 December 2010, respectively.

In the first three quarters of 2011, the Group financed its activities with operating cash flow and cash accumulated in the previous years. The net operating cash flow decreased from PLN 283,836,000 (for three quarters of 2010) to PLN 237,989,000 (for three quarters of 2011).

Analysis of the cash flow statement (PLN million)



Net investing cash flow in the period from 1 January to 30 September 2011 amounted to PLN -553,143,000 and was higher by PLN 105,700,000 as compared to the analogous period in 2010 - an increase was caused by continuation of works executed within the framework of the investment process.

In the period from January to September 2011 the Group generated negative net financing cash flow in the amount of PLN -56,619,000 (payment of dividend and repayment of three instalments of the working capital loan), whilst in the previous year the Group did not show changes in financing cash flow.

As at 30 September 2011, the value of cash at hand and in banks amounted to PLN 100,328,000 and was lower by PLN 417,724,000 with respect to the analogous data of the previous year.

4.2 Information on the current financial position of the Group

4.2.1 Coal production and sales

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

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

3 Qs 2011	3 Qs 2010	Change [%] (2011/2010)
3,833.21	4,388.09	-12,65%

During the period from 1 January to 30 September 2011, as compared to the analogous period of 2010, the extraction of commercial coal decreased by 12.65% and amounted to 3,833,210 tonnes (in the previous year it was 4,388,090 tonnes).

A decrease in extraction of commercial coal despite an increase in the gross extraction by almost 2% results, among other things, from intensification of preparatory works – in the analysed period of 2011, 5% more galleries were made as compared to the analogous period of

2010. These longwall galleries were completed within the framework of the field panelling of the Stefanów Field for the purpose of the planned increase (doubling) of the extraction capacity of the mining plant by the end of 2013.

The deposit currently explored in Bogdanka is characterised temporarily by more variable geological characteristics, which in the second and third quarter of 2011 had an additional impact on the recorded lower output ratio.

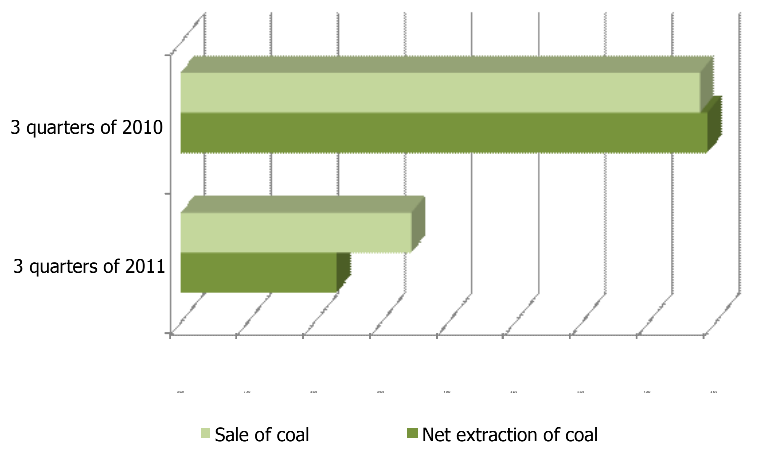
The commencement of the mining operations in the Stefanów Field (the trial operation of the panel started in October 2011) enabled the Company to achieve in October 2011 the output level of 543,000 tonnes as compared to 512,000 tonnes in the analogous period of 2010.

Table 6 Sale of coal of LW BOGDANKA for 3 Qs of 2011 and 3 Qs of 2010 ('000 tonnes)

3 Qs 2011	3 Qs 2010	Change [%] (2011/2010)
3,945.19	4,376.83	-9.86%

In the period from 1 January to 30 September 2011, 9.86% (431,640 tonnes) less coal was sold as compared to the analogous period of the previous year. The graph below shows the figures for production and sales of commercial coal for the periods under analysis.

Analysis of the extraction and sale of coal ('000 tonnes)



4.2.2 Stock

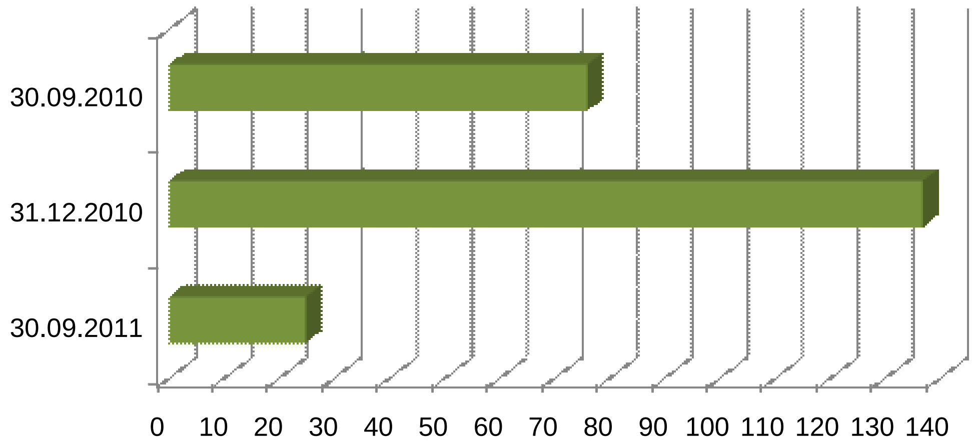
As at 30 September 2011 stock of commercial coal of the Group amounted to 24,750.78 tonnes, which means that the level of stock fell by 111,979.90 tonnes (-81.90%) as compared to the level of 31 December 2010 and by 51,098.53 tonnes (-67.37%) compared to the level as of 30 September 2010.

Table 7 Stock of coal (tonnes)

Item	30.09.2011	31.12.2010	30.09.2010	Change [%](30 Sep. 2011/ 31	Change [%](30 Sep. 2011/ 30

				Dec. 2010)	Sep. 2010)
Stock of coal	24,750.78	136,730.68	75,849.31	-81.90%	-67.37%

Stock of coal ('000 tonnes)



4.2.3 Revenue on sales

In three quarters of 2011, the LW BOGDANKA Group's generated sales revenue was at the level of PLN 865,761,000, down by PLN 68,463,000 compared to the sales revenue figure for the analogous period of 2010.

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

The main source of LW BOGDANKA Group's revenue on sales in three quarters of 2011 (and in 2010) was the production and sale of power coal. From 1 January to 30 September 2011, sales of power coal generated 93.03% of the LW BOGDANKA Group's sales revenue (97.05% in the same period of the previous year). A drop in revenue on coal sales was caused by a lower amount of coal sold (-9.86%), with a slightly higher unit sale price. Additionally, in the financial statements published by the Group for presentation purposes, the data in the profit and loss account associated with revenue on sales of coal and costs of products, goods and materials sold are adjusted (downwards) by the value of the coal sold, which was extracted while drilling the headings. Bearing in mind the above, the value indicated in the consolidated profit and loss account for the period from 1 January to 30 September 2011 was adjusted by PLN 73,628,580 while in the same period of the previous year – by PLN 60.648,850.

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

The revenue from other activities accounted for 3.76% of the total revenue in the period from 1 January 2011 to 30 September 2011, compared to 1.59% a year earlier; a significant share in that group of revenue was the revenue connected with the services of coal transport provided for the benefit of one of the customers.

The revenue on sale of goods and materials increased in the period under analysis by 246.14%, i.e. by PLN 14,781,000. This amount includes power coal, bought by the Group for the purpose of its resale to one of the customers.

The share of revenue from the sale of ceramics in total revenue on sales increased from 0.72% to 0.81% of the Group's total revenue.

Table 1 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group [PLN '000]

Item	3 Qs 2011	3 Qs 2010	Change [%] (2011/2010)
Sales of coal	805,380	906,651	-11.17%
Sales of ceramics	7,043	6,699	5.14%
Other activities	32,552	14,869	118.93%
Sales of goods and materials	20,786	6,005	246.14%
Total revenue on sales	**865,761**	**934,224**	**-7.33%**

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

Item	3 Qs 2011	% share	3 Qs 2010	% share
Sales of coal	805,380	93.03%	906,651	97.05%
Sales of ceramics	7,043	0.81%	6,699	0.72%
Other activities	32,552	3.76%	14,869	1.59%
Sales of goods and materials	20,786	2.40%	6,005	0.64%
Total revenue on sales	**865,761**	**100.00%**	**934,224**	**100.00%**

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

Table 10 Geographical structure of revenue on sales of the LW BOGDANKA Group (in PLN '000)

Item	3 Qs 2011	Share %	3 Qs 2010	Share %
Domestic sales	865,308	99.95%	933,568	99.93%
Foreign sales	453	0.05%	656	0.07%
Total revenue on sales	**865,761**	**100.00%**	**934,224**	**100.00%**

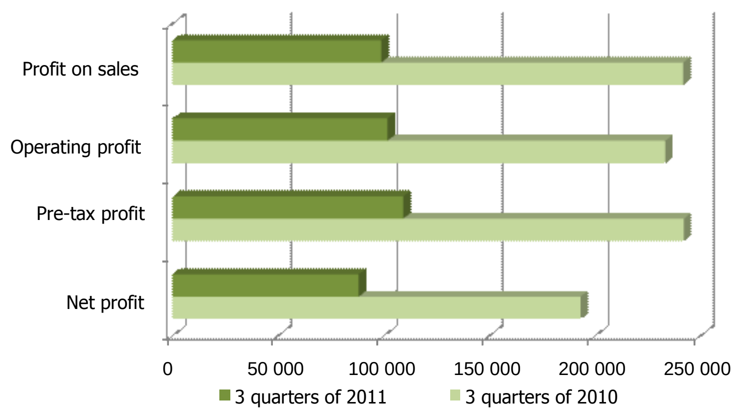
4.2.4 Statement of comprehensive income of the Group

In the period from 1 January to 30 September 2011, revenue on sales of the LW BOGDANKA Group, as compared to the same period of the previous year, decreased by 7.33% (to the level of PLN 865,761,000). In the same period the Group's costs (costs of products, goods and materials sold along with cost of sales and administrative expenses) increased by 10.75% to the level of PLN 692,677,000. Such dynamics in costs and revenue led to the profit on sales decreasing by 59.16%, i.e. PLN 98,643,000 for nine months of 2011 as compared to PLN 241,547,000 for the same period of 2010.

Table 11 Selected items of the statement of comprehensive income of the LW BOGDANKA Group (in PLN '000)

Item	3 Qs 2011	3 Qs 2010	Change % (2011/2010)
Revenue on sales	865,761	934,224	-7.33%
Cost of products, goods and materials sold, cost of sales, administrative expenses	767,118	692,677	10.75%
Profit on sales	**98,643**	**241,547**	**-59.16%**
Other income	8,056	4,458	80.71%
Other costs	1,187	1,998	-40.59%
Other net profit/loss	-3,821	-10,867	-64.84%
Operating profit	**101,691**	**233,140**	**-56.38%**
Financial income	12,563	18,239	-31.12%
Financial expenses	5,137	9,466	-45.73%
Share in (losses)/profits of associated undertakings	-18	-48	-62.50%
Profit before taxation	**109,099**	**241,865**	**-54.89%**
Income tax	21,056	48,885	-56.93%
Net profit	**88,043**	**192,980**	**-54.38%**
- attributable to shareholders of the Parent Undertaking	87,852	191,683	-54.17%

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



Other income

For the first 9 months of 2011, other operating income amounted to PLN 8,056,000 compared to PLN 4,458,000 for the same period of the previous year – this means an increase in their value by 80.71%. An amount of PLN 8,056,000 was recorded as income resulting from non-recurring events (primarily released special-purpose provisions).

Other expenses and other net profit/loss

Other expenses for the first 9 months of 2011 were PLN 1.187,000, compared to PLN 1,998,000 for the same period of 2010, which means a decrease by 40.59%. In the analysed period of

2011, other net profit/loss amounted to PLN -3,821,000 compared to PLN -10,867,000 in the analogous period of 2010.

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

Adjusted for profit on sales, other revenue, other expenses and other net profit/loss, the operating profit (EBIT) for three quarters of 2011 is at the level of PLN 101,691,000, down by 56.38%, i.e. PLN 131,449,000 compared to the result a year earlier.

Financial income

Financial income for the first 9 months of 2011 was PLN 12,563,000, compared to PLN 18,239,000 a year earlier (a fall by 31.12%). Change in the financial income is a result of lower average annual level of cash in the Group.

Financial expenses

Financial expenses in the analysed period of 2011 amounted to PLN 5,137,000, compared to PLN 9,466,000 a year earlier (a decrease by PLN 4.329,000, i.e. 45.73%). That fall is a result of a lower level of the Group's interests-bearing debt, as well as the fact that a part of the interest accrued this year increased the value of outlays for tangible fixed assets in construction, and was not included in the tax-deductible costs of the given period.

The pre–tax earnings for 9 months of 2011 were lower by 54.89% than in the previous year - the pre-tax profit for three quarters of 2011 amounted to PLN 109,099,000 as compared to PLN 241,865,000 for three quarters of 2010.

Adjusted for obligatory corporate tax paid by the Lubelski Węgiel Bogdanka S.A. Group, net profit of the financial year for the period from 1 January 2011 to 30 September 2011 was PLN 88,043,000, compared to PLN 192,980,000 for the same period of 2010 – the Group's net profit decreased by 54.38% on a year-to-year basis.

4.2.5 The Group's profitability

Table 12 Profitability ratios of the LW BOGDANKA Group

Item	3 Qs 2011	3 Qs 2010	Change [p.p.] 2011-2010	Change [%] (2011/2010)
Gross margin on sales	21,12%	33,96%	-12.84	-37.81%
EBITDA	25.49%	36.12%	-10.63	-29.43%
EBIT	11.75%	24.96%	-13.21	-52.92%
Gross margin	12.60%	25.89%	-13.29	-51.33%
Net margin	10.17%	20.66%	-10.49	-50.77%

Return on Assets	3.09%	7.40%	-4.31	-58.24%
Return on Equity	4.43%	10.51%	-6.08	-57.85%

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

Gross margin on sales of the LW BOGDANKA Group decreased from 33.96% (3 Qs 2010) to 21.12% (3 Qs 2011). The change in that ratio resulted from a positive dynamics of products, goods and materials sold relative with a negative dynamics of revenues.

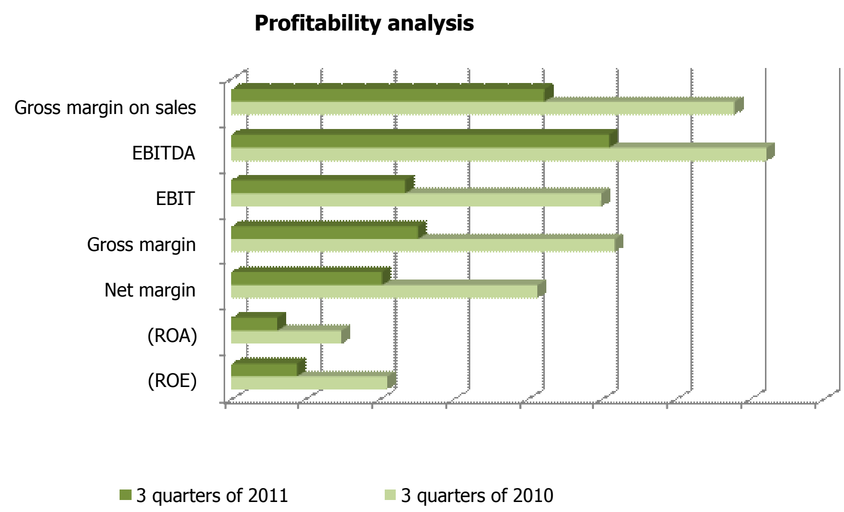
In the analysed period the profitability of EBIT (operating profit) amounted to 11.75%, which means a decrease by 13.21 p.p. in comparison to the same period in the previous year, whereas EBITDA fell from 36.12% (3 Qs 2010) to 25.49% (3 Qs 2011). The change of the value of both ratios is a consequence (similarly as in the case of gross margin of sales) an increase in costs of products, goods and materials sold with concurrently lower revenue on sales.

The gross margin for three quarters of 2011 amounted to 12.60% and was 13.29 p.p. lower than the gross margin for three quarters of 2010.

Net margin on the Lubelski Węgiel Bogdanka S.A. Group's operations amounted to 10.17% for three quarters of 2011, compared to 20.66% for three quarters of 2010.

The decrease in ROA (from 7.40% to 3.09%) is a result of lower net profit and a great investment process implemented by the Parent Undertaking (primarily extension of the Stefanów Field) – currently the Group generates assets which will bring profits in the future. The Company's ROA should be expected to fall until all the assets under construction are put into operation.

Similarly to the ROA, the drop in the ROE was caused by a drop of the net profit (by 54.38%) with a concurrent increase (by 2.05%) in the value of equity capital. The effects of using equity capital for financing Group's activities will be visible in the forthcoming years. The Company's ROE should be expected to fall until all the assets under construction are put into operation.



4.2.6 Indebtedness and financing structure of the LW BOGDANKA Group

Table 13 Debt ratios of the LW BOGDANKA Group

Item	30.09.2011	31.12.2010	Change [%] (2011/2010)
Overall debt ratio	30.16%	30.38%	-0.72%
Debt to equity ratio	43.19%	43.63%	-1.01%
Fixed capital to fixed assets ratio	92.48%	108.95%	-15.12%
Short-term debt ratio	14.39%	14.26%	0.91%
Long-term debt ratio	15.77%	16.12%	-2.17%

As of 30 September 2011, the share of liabilities in the financing of the LW BOGDANKA Group, measured with the overall debt ratio, amounted to 30.16% and, respectively, 30.38% as of 31 December 2010. Indebtedness of the LW BOGDANKA Group did not represent a threat to its operations as well as timely fulfilment of obligations in the period covered by the abridged consolidated financial statements for the first three quarters of 2011. In the analysed period, the debt to equity ratio increased from 43.63% (as at 31 December 2011) to 43.19% (as at 30 September 2011) – which is a result of an increase by PLN 40,424,000 in equity with a simultaneous increase in the Group's total liabilities by PLN 8,870,000.

The fixed capital to fixed assets ratio is below 100%. This results primarily from an increase in value of fixed assets (by PLN 423,166,000 in connection with the implemented investment programme). It is expected that the value of that ratio will return to the level of ≥100% after the completion of the investment programme, when the Group will start to use in economic terms the assets that will have been generated by that time.

Table 14 Liquidity ratios of the LW BOGDANKA Group (in days)

Item	30.09.2011	31.12.2010	Change [%] (2011/2010)
Current liquidity ratio	0.88	2.07	-57.49%
Quick liquidity ratio	0.74	1.88	-60.64%

In the period covered by the consolidated quarterly financial statements, the liquidity ratios of the LW BOGDANKA Group remained at a safe level, and the Group is not having any difficulties in settling its liabilities. The level of the liquidity ratios (both as at 30 September 2011 and 31 December 2010) results from the value of cash injected to the Parent Undertaking as a result of the share capital increase and the resources from the conducted operations. Due to the pursued investment plan and the planned partial repayment of the working capital loan (by 31 December 2011 in the amount of PLN 41,000,000), a drop in values of the ratios referred to above should be expected.

Table No. 20 Turnover rates of the LW BOGDANKA Group (in days)

Item	30.09.2011	31.12.2010	Change [%] (2011/2010)

Stock turnover	21,5	24,7	-12,96%
Trade debtors collection rate	42,5	36,2	17,40%
Trade creditors payment rate	99,8	89,8	11,14%
Operating cycle (1+2)	64,0	60,9	5,09%
Cash conversion cycle (3-4)	-35,8	-28,9	23,88%

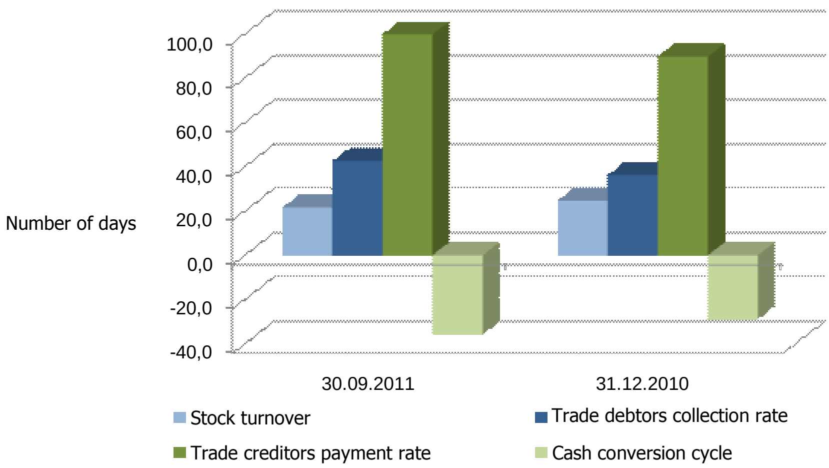
In the analysed period, the stock turnover rate was down compared to its level as of 31 December 2010, i.e. 24.7 days against 21.5 days - with a decrease in the average stock level (as compared to 31 December 2010) and an increase in cost of products, goods and materials sold.

Trade debtors collection rate amounted to 42.5 days (as at 30 September 2011) and 36.2 (as at 31 December 2010). The increase in the rate is attributable to an increase in the average level of trade creditors with a concurrent drop in sales revenue.

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) in the analysed period was at 64.0 days, as compared to 60.9 days as at 31 December 2010 – which indicates that current assets are transferred into cash on average 3.1 day slower.

The trade creditors payment rate increased in the period covered by the financial information from 89.8 days as at 31 December 2010 to 99.8 days as at 30 September 2011.

Cash conversion cycle analysis



As a result of the trends described above, a cash conversion cycle of -35.8 days was achieved as at 30 September 2011, compared to -28.9 as at 31 December 2010. The negative value of the cash conversion cycle ratio indicates that the Lubelski Węgiel Bogdanka S.A. Group uses non-interest-bearing borrowed capital.

4.3 Information on the Company or its subsidiary granting sureties for a credit facility or loan or granting guarantees

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

4.4 Information on financial instruments

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

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

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

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

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

4.5.1 Costs by type

In the three quarters of 2011, LW BOGDANKA S.A.'s incurred costs with respect to type in the amount of PLN 974,269,000 compared to PLN 884,093,000 incurred in the analogous period of 2010, which means that the costs increased by 10.20% (PLN 90,176,000). The above nominal increase in costs was largely the result of higher costs of external services, costs of materials and energy consumption as well as depreciation/amortisation costs. After the adjustment of costs by type by change in stocks and the cost of own work capitalised yields and after including costs of goods and materials sold, the own cost of sales is obtained, which in the three quarters of 2011 amounted to PLN 757,066,000 (increased by 9.93%, i.e. by PLN 68,388,000 as compared to the same period of 2010).

Table 16 Costs by type of LW BOGDANKA S.A. (in PLN '000)

Item	9 months of 2011	9 months of 2010	Change (%)	Change (PLN '000)
Amortisation/depreciation	118,053	103,630	13.92%	14,423
Materials and energy used	293,855	266,960	10.07%	26,895

Item	9 months of 2011	9 months of 2010	Change (%)	Change (PLN '000)
Contracted services	249,358	198,670	25.51%	50,688
Employee benefits	272,275	275,042	-1.01%	-2,767
Entertainment and advertising expenses	8,277	8,899	-6.99%	-622
Taxes, fees and charges	16,283	15,790	3.12%	493
Other costs	16,168	15,102	7.06%	1,066
TOTAL COSTS BY TYPE	**974,269**	**884,093**	**10.20%**	**90,176**
Change in products	53,890	5,959	804.35%	47,931
Operating expenses	**1,028,159**	**890,053**	**15.52%**	**138,106**
Activities for own needs	29,097	207,138	40.05%	82,959
Cost of goods and materials sold	19,004	5,763	229.76%	13,241
Cost of sales	**757,066**	**688,678**	**9.93%**	**68,388**

When analysing the increase in materials and energy used as well as costs of external services it must be indicated that this change was the result of a greater scope of preparatory and deposit-opening works than in the analogous period of the previous year. These works are connected with the implemented development strategy of the Company, within the framework of which in nine months of 2011 almost 800 running metres more galleries were made (an increase by 5 %) than in the analogous period of the previous year. An increase in executed preparatory works translated into larger volume of stone subject to utilisation, which also caused an increase in value of services in connection thereto. In the analysed period the scope of works commissioned for holidays was also higher due to workload in the Stefanów Field. An analysis of the increase in costs of materials and energy consumption shows that in the analysed period the increase in the materials used amounted to 10.47% and the energy used – to 8.54%.

The employee benefits item in the cost accounting by type of expenditure shows a drop by 1.01% in comparison with the analogous period of the previous year, despite an increase in the average employment in the Company. This results from the way of making additional payments that burden labour costs, i.e. the so-called "the Barbórka salary" and "the Fourteenth salary" in the current year. In 2010, "the Barbórka salary" and "the Fourteenth salary" were paid in instalments in June and in December. The first instalment (paid in June) burdened the remuneration and was reflected in the costs item of the cost accounting by type of expenditure, and burdened the cost of manufacturing of the goods sold. In turn, the payment of the June instalment of "the Barbórka salary" and "the Fourteenth salary" was abandoned in the current year. The costs to make the above-mentioned payments burdened the cost of generating the goods sold in correspondence to the passive costs in the amount of PLN 41,584,000 that are balanced periodically, which was reflected in the "Change in products" item (PLN 53,890,000 as of 30 September 2011, which, among other things, took into account the change in the level of coal stocks).

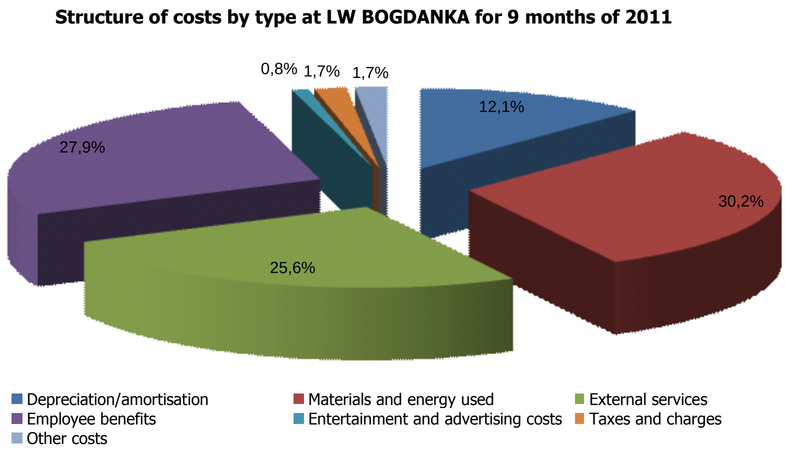
The recorded increase in depreciation costs (by 13.92%) is associated with the gradual process of putting the assets of Stefanów Field into operation.

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

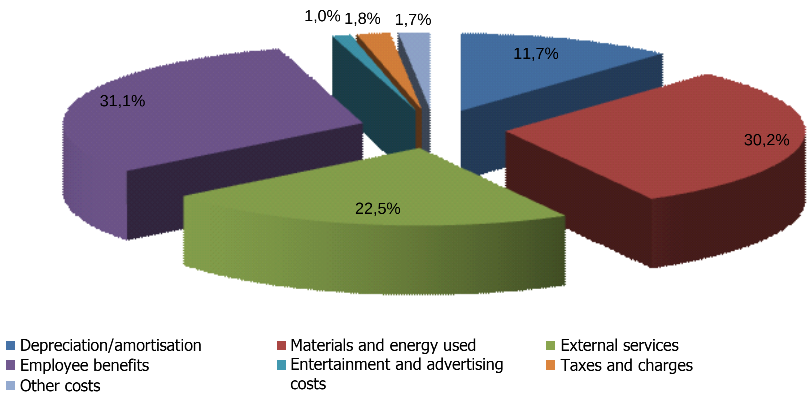
The changes presented in the group of costs by type had little impact on the change in the structure thereof. In the analysed period, as was the case a year earlier, the most significant position remained the costs of materials and energy used and their share virtually remained at the unchanged level (30.16%). The share of employee benefits costs fell by 3.2 p.p. and it currently makes 27.95% of the total costs by type (explanation of the decrease is as presented above). The share of external costs increased by 3.1 p.p. and their share at the end of September 2011 amounted to 25.59%. It should be noted that the above cost items (materials and energy, employee benefits, external services) accounted for 83.70% of the total costs incurred by the Company in the three quarters of 2011 (in the analogous period of the previous year it was 83.78%).

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

Item	9 months of 2011	9 months of 2010	Change (%)
Amortisation/depreciation	12.12%	11.72%	3.4%
Materials and energy used	30.16%	30.20%	-0.1%
External services	25.59%	22.47%	13.9%
Employee benefits	27.95%	31.11%	-10.2%
Entertainment and advertising expenses	0.85%	1.01%	-15.8%
Taxes, fees and charges	1.67%	1.79%	-6.7%
Other costs	1.66%	1.70%	-2.4%
TOTAL	**100.00%**	**100.00%**	



Structure of costs by type at LW BOGDANKA for 9 months of 2010



4.5.2 Costs by function

In the period from 1 January to 30 September 2011 Lubelski Węgiel Bogdanka S.A.'s cost of products sold amounted to PLN 757,066,000, which means an increase by PLN 68,388,000, or 9.93%, compared to the analogous period in 2010. An analysis of the different components of the cost of sales shows that the increase is largely attributable to an increase in the cost of products, goods and materials sold (+9.83%, i.e. PLN +60,420,000), which is a result of an increase in operating costs recorded in the analysed period connected with the implemented development strategy (materials and energy, employee benefits, external services, amortisation/depreciation). An increase in administrative costs (+9.62%) was also recorded, which was caused mainly by higher personnel expenses and costs connected with insurance, maintenance and protection of the Company's assets and selling costs – an increase by 12.80%.

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

Item	9 months of 2011	9 months of 2010	Change [%]	Difference (2011-2010)
Costs of products, goods and materials sold	675 072	614 652	9,83%	60 420
Selling costs	30 139	26 720	12,80%	3 419
Administrative costs	51 855	47 306	9,62%	4 549
Cost of sales	**757 066**	**688 678**	**9,93%**	**68 388**

Due to a significant increase in the costs of products, goods and materials sold, the structure of the Group's cost of products sold changed.

The share of costs of products, goods and materials sold dropped from 89.25% in three quarters of 2010 to 89.17% in the analogous period of 2011. The share of other groups of costs for the period from 1 January to 30 September 2011 amounted from 3.98% to 6.85%.

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

Item	9 months of 2011	9 months of 2010	Change [%]
Costs of products, goods and materials sold	89.17%	89.25%	-0.09%
Selling costs	3.98%	3.88%	2.58%
Administrative costs	6.85%	6.87%	-0.29%
Cost of sales	**100.00%**	**100.00%**	**x**

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

The Company plans that the structure of financing its property investment expenses will remain unaltered, i.e. the main source of financing will be equity capital (funds generated from operating activity). As far as the financing of current operations is concerned, the share of external capital will increase as a result of drawing an interest-bearing debt (the opening of offerings in the pending tender for "Performance of banking service, consisting in granting a medium-term working capital loan in the amount of PLN 200,000,000.00" is planned for 22 November 2011.) As at the date of drafting this information, the Company sees no threat as to the possibility to acquire its additional financing in the form of debt. As at 30 September 2011 the Company's current loan in the amount of PLN 241 million constituted approx. 11.99% of the shareholders' equity (PLN 2,009.43 million) and 8.38% of the balance-sheet total.

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

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

5.1 Material investments of the LW BOGDANKA Group after three quarters of 2011

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

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

Table 20 Key investment expenses incurred in the 9 months of 2011 and 9 months of 2010 [PLN '000]

Item	01.01.2011 - 30.09.2011	01.01.2010 – 30.09.2010
Investment expenses on acquisition of tangible fixed assets	561,555	462,207
Investment expenses on acquisition of intangible fixed assets	393	55

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

In the nine months of 2011, due to investment execution the outlays on tangible fixed assets in construction amounted to PLN 545,338,000. These outlays concern the following investment groups:

Table 21 Key material investments of the LW BOGDANKA Group in the 9 months of 2011 and the 9 months of 2010 [PLN '000]

Key material investments	Outlays incurred from 1 January 2011 to 30 September 2011	Outlays incurred from 1 January 2010 to 30 September 2010
Construction and assembly work	402,792	271,889
Completion of deliveries and purchases of finished goods	140,761	223,937
Other	1,745	2,854
Prepayments for fixed assets under construction	40	96
Total	**545,338**	**498,776**

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

The subject of the first public offering of the Company in June 2009 were 11,000,000 series C shares. The first quotation of rights to shares of the Company on the Warsaw Stock Exchange (the "WSE") took place on 25 June 2009, and the first quotation of rights to series C shares on the Warsaw Stock Exchange took place on 22 July 2009.

In connection with the issue of series C shares, the Company obtained proceeds of PLN 528,000,000 (after deducting the costs of issue, LW BOGDANKA S.A.'s proceeds amounted to PLN 521,051,000).

In the third quarter of 2011, the Company used a total of PLN 77,655,000 from the proceeds from the issue of series C shares, to perform the following investment tasks:

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

From the proceeds obtained from the Warsaw Stock Exchange PLN 82 million remained for the Company's use.

5.1.2 Investments in the third quarter of 2011

The basic goal of the investment plan for the three quarters of 2011 was to complete the commenced tasks aiming at doubling the extraction in 2014. The existing plan implementation allowed the excavation works to be launched using shaft 2.1 in the Stefanów Field in October 2011.

The plan for the third quarter of 2011 included:

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

Construction of the 2.1 extraction and ventilation shaft in the Stefanów field

In the third quarter of 2011 and after the date of the balance sheet, the following works were carried out:

1. Hoist tower together with the lift machinery room building for shaft 2.1:

   The construction works and assembly of equipment were completed. In September 2011, the investors commissioned the performed works, along with submitting the facilities and equipment for the commissioning by the mining authority. In September 2011 the buildings and equipment were inspected and commissioned by the Mining Authority for Monitoring Inspections of Energomechanical Devices (UGBKUE). The Company received the occupancy permit for the construction structures, which allowed it to start the extraction of material through shaft 2.1.
2. Lifting equipment of shaft 2.1:
   a) The assembly and start-up of the shaft signalling equipment in shaft 2.1, were completed.

   b) In August 2011 the works connected with the process of optimizing the mining shaft hoist in shaft 2.1, in the scope of controlling whether the shaft equipment and signalling devices work correctly, were started.

   c) On 27 August 2011, based on the permit and conditions specified by the Maintenance Manager of the Mining Plant, further works on the optimization, as regards the full inspection of the mining shaft hoist (along with the loading and extraction of the excavated material), were started. The studies with target maintenance parameters were completed on 24 September 2011.

   d) In September 2011, the inspection and commissioning of the mining shaft hoist by UGBKUE took place. The Company obtained the permit for the operation of the hoist in the so-called „trial run" with target work parameters, which allowed it to start the extraction of material through shaft No. 2.1.
3. Shaft and loading equipment:

   Equipment assembly was completed. In September 2011 the investors commissioned the performed works, along with submitting the equipment connected with the work of the mining shaft hoist for the commissioning by the mining authority. In September 2011, the inspection and commissioning of the equipment by UGBKUE took place together with the commissioning of the mining shaft hoist. The Company obtained the permit for the operation of the equipment within the permit for the operation of the mining hoist of shaft 2.1.

4. Construction of storage reservoirs in the Stefanów Field – storage reservoir 2fS was finished, storage reservoir 1fS – its loading and unloading chambers were completed, the works associated with sinking for the target length of the reservoir, are almost completed.

Extension of the Mechanical Coal Processing Plant

In the third quarter of 2011 and after the date of the balance sheet, the following works were carried out:

1. Task 2 - Extension of the MCPP processing capacity from its current level of 1200 up to 2400 t/h:
   a. The construction works and assembly of equipment were concentrated in the facilities of the so-called fast haulage. This group includes the following facilities: 101.1÷101.6, 104.1, 107.1 and 107.4, 108.1 and 108.2, 109.1 and 109.2, 14.1 and 14.2, 16.1÷16.5, 110.1 as well as 111.1 and 111.2. The average progress level of works in the above-mentioned facilities was at 85% at the end of the third quarter.
   b. In September, the construction and assembly works were completed for the equipment in facility 14.4 – coal loading from coal storage area. In September 2011 the investors commissioned the performed works, along with submitting the facilities and equipment for the commissioning by the construction supervision authority – Regional Mining Authority. After obtaining the occupancy permit for the construction structure during the first ten days of October, the operation of equipment started.
   c. The construction completion and the commissioning of the facilities and equipment from the group of facilities of the so-called fast haulage have been planned to take place successively in November 2011.
   d. The construction of facilities connected with stone haulage to the mining landfill, is in progress. The progress level of works in the above-mentioned facilities was at about 60% at the end of the third quarter.
   e. The preparation of construction and technology working designs for the heavy liquid washer and jig washer facilities, is in progress.
2. Task 1 – Construction of the excavated material haulage system from the Stefanów Field to MCPP.
   a. Construction facilities were commissioned and an occupancy permit was obtained for the construction structures.
   b. Technological equipment was started-up, and the machinery, equipment and installations in the construction structures were commissioned.
   c. In August 2011 (while optimizing the mining shaft hoist), the test runs of some of the haulage equipment, were carried out.
   d. On 27 September 2011, when the extraction of excavated material through shaft 2.1 started, a 720-hour trial run for the haulage equipment under load was initiated.
3. Expansion of the coal storage area:
   a. The existing commercial coal storage area was expanded, as per the concept.
   b. Geotechnical examinations were carried out of the ground under the tracks for the stacker-loader.
   c. The tender specifications for the coal storage area expansion project are being prepared.

Construction of buildings in the Stefanów Field

In the third quarter of 2011 and after the date of the balance sheet, the following works were carried out:

1. The main fan station at shaft 2.1.
   a. In August 2011 the construction structure of the fan station was commissioned by UGBKUE. The mine obtained the use permit for the structure.
   b. In August and September 2011, test runs of the station equipment were carried out.
   c. In October 2011, after the UGBKUE commissioned the lift-machinery room building, the final (the 5th) stage of test runs of the main fan station of shaft 2.1. was started, with the use of the mine's air-conditioning network, i.e. ventilating the mining workings.
   d. The final commissioning of the fan station equipment by UGBKUE will be carried out in November 2011 after the trial runs, necessitated by the regulations, are carried out.
2. The works associated with constructing the roads, greens and with land development of the Stefanów field, were completed.

Central air-conditioning system of the Stefanów Field

In the third quarter of 2011, the expansion of face networks of the air-conditioning system was completed. The central air-conditioning installations were started at target parameters.

Making coal seams in the Stefanów Field available

In the period between the first and the third quarter of 2011, the following works were performed:

1. Workings at a level of 990 in the Stefanów Field – drilling works of all workings at a level of 990 were completed. The rebuilding of detour W and of the loading heading was under way, as well as the development of transportation systems for floor-mounted and suspended creepers. In the first half of 2011 the construction of the main conveyor to storage reservoirs was completed. In the third quarter shortcreting of the loading heading to shaft 2.1 was performed.
2. Ventilation and transport workings in seam 385/2 - In the first half the drilling of the 385/VIII/2 haulage heading and 1/VIII/385 ventilation heading for the purpose of starting the drilling of longwall headings for the 1/VIII/385 panel was in progress. Drilling of this group of workings planned for 2011 was completed.
3. Workings in seam 385/2 to start up the first panel 7/VII in the Stefanów Field – drilling the longwall gate roads and panel cross-heading was completed. Works connected with panel reinforcement were completed and the conveyor haulage from the panel to storage reservoirs was launched.
4. Workings in seam 385/2 field VII – under way is the drilling of under-panel heading 5/VII/ - 2,421.0 m, under-panel heading 6/VII - 2,488.0 m. Technological cross-heading 5/VII between those headings was completed.
5. Workings in seam 385/2 field VIII - under way are: the drilling of the under-panel heading 1/VIII/385 – 3,200.0 m, for the second panel in the Stefanów Field, and an under-panel heading 2/VIII – 2,560 m, as well as in August the drilling of the technological cross-heading between these headings was commenced.

Purchases of finished goods

1. Panel reinforcement 7/VII of seam 385 in the Stefanów Field – on 1 October the launching of panel 7/VII/385 took place. The ploughing system for this panel was delivered by Bucyrus, under agreement 359/IZ/2009 of 2009.
2. The purchase items which were executed in three quarters are:
   - sets for transporting people with suspended creepers - 4 pcs,
   - face pumps – 90 pcs,
   - cementing aggregates – 5 pcs,
   - air compressors – 2 pcs,
   - transformer stations and switch–off facilities – 18 pcs,
   - ventube fans – 22 pcs,
   - air coolers for panel 2/II
   - labour-saving mechanical devices,
   - carriers for transporting euro–pallets - 40 pcs,
   - roadheading machines – 3 pcs,
   - belt conveyors – 8 pcs,
   - suspended internal combustion locomotives – 7 pcs.

Replacement investments

In the period between the first and the third quarter of 2011 and after the balance-sheet date, the following works were performed:

1. Railway investments - development of tachographs on S-200 locomotives.
2. Construction of building facilities in the Bogdanka and Nadrybie Field.
   a. Extension of the administrative building (of the Management Board) – the facility was completed and commissioned.
   b. Conversion of a shaft shelter – this facility has already been commissioned.
   c. Construction of power supply to the shaft shelter and the Management Board building – task completed.
3. Modernisation of the existing building facilities.
   a. The OSH complex in Nadrybie – repair of the bath within the scope of conversion of the 2nd, 3rd and 4th floor and making of new façade are under construction. Planned completion date – Q4 of this year
   b. Yard of the TMA department under gantry in Bogdanka, extension of the car park in Bogdanka, ventilation channels of shaft 1.4 in Nadrybie – these facilities have already been commissioned.
   c. Roads and yards in the vicinity of the main warehouse – task completed.
   d. Roads and lots around the 1.2 shaft – due to a collision in the extension of the MCPP, the implementation was postponed until 2012.
   e. The Stary Tartak training centre – new roof cover was made, and the wooden elevation was replaced - task completed.
4. Lifting machines and other power systems.

a. Lifting machine control and braking driving system in shaft 1.2. – part of the system was started up.

b. Modernisation of emergency-inspection B 1100A lifting facility - task completed.

c. Modernisation of 110 kV GSTR in Bogdanka – conversion concept has been developed.

5. Telecommunication systems and devises – under construction.

a. Expansion of the SMP and SAT system with a module in Stefanów – task completed

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

6. Alarm and monitoring systems – under preparation.

System for monitoring pressure in bearings of powered roof supports – task completed.

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

Environmental protection

In the period between the first and the third quarter of 2011 and after the balance-sheet date, the following works were performed:

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

Performance and modernization of workings in the Bogdanka and Nadrybie fields

In the period between the first and the third quarter of 2011 and after the balance-sheet date, the following works were performed:

1. Longwall workings in the Bogdanka field – an over-panel heading in 13/II/382 for panel 13/II in seam 382 is completed; an over-panel heading for panel 6/IV and under-panel heading 6/IV for panel 6/IV in seam 385 in field IV are completed. The drilling of the second stage of the under-panel heading for panel 6/I has started. In the Nadrybie field, the drilling of an under-panel heading for panel 3/II has been completed, the drilling of an over-panel heading 3/II has started, and the drilling of an under-panel heading of panel 4/II is in progress. Other workings - the 2fN heading with a conveyor belt and R-27 heading were drilled.
2. Modernizations and developments of mining workings – the task is gradually under way in

accordance with the scheduled timetable.

3. Modernization of storage reservoirs – the contractor was selected, and the implementation was commenced in October 2011.

5.2 Equity investments of the LW BOGDANKA Group in the third quarter of 2011

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

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

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

7. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP

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

- gaining access to new reserves and increasing the level of coal extraction based on the enlargement of the Stefanów Field;
- maintaining a stable position as the main supplier of coal in eastern Poland, particularly for the commercial power industry;
- strengthening its competitive position by cutting the units costs of extractions and production.

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

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

Enlarging the Stefanów Field will enable LW BOGDANKA S.A. to double its production capacity, and thus to increase the annual quantity of hard coal extraction to the target level of approx. 11.5 million tonnes per annum in 2014.

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

8.1 Risk associated with the Group's market environment

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

The LW BOGDANKA Group's financial standing depends on the economic situation in Poland and globally. The financial results generated by the Company are affected by the rate of increase in domestic and global GDP, particularly the rate of increase in industrial production, changes in exchange rates, the level of inflation, the rate of unemployment, national fiscal policy, and the demand for electricity and heat energy, etc.

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

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

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

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

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

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

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by the LW BOGDANKA S.A. Group. The present, difficult situation on global financial markets, the crisis of the Euro zone as well as difficult situation of the American economy may have an impact on the change of demand for fuel and may result in changes of prices of energy carriers, including coal, on global markets, which may affect the Group's financial results.

With a view to mitigating the risk related to changes in prices of energy sources, the Group enters into long-term commercial contracts with key customers purchasing power coal. Information on the material trade agreements signed by the Group in 2011 and after the balance-sheet date is presented in section 11 of the Report.

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

In accordance with the regulations of the European law, Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, and Council Directive 2004/74/EC of 29 April 2004 amending directive 2003/96/EC as regards the possibility for certain Member States to apply, in respect of energy products and electricity, temporary exemptions and reductions in the levels of taxation, an obligation to cover coal, natural gas and electricity with the excise tax was imposed on the Member States. Council Directive 2003/96/EC introduced minimum levels of excise tax rates, which apply, among other things, to coal and coke. In compliance with the latter directive, the Republic of Poland may apply a transitional period until 1 January 2012 in order to adjust the national tax levels applicable to coal and coke to the relevant minimum tax level. During the transitional period, the excise tax applicable to coal and coke will not be charged. The regulations to become effective after the end of the above transition period, i.e. from 1 January 2012, may result in an increase in the prices of coal for heating purposes for the final recipients, thus making coal less competitive in relation to other energy source materials. This, in turn, may adversely affect the future financial results achieved by coal mining industry entities in Poland, including by LW BOGDANKA S.A. The risk for the Company is, however, limited, as most of the Company's coal is sold for electricity production purposes and the new proposed national excise duty regulations provide for a wide range of exemptions from excise duty. These exemptions, if adopted, would apply to both electricity production, cogeneration of electricity and heat, other selected industries, as well as to individual consumers of coal. Moreover, it is important to emphasise the fact that, due to its relatively low costs of hard coal extraction, the Company can more flexibly respond to the changing market circumstances as far as the introduction of excise duty (coal tax and/or other taxes related to the use of coal as fuel) is concerned.

8.1.5 Interest rate risk

The LW BOGDANKA Group is a party to financial agreements based on variable interest rates, therefore it is exposed to a risk of fluctuations in interest rates with respect to loans incurred, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in financial expenses of the Group and hence have an adverse effect on the Group's financial results (or, alternatively, a possible decrease in interest rates may cause a decrease in financial expenses of the Company bringing a positive effect on its financial results).

In the Group's assessment the interest rate risk has a limited bearing on the financial standing of the LW BOGDANKA Group given a relatively low degree of financing the Group's assets with third party capital. In the nearest future, the risk will be increased due to the planned increase in the share of financing in the form of debt in the Group's operations (the opening of offerings in the pending tender for "Performance of banking service, consisting in granting a medium-term working capital loan in the amount of PLN 200,000,000.00" is planned for 22 November 2011.)

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

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

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

The most important natural threats occurring in the mine include:

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

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

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

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

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

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

Currently LW BOGDANKA implements a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds (proceeds from the issued series C shares, income on current operating activity) and debt financing, currently totalling PLN 241 million. As at 30 September 2011 the Company's current loan in the amount of PLN 241 million constituted approx. 11.99% of the shareholders' equity (PLN 2,009.43 million) and 8.38% of the balance-sheet total.

Moreover, the Group is in the course of tender procedure aiming at obtaining additional financing in the form of debt in the amount of PLN 200,000,000.00 for the financing of current operations of the Parent Undertaking. As at the date of preparing this Information, the Parent Undertaking does not see any threat with regard to the possibility of obtaining such financing in the form of debt, and the interest of financial institutions ready to grant such financing is considerable. After the conclusion of the tender and signing of the loan facility agreement, the share of total financing in the form of debt in the structure of the Group's assets financing will gradually increase along with the level of the loan tranches used.

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

8.1.8 Risk connected with exchange rates

Analysis of historical data of the Group shows that about 0.05% of the value of its total revenue on sales came from export. The territory of Poland remains the main market for the LW Bogdanka Group, and most transactions are settled in the domestic currency. As at the date of submitting the Report, LW BOGDANKA Group's operations are not exposed to currency risk.

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

The EU climate policy resulting from the Framework Convention of the United Nation on Climate Changes (Kyoto Protocol) stipulates limiting the emission of greenhouse gases to the atmosphere. The regulations adopted in Poland are compliant with the EU laws. The European Commission declares limiting the CO_2 emissions by 20% until 2020. Moreover, it suggests introducing a system of auctions for emission permits from 2013. The system will mean that instead of receiving free emission rights (as in the period 2008-2012), the companies will be forced to purchase emission permits in open tenders. In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. Limitation of the 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.

The Climate-Energy Legislative Package adopted by the European Union involves reducing greenhouse gas emissions by 20%, increasing the share of renewable energy sources to 20% and rationalising the use of energy, thus reducing its consumption also by 20% (the so-called 3 x 20 package). The implementation of the Climate-Energy Legislative Package may translate into higher prices of electricity and heat produced from power coal, reduced competitiveness of the production of electricity and heat from coal. It may also result in the financial situation and competitiveness of Polish business entities having to purchase electricity at prices higher deteriorating in relation to their competitors in other EU countries.

It may have a negative impact on the sales of coal by the Company, and in consequence may have a negative impact on its financial results. This risk is hard to evaluate and it is hard to undertake any activities aimed at limiting it as works are in progress in relation to the final form of obligations to reduce the emission of CO_2 in the respective sectors of economy, and thus it's now known at what actual level the limits of CO_2 emission will be. In the whole world (USA, China, Australia), there have already appeared new technologies – the so-called "clean coal technologies" which have been gradually improved, by means of which the problem of CO_2 emission will be much smaller than at present.

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

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

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

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

8.1.11 Risk of hostile takeover of the Group

Lubelski Węgiel BOGDANKA S.A., as a result of its IPO on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie 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. Thus the Company became a private entity, whose 90.5% of shares may be subject to transactions at the WSE.

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

The Company is in the process of implementing an investment programme (the Stefanów Field) designed to increase the Company's mining capacity to approx. 11.5 million tonnes of coal annually (starting from 2014) and, in consequence, to improve the Company's technical, economic and financial results and ratios.

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

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

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

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

8.2 Risk directly associated with the Group's operations

8.2.1 Risk associated with estimating the size of deposits

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

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

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

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

8.2.2 Risk associated with the launch of extraction of new deposits

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

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

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

8.2.3 Technical and technological risk

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

The Company stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA S.A. extracts coal by the longwall system and its target production capacity is obtained from three mining faces, while due to technical and technological mining conditions the assumed level of extraction can be maintained if a stoppage occurs at one of the faces by intensifying work on the two others. Moreover, on 30 September 2011 in the Stefanów Field the second mining shaft was started up, which further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down.

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

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

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

8.2.5 Risk of IT systems malfunctioning

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

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

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

IT systems used at the Group have no effect on operating activities associated with extracting hard coal and therefore if they malfunction the continuity of hard coal extraction would not be threatened.

8.2.6 Risk associated with retaining and attracting human resources at LW BOGDANKA

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

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

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

The Company runs active human resources policy which aims to limit the human resources related risks. Since 2007, the Company has been gradually hiring young employees who will have gained the necessary mining experience and the required qualifications by 2014 (the planned completion of the Stefanów Field extension). To eliminate the potential generation and competence gap with respect to staff, the Company is cooperating with specialist universities, secondary and vocational schools educating persons with special qualifications for the mining, mechanic and electric sectors.

To meet the above-mentioned needs, a professional education system was reactivated and extended. In Łęczna, a Mining Technical School has functioned since 2005, and a Post-Secondary Mining School since 2008. These schools provide graduates with proven professional qualifications required in the mining industry and they allow the Company's employees to supplement and improve their qualifications.

8.2.7 Key customer risk

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

As at the day of submitting the Report, the Group has signed contracts for the entire sales of coal for 2012, and entered into agreements with two main recipients (ENEA Elektrownie Kozienice S.A., and Energia Elektrownie Ostrołęka) thus ensuring a market for coal in the long-term perspective until 2025. Information on the material trade agreements signed by the Company in 2011 and after the balance-sheet date is presented in section 11 of the Report.

There is a risk that as a result of privatisation and consolidation processes in the energy capital market, one of the key customers will significantly strengthen its position in relation to the Group by taking over higher volumes of the Company sales than they are now. This poses a risk of increasing the dependency of the Group on one key customer.

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

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

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

On both the Polish market and export markets, the Group is exposed to price competition from other producers of power coal in Poland (e.g. the mine companies Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.), as well as from eastern markets (including Russia, Ukraine and Kazakhstan).

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

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

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

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

8.2.9 Risk of delays in the planned investments

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

In September 2011, the Mining Authority for Monitoring Inspections of Energomechanical Devices (UGBKUE) carried out an inspection and acceptance test of a lift. The Company was given permission to use certain building facilities and permission to operate its lifts on a trial operation basis at the target operational parameters, which enabled the Company to extract coal using shaft 2.1. The building facilities successfully underwent acceptance testing, and permission was granted to use the building facilities for the excavated material haulage system from the Stefanów Field to the Mechanical Coal Processing Plant; The technological equipment started up and the machines, equipment and systems installed in the building facilities successfully underwent acceptance testing.
On 27 September 2011, as coal extraction using shaft 2.1 began, a 720-hour trial operation period was started for the transportation system under load.

In September 2011, building and assembly work was completed with regard to equipment in facility 14.4 – loading of coal from the coal storage area. In September 2011, the works as carried out successfully underwent acceptance testing by the investor, and the facilities and equipment were reported for acceptance testing by the building supervision authorities. After an occupancy permit for the building facilities was obtained in early October, the equipment was put into operation.

The construction and acceptance testing of the facilities and equipment in the so-called fast transportation facilities category are scheduled for completion gradually in November 2011.

The remaining part of the expansion of the Mechanical Coal Processing Plant will be performed until August 2012.

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

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

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting the Report, four trade union organisations were operating at LW BOGDANKA, whose membership constituted a total of 63% of the Company's employees, and a total of six trade union organisations operated in the LW BOGDANKA Group bringing together 64% of its employees.

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

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

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

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

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

8.2.12 Key supplier risk

The specific nature of the Group's operations (both of LW BOGDANKA S.A. and Łęczyńska Energetyka operations with respect to the planned investment) requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under agreements concluded with the Company.

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

8.2.13 Risk of unfavourable/inappropriate contractual terms being concluded

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

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

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

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

8.2.14 Risk associated with related party transactions

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

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

8.3 The Group's financial risk factors

8.3.1 Liquidity risk

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

A major factor in evaluating a company's insolvency risk is the level of the company's operating cash flows, cash and liquidity ratios. As of 30 September 2011, the Group's cash is PLN 100,328,000, current ratio is 0.88, and quick ratio is 0.74. In order to avoid potential threats to the Group's solvency in the future and to minimise liquidity risk, the Group prepares long- and short-term analyses and forecasts as the basis for identifying the Group's cash requirements. This makes it possible to plan inflows and outflows and to determine the optimum level of cash and the optimum method of financing for the future, taking into account the principles of economic calculation. As at the date of submitting the Report, the Parent Undertaking announced a tender for obtaining additional financing in the form of a debt and sees no threat for the Group's insolvency.

8.3.2 The Group's credit risk

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

The group continuously monitors customers' arrears associated with making payments for the products sold (including for Group's main product – power coal), and analyses the credit risk for the main customers individually or by the respective classes of assets. Moreover, as part of the credit risk management, the Group makes transactions solely with those customers whose creditworthiness was confirmed. For many years the Group has cooperated on the basis of long-term commercial contracts, as regards the delivery of power coal, with the main Polish energy-related groups, heat and power plants, heating plants and industrial enterprises.

All entities with whom the Group enters into deposit transactions operate within the financing sector. These are exclusively banks registered in Poland, having appropriate shareholders' equity and strong and stable market position. Given the above, we believe that credit risk for monetary resources and bank deposits is low.

8.4 Risks associated with environmental protection

8.4.1 Risk associated with reclamation and mining damage

LW Bogdanka is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be stricter. Any possible tightening of the standards in this respect may result in higher costs for the Company.

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

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

The operations of the LW BOGDANKA Group have a significant impact on the environment. Given the nature of that impact, the Group must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including BAT requirements), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. Accordingly, the environmental protection standards are applicable both to LW BOGDANKA and Łęczyńska Energetyka.

As at the date of submitting the Report, the Group's operations are conducted in compliance with law and BAT requirements. The Company holds all permits required in connection with its operations, including in particular integrated permit for the installations covered with IPPC requirements (EkoKlinkier installation and the Facility (landfill) used as the mining waste dump).

Both LW BOGDANKA and Łęczyńska Energetyka were granted the CO_2 emission allowance for the settlement period 2008-2012.

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

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

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

As a result of the enlargement of the mining area and increase in coal extraction, LW BOGDANKA S.A. will significantly increase the amount of extraction waste generated (in 2010 it was at a level of 3.3 million tonnes annually; in Q3 2011 - 3.0 million tonnes, the forecast for 2011 accounts for approx. 3.9 million tonnes, for 2012 - 3.6 million tonnes and about 5.7 million tonnes in 2014). As of 30 September 2011, about 43% of extraction waste was subject to recycling, while the remainder was stored at a landfill situated within the area of the Company's plant (the waste is subjected to the process of recycling by the Company or handed over to the entities authorized to manage waste disposal for its further use). Due to the fact that, according to the Company's estimates, the storage capacity of the landfill is only sufficient for the next 3-5 years of storing, the Company prepared the required documentation for the extension thereof, i.e. heightening the walls of the existing facility (landfill) – the status at the end of Q3 2011 is the completion of preparing the last appraisal report before applying for the building permit. Next, it is planned to widen the existing landfill by the adjacent areas (increasing the area by approx. 144 ha to approx. 230 ha). The investment requires amendment of the local spatial development plan of the commune (conversion of farmland and forest area into land for waste storage purposes), while the investment process itself will require endorsements (especially with respect to environmental impact), as well as decisions and permits for construction and exploitation of the environment. What is more, as approx. 90% of land is owned by individual farmers, the Company will be forced to purchase those plots. The Company has submitted applications for relevant amendments to the local spatial development plan and the works in this respect are quite advanced. Following the social consultations, the Company obtained the local community's approval for the investment. Moreover, the Company has already carried out talks with the plot owners and obtained preliminary consent for the purchase of plots. Nevertheless, taking into account the factors connected with the investment process referred to above, one cannot exclude the risk that the planned investment would not be implemented. Failure to implement this investment will mean the risk of disrupting the stability of the Company's extraction process and the necessity to search for alternative ways to manage the extraction waste. There is a risk that other solutions (in particular passing the waste to other entities for management, other waste yard location) may turn to be less cost effective which may affect the Group's financial result.

8.4.4 The Group's investment risks associated with protected areas

The Group companies' plants are located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the Company's mining land and three others in close vicinity of the Company's mining land). Those environmental conditions do not pose an obstacle for the Company's activity in its present scope. Nevertheless, all the planned investment activities of the Company must be analysed from the perspective of their potential negative impact on protected areas.

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

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

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

8.5.1 Risk of change to tax laws

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

8.5.2 Property tax risk in relation to LW BOGDANKA'a underground workings

In its property tax returns to date, LW BOGDANKA S.A. has not included, for tax assessment purposes, the value of its underground workings and the infrastructure located in those workings.

Fiscal procedures are currently under way covering the period from 2003 to 2006 in order to determine the amount of the Company's property tax liabilities. The procedures have been initiated by the Heads of the Communes of Puchaczów, Cyców and Ludwin.

For the period from 2003 to 2005, administrative decisions have already been issued to determine the Company's property tax liabilities. According to the issuing authorities (of first instance), property tax also applies to underground workings and their infrastructure located in those workings.

As regards the year 2006, the procedures to determine the Company's property tax liabilities are under way.

Therefore, the Company faces the risk of its position on the scope of assets subject to property tax being questioned by tax authorities and administrative courts. However, as regards the possible negative financial consequences for the Company, it seems that the risk has been reduced significantly as a result of the Polish Constitutional Tribunal's opinion expressed in its judgment of 13 September 2011 in case P 33/09.

In the judgment, the Constitutional Tribunal finds that under the applicable provisions of law currently in force, imposing property tax on the value of underground workings is, from the constitutional perspective, unacceptable. The reason for the Tribunal's position is that underground workings are not building facilities (building equipment) as defined in the Polish Building Law of 7 July 1994 ("Building Law"). Instead, they are considered as space created as a result of mining work and, in consequence, may not be classified as structures within the meaning of the Building Law. Therefore, underground workings are not subject to property tax either separately (i.e. as workings in the physical sense) or in combination with the infrastructure located in them (i.e. as workings defined comprehensively).

However, the Constitutional Tribunal does not discount the possibility of charging property tax on structures and equipment facilities located in underground workings, but the Tribunal has warned that property tax on such structures or facilities may only be imposed if certain conditions are met, i.e. structures within the meaning of the Act of 12 January 1991 on Local Taxes and Charges ("Local Tax and Charges Act") are

1) only the structures expressly listed in Article 3.3 of the Building Law, elsewhere in the Building Law and/or in the annex to the Building Law and which, together with other systems and equipment, are considered as the building facilities referred to in Article 3.1.b of the Building Law, i.e. if they form a technical and functional whole.
2) only the technical equipment described in Article 3.9 of the Building Law or elsewhere in the Building Law and/or in the annex to the Building Law, in which case – if the equipment in question is not expressly listed – it must be stated whether or not such equipment allows the use of that building facility for the purpose for which it is intended, excluding, however, the following: (1) building equipment attached to building facilities to form a structure as defined in the Building Law if such building facilities cannot be classified as structures within the meaning of the Local Taxes and Charges Act, and (2) building equipment attached to building facilities to form small architectural structures, except that systems are not considered as building equipment under the Building Law;

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

In addition, the Constitutional Tribunal has emphasised that in each tax case regarding infrastructure located in underground workings, it is necessary to determine precisely which of the facilities and equipment located in such workings can be classified as structures within the meaning of the Local Taxes and Charges Act, as this would eliminate the risk of the related decisions being made on the basis of questionable generalisations.
The Constitutional Tribunal has explained that even if underground workings are classified, by way of analogy, as building facilities (more specifically, structures) within the meaning of the Building Law (such building facilities would then fall within the scope of the definition, emphasised by the Constitutional Tribunal, of an underground working in the technical sense of the term), then because the term "underground working" is not expressly listed in the Building Law as the name of a structure, underground workings are not structures within the meaning of the Local Taxes and Charges Act.
Moreover, the Constitutional Tribunal has argued, in its judgment, that if the classification of the different facilities and equipment located in underground workings to the different names of structures specified in the Building Law is not successful, it will be necessary to determine whether or not the facilities and equipment in question can be classified as building equipment within the meaning of the Building Law and which is, at the same time, classified as structures within the meaning of the Local Taxes and Charges Act. In identifying the building facility to which a particular item of technical equipment is connected and in determining whether or not that item allows that facility to be used for the purpose for which it is intended, there are two circumstances to be taken into account. Firstly, if an underground working considered as space (an underground working in the physical sense) is not a building facility within the meaning of the Building Law, and if an underground working considered as technical infrastructure (an underground working in the technical sense) is not a building facility at least within the meaning of the Local Taxes and Charges Act, any attempt to classify any equipment as building equipment by proving that the equipment is essential for the working to operate would be illegitimate. Secondly, at least in some cases, there may be doubts as to the legitimacy of attempts to identify a relationship between the technical equipment located in an underground working and surface buildings. The connection of an item of building equipment with a building facility in such a way that the item allows the facility to be used for the purpose for which it is intended should not be interpreted so broadly as to include the possibility for that facility to perform economic functions resulting from the facility belonging to an enterprise, which is a mining enterprise in the case in question. Note, for example, that equipment intended for supplying fresh air (ventubes), pipelines for supplying and removing water, or panel lining, are prerequisite for an underground working to operate and, therefore, economically justify the existence of surface building facilities as part of a given mining enterprise. This, however, does not mean that such equipment allows such surface buildings to be used in accordance with their intended purpose. However, the question whether or not such equipment can be considered as building equipment connected with surface buildings remains open.

The above opinion expressed by the Constitutional Tribunal means that property tax may be charged on the value of structures and building equipment that meet the conditions specified in the Constitutional Tribunal's judgment described above if, of course, such structures and building equipment are located in the Company's underground workings. It must be emphasised that following the Constitutional Tribunal's judgment, the Company has taken steps aimed at

determining whether or not the underground workings operated by the Company contain structures and building equipment that meet the criteria, as specified by the Constitutional Tribunal, for such structures and building equipment to be subject to property tax. If it is determined that such structures and equipment are in fact located in such workings, the Company intends to take steps aimed at determining their value.
The possible financial consequences for the Company with regard to property tax can only be identified after the above is determined. It is, however, important to emphasise, as noted above, that such consequences should be considerably less severe that the consequences resulting from the current position on the scope of assets subject to property tax as expressed by tax authorities and administrative courts, because – as the Constitutional Tribunal has found in its judgment, property tax may not be charged on the value of underground workings as such and, therefore, the amount subject to the tax should be reduced by at least the value of drilling the workings, which value accounts for a considerable part of the value of the workings together with the infrastructure located in them.

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

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

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

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

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

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

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

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

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

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

8.5.5 Risk of violating the stock exchange disclosure requirements

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

8.6 Relationships of risks within the Group - summary

The LW BOGDANKA Group consists of a Parent Undertaking - LW Bogdanka S.A. and a subsidiary undertaking - Łęczyńska Energetyka Sp. z o.o. The Parent Undertaking generates 98.83% share of Group's revenue (and 98.71% of the net profit according to the data for three quarters of 2011), therefore it was assumed that the key risks in Group's activities are in fact the key risks of the Parent Undertaking. The only risk at the Group's level which could influence the Group's activities to a considerable extent, and is associated with Łęczyńska Energetyka, is the process of implementing the planned investment, i.e. "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant". This investment involves a number of technical, technological, processing, and financial risks that are typical for this kind of projects.

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

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the third quarter of 2011, neither LW BOGDANKA S.A. nor its subsidiary were parties to proceedings pending before court, arbitration body or administrative body, regarding:

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

10. RELATED PARTY TRANSACTIONS

In the third quarter of 2011 the Company and its subsidiary concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on terms other than market terms.

Information on the transactions of the LW BOGDANKA Group with related companies is set out in Section 10 of the Consolidated Quarterly Financial Statements of the LW BOGDANKA Group for the third quarter of 2011.

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

11.1 Initiating a process aimed at floating the Company on the Warsaw Stock Exchange

On 9 December 2011, the statutory period of limitation, under the provisions of the Commercialisation and Privatisation Act of 30 August 1996, on trading in shares in LW BOGDANKA S.A. acquired by the Company's employees without consideration ended, pursuant to the Act on Public Offering and the Conditions for Introducing Financial Instruments into an Organised Trading System and on Public Companies. Therefore, the Company has begun preparing a prospectus in order for 3,243,000 series B shares in the Company (excluding shares acquired by members of the Company's Management Board, pursuant to Article 38.3 of the Commercialisation and Privatisation Act of 30 August 1996 (Dz.U. 2009.13.70)) to be admitted to and introduced into trading on the Warsaw Stock Exchange's regulated market.

By 9 March 2012, the Company's employees may sign agreements to acquire shares in the Company without consideration.

The flotation is scheduled for January or February 2012.

11.2 Resolutions adopted by the Company's General Shareholders Meeting concerning the payment of dividend on LW BOGDANKA S.A. and the dividend payment process

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

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

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

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

The dividend date was established for 29 July 2011 and the payment of dividend was performed on 26 August 2011. More information concerning the payment of dividend is included in Section 7 of the Abridged Financial Statements of the Company.

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

On 19 July 2011 the Company announced in Current Report No. 21/2011 that the net value of agreements concluded within the past 12 months (i.e. until 19 July 2011) by and between the Company and Przedsiębiorstwo Handlowo-Usługowe Energokrak Sp. z o.o., ul. Ciepłownicza 19, 31-587 Kraków, amounted to PLN 431.38 million.

The Agreement of the highest value is the Long-Term Agreement for the Sale of Power Coal (the "Agreement") signed on 19 July 2011. The Agreement is effective from 19 July 2011 until 31 December 2015 and concerns the supply of coal for Elektrownia Rybnik S.A., with registered office in Rybnik. The value of the Agreement, without regard to additional options, possible increases, deviations and tolerance, in accordance with current prices amounts to PLN 393 million net. The price of coal for each subsequent year during the term of the Agreement shall be agreed upon by the Parties by way of negotiation.

The Agreement provides for the following liquidated damages: The Party to the Agreement which fails to collect or supply the contracted annual amount of coal, shall pay the other Party liquidated damages in the amount of 10% of the value of the undelivered/uncollected coal. Other terms and conditions do not differ from the market standards applied in such agreements.

11.4 Information concerning the claim of the member of the Company's Supervisory Board elected by the employees for the declaration of the invalidity of the resolution of the Annual General Shareholders Meeting

On 5 August 2011, the Management Board of LW BOGDANKA S.A. learned that the Regional Court in Lublin, IX Commercial Division, had received a claim filed by a member of LW BOGDANKA S.A.'s Supervisory Board, who was selected by the Company's employees, requesting the court to declare Resolution 32 of the Annual General Shareholders Meeting of 10 May 2011 on changes to the Company's Articles of Association invalid.

This was announced by the Company in Current Report No. 24/2011 of 5 August 2011.

11.5 The start-up of the excavation shaft in Stefanów

On 1 October 2011 the Company announced that the trial start-up of the excavation panel in the Stefanów Field was performed. On 30 September 2011, the Company obtained a permit for launching for work a hoisting tub, the so called skip, in shaft 2.1 in the Stefanów Field. The permit was granted by the Mining Authority for Monitoring Inspections of Energomechanical Devices (UGBKUE). Two hoisting tubes working in the shaft have a capacity of 40 tonnes each, and will ultimately transport coal to the surface at the speed of 18 metres per second.

The panel which is designated for mining operations is 305 metres long and has a panel length of 5070 metres. Mining operations in this place will be conducted with the use of a ploughing system which the Company bought from Bucyrus. Last year, the system achieved an output of 16,800 tonnes per day, which was a record-breaking result on a global scale.

At the beginning of November, the Company achieved the excavation level expected at this stage of investment, on average 10,000 tonnes of coal per day by the shaft in Stefanów. More information concerning the investments implemented by LW BOGDANKA S.A. in the third quarter of 2011 is included in Section 5 of the Report.

11.6 Initiating a public procurement procedure for the award of a contract for the banking service of providing a medium term working capital facility for PLN 200,000,000.00

On 11 October 2011, the Company submitted, for publication in the Bulletin of the European Union, a notice on the initiation of a public procurement procedure for the award of a contract for the banking service of providing a mid-term working capital facility for PLN 200,000,000.00. The facility will be used to finance the Company's current operations. The facility will be repaid with funds generated as part of LW BOGDANKA S.A.'s operations.

The tenders in the procedure will be opened on 22 October 2011. The tendering procedure is planned to be completed and the resulting contract, if any, to be signed during the first ten days of December 2011.

11.7 Taking measures to obtain a new licence

In the third quarter of 2011, LW BOGDANKA S.A. initiated a procedure to acquire the rights to geological information regarding deposits "K – 3 " and "K – 6, K – 7". The Company expects to be granted the rights to such geological information in November 2011. The next stage will be the preparation of all the documents necessary to obtain a licence for extracting the mineral from those deposits.

11.8 Employment

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

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

Employment	Q3 of 2010	Q3 of 2011	Change Q3 of 2011/ Q3 of 2010 [%]
Total workers	3,384	3,521	104.05%

Employment	Q3 of 2010	Q3 of 2011	Change Q3 of 2011/ Q3 of 2010 [%]
Underground workers	2,586	2,620	101.31%
Surface workers	798	901	112.91%
Full-time employees underground	291	311	106.87%
Full-time employees on the surface	274	277	101.09%
Total underground	2,877	2,931	101.87%
Total staff	3,949	4,109	104.05%

Employment in the third quarter of 2011 increased by 160 persons, i.e. by 4.05% in relation to the employment at the end of the third quarter of 2010.
In the three quarters of 2011, 321 persons were employed at LW BOGDANKA S.A.; including 285 persons employed from outside the mining industry, 14 mining school graduates, 20 graduates of other schools, 2 persons from another mining company.

At the same time in the period of three quarters of 2011, 180 employees left the Company:

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

The Group's employee turnover rate, calculated as the product of the difference between the number of people taken on and the number of people dismissed in a given period divided by the number of employees as of the end of the third quarter of 2011, is 0.034, which shows that the Group employs more people than it dismisses. The Company values employees with many years of service for the Company and treats them as its key resource. The positive value of the employee turnover rate shows that the Group benefits from its efforts to improve the qualifications of its personnel. Employment stability improves the employees' morale. Also, the Company can make full use of its personnel's innovative ideas. Knowledge of the Company's organisational structure helps to improve its internal processes.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS:

Name and surname	Position / Function	Date	Signature
Mirosław Taras	President of the Management Board	8 Nov. 2011	
Krystyna Borkowska	Vice-President of the Board for Economic and Financial Affairs Chief Accountant	8 Nov. 2011	
Zbigniew Stopa	Vice-President of the Board for Technical Affairs	8 Nov. 2011	
Waldemar Bernaciak	Vice-President of the Board for Trade and Logistics	8 Nov. 2011	
Lech Tor	a Member of the Management Board, elected by the employees	8 Nov. 2011	