DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the first quarter of 2012

ended on 31 March 2012

BOGDANKA, MAY 2012

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1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1. Structure of the Lubelski Węgiel BOGDANKA Group

As at 9 May 2012, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", the "Lubelski Węgiel BOGDANKA Group", or the "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. (hereinafter referred to as "Lubelski Węgiel BOGDANKA S.A.", "LW BOGDANKA S.A.", "LWB 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 May 2012, 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 condensed consolidated quarterly financial statements of the LW BOGDANKA Group for the first quarter of 2012 (hereinafter referred to as the "Group's interim condensed consolidated financial statements") by the full consolidation method.
The Group's associated undertaking – EKSPERT Sp. z o.o. was included in the Condensed 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. In 2009, intensive works were continued in the Building Ceramics Plant connected with reconstruction of its manufacturing buildings and process line that had been commenced in 2008. These reconstruction works were completed and the production was restarted in September 2009.

In 2010, ZCB EkoKLINKIER manufactured façade bricks with full production capacity from January to July. Due to the ongoing crisis on the market of building materials, on 1 August the production was reduced to approximately 70% of the maximum production capacity and on 1 September to the level of 35% of the maximum capacity.

On 15 November 2010 a trial production of max type ceramic wall blocks was launched.

The production of the ceramic wall blocks was discontinued on 31 March 2011.

Due to growing demand on the market of building materials, on 1 April 2011 the production of the façade bricks was resumed to the level of 70% of the maximum production capacity.

The production of the façade bricks at this level was continued until the end of February 2012. Since 1 March 2012, due to the ongoing stagnation on the market of building materials, the production was reduced again to the level of 35% of the maximum production capacity.

1.2.2. Information on the subsidiary and associated undertakings

Direct subsidiary undertaking:

Łęczyńska Energetyka Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.	(81) 443 11 02, (81) 462 55 53
Fax:	(81) 443 11 01
Website:	www.lebog.com.pl
e-mail:	biuro@lebog.com.pl

Industry Identification Number (REGON): 004164490
Tax Registration Number (NIP): 713-020-71-92

Share capital (as at 31 March 2012): PLN 82,677,000.00 divided into 82.677 shares of PLN 1.000.

Shareholding structure:

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

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

Łęczyńska Energetyka Sp. z o.o. provides services to 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 31 March 2012): PLN 50,000.00 divided into 100 shares of PLN 500.

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

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

On 14 July 2011, the Extraordinary Shareholders Meeting of EKSPERT Sp. z o.o. adopted Resolution No. 2/2011 on the Company dissolution. On the same day, the Extraordinary Shareholders Meeting of EKSPERT Sp. z o.o. adopted also Resolution No. 2/2011 on appointing a liquidator and specifying the manner of representation.

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 take over or sale of units of the LW BOGDANKA Group, long-term investments, and the division, restructuring and discontinuation of activities

In the first quarter of 2012 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 FIRST QUARTER OF 2012

Table 1 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous periodic reports, i.e. 9 May 2012, 20 March 2012 and 9 November 2011

Shareholder	9 May 2012		20 March 2012		9 November 2011	
	Number of shares/ Number of votes at the GSM	Share in share capital (%)	Number of shares/ Number of votes at the GSM	Share in share capital (%)	Number of shares/ Number of votes at the GSM	Share in share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,014,644	14.74	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	3,320,377	9.76
ING Otwarty Fundusz Emerytalny***	3,275,953	9.63	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10	1,734,194	5.10
Other	20,668,422	60.77	20,668,422	60.77	20,668,422	60.77
Total	**34,013,590**	**100.00**	**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 holdings of shares of LW BOGDANKA S.A. *

	Number of shares as at the date of submitting the Report for Q3 2011 (9 November 2012)	Number of shares as at the date of submitting the Report for 2012 (20 March 2012)	Number of shares as at the Annual General Shareholders Meeting (27 April 2012)	Number of shares as at the date of submitting the Report for the first quarter of 2012 (9 May 2012)
The Management Board				
Mirosław Taras	2,737	2,737	2,737	2,737
Krystyna Borkowska	1,299	1,299	1,299	1,299
Zbigniew Stopa	5,703	5,703	5,703	5,703
Waldemar Bernaciak	2,162	2,162	2,162	2,162
Lech Tor	1,124	1,124	1,124	1,124
The Supervisory Board until the day of the Annual General Shareholders Meeting (27 April 2012)				
Eryk Karski	0	0	0	Not applicable
Andrzej Lulek	0	0	0	
Ewa Pawluczuk	0	0	0	
Stefan Kawalec	0	0	0	

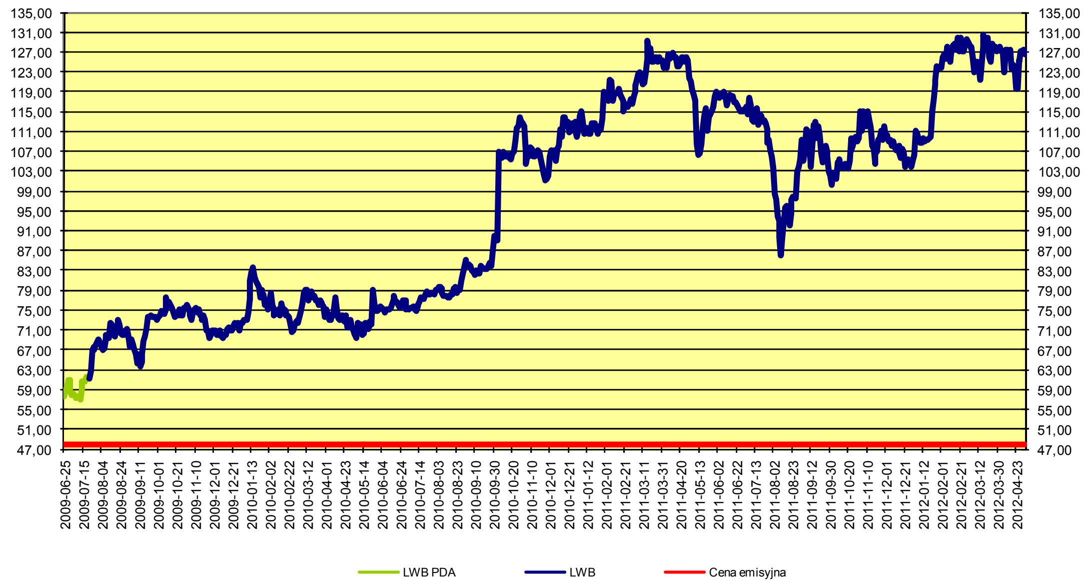
	Number of shares as at the date of submitting the Report for Q3 2011 (9 November 2012)	Number of shares as at the date of submitting the Report for 2012 (20 March 2012)	Number of shares as at the Annual General Shareholders Meeting (27 April 2012)	Number of shares as at the date of submitting the Report for the first quarter of 2012 (9 May 2012)
Jadwiga Kalinowska	1,024	1,024	1,024	
Adam Partyka	1,024	1,024	1,024	
Total	**15,073**			
The Supervisory Board appointed at the Annual General Shareholders Meeting (27 April 2012)**				
Eryk Karski	Not applicable		0	0
Stefan Kawalec			0	0
Raimondo Eggink			0	0
Tomasz Mosiek			0	0
Witold Daniłowicz			0	0
Robert Bednarski			0	0
Dariusz Formela			0	0

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

** Changes in the composition of the Management Board and the Supervisory Board were described in item 11.4 of this Report.

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.).

Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 4 May 2012



3. PRINCIPLES OF DRAWING UP THE GROUP'S CONDENSED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed financial statements were prepared in compliance with the International Accounting Standards and International Financial Reporting Standards as well as the Regulation of the Minister of Finance on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State of 19 February 2009 (Dz. U. of 2009 No. 33, item 259, as amended).

Data for the interim condensed consolidated quarterly report and the interim condensed quarterly financial statements of Lubelski Węgiel Bogdanka S.A. has been prepared in compliance with the same accounting principles and calculation methods as in the previous annual financial statements.

The interim condensed financial statements were prepared in accordance with IAS 34 – Interim Financial Reporting and with relevant accounting standards applicable to interim financial reporting endorsed by the European Union, published and applicable as at 31 March 2012.

4. ANALYSIS OF AND INFORMATION ON THE BASIC ECONOMIC AND FINANCIAL VALUES DISCLOSED IN THE CONSOLIDATED ABRIDGED QUARTERLY FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST QUARTER OF 2012, I.E. FROM 1 JANUARY 2012 TO 31 MARCH 2012.

This section presents selected ratios characterising the Group's financial position for the period from 1 January 2012 to 31 March 2012, calculated on the basis of the financial data included in the LW BOGDANKA Group's consolidated quarterly financial statements, prepared in compliance with the International Financial Reporting Standards endorsed by the European Union.

As at the moment of drafting this information, there are no threats as to the Company's ability to meet its future liabilities. The analyses of financial resources – held and planned – are carried out on an ongoing basis.

4.1. Selected financial information

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

Item	Q1 2012	Q1 2011	Change (2012/2011) [%]
Revenue on sales	477,302	309,961	53.99
Gross profit	175,929	72,818	141.60
EBITDA	199,046	77,906	155.50
EBIT (Operating profit)	119,297	43,698	173.00
Profit before taxation	123,703	44,835	175.91
Net profit for the financial year	99,210	35,958	175.91
Operating cash flow	202,734	77,562	161.38
Investing cash flow	-138,662	-189,062	-26.66
Financing cash flow	50,000	-3,000	-

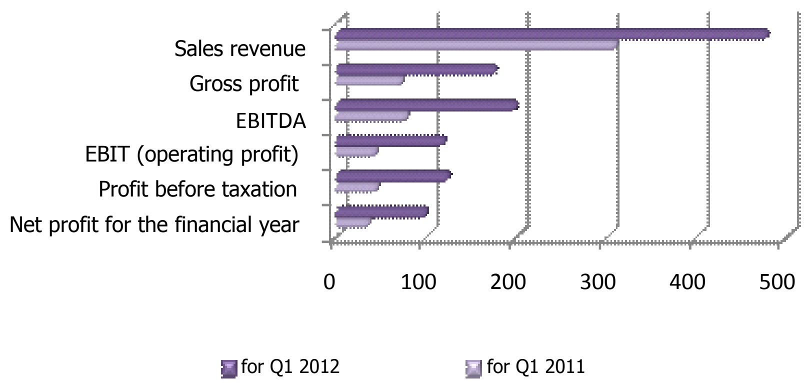
Table 4 Selected financial information of the LW BOGDANKA Group [PLN '000] – cont.

Item	31 Mar. 2012	Structure of the balance sheet [%]	31 Dec. 2011	Structure of the balance sheet [%]	Change (2012/2011) [%]
Total assets	3,264,744	100.00%	3,076,228	100.00%	6.13%
Fixed assets	2,716,395	83.20%	2,674,216	86.93%	1.58%
Current assets	548,349	16.80%	402,012	13.07%	36.40%
Shareholders' equity	2,241,856	68.67%	2,142,646	69.65%	4.63%
Provisions and liabilities	1,022,888	31.33%	933,582	30.35%	9.57%

The financial statements prepared for the period from 1 January 2012 to 31 March 2012 show that the Lubelski Węgiel BOGDANKA Group's revenue on sales was PLN 477,302,000, which represents an increase by 53.99%, or by PLN 167,341,000, compared to the same period of the previous year.

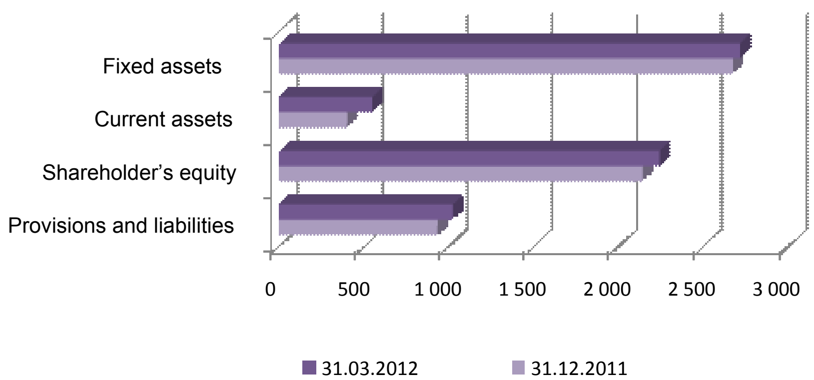
The Group's operating profit grew from PLN 43,698,000 (in Q1 2011) to PLN 119,297,000 (in Q1 2012), with the year-to-year change of + PLN 75,599,000, i.e. 173.00%. EBITDA (operating profit before depreciation/amortisation) for the period from 1 January to 31 March 2012 amounted to PLN 199,046,000 compared to PLN 77,906,000 in the same period of 2011. The increase in the operating profit derives from the launch of the Stefanów Field (in October 2011) and an additional volume of coal allocated for sale.

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



The net profit for Q1 2012 was PLN 99,210,000, compared to PLN 35,958,000 for the same period of 2011, which means an increase of 175.91%, or by PLN 63,252,000.

Analysis of the statement of financial position (PLN million)



The Group's consolidated statement of financial position prepared as of 31 March 2012 shows an increase in the balance-sheet total to PLN 3,264,744,000, or by PLN 188,516,000, compared to the value of assets and equity & liabilities as of 31 December 2011. The value of fixed assets increased from PLN 2,674,216,000 (31 December 2011) to PLN 2,716,395,000 (31 March 2012). This increase (+1.58%) is primarily the result of the investment programme pursued by the Parent Undertaking, involving the development of the Stefanów Field.

In the period under analysis, the value of current assets increased from PLN 402,012,000 to PLN 548,349,000 (PLN +146,337,000 or +36.40%), which is mostly a consequence of an increase in cash held by the Group and a higher value of the stock collected by the Group.

The changes in the level of fixed and current assets translated into the structure of assets: the share of fixed assets decreased from 86.93% (as at 31 December 2011) to 83.20% (as at 31 March 2012), while the share of current assets increased from 13.07% (as at 31 December 2011) to 16.80% (as at 31 March 2012).

On the side of equity & liabilities, shareholders' equity increased to PLN 2,241,856,000 (i.e. by 4.63%). This is a consequence of adding the net result for Q1 2012 to the shareholders' equity. In the analysed period the Group's total provisions and liabilities grew by PLN 89,306,000, as a result of:

- an increase in long-term liabilities by PLN 36.514,000 (to PLN 663,080,000),
- an increase in short-term liabilities by PLN 52,792,000 (to PLN 359,808,000).

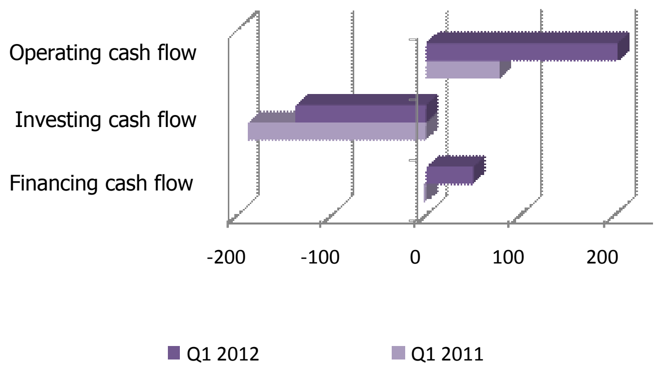
In the long-term liabilities, credits and loans increased by PLN 45,000,000 – in the first quarter of 2012 the Parent Undertaking used PLN 50,000,000 of the working loan at PEKAO S.A. (as per the schedule); further, PLN 5,000,000 from a loan at PKO BP became a short-term loan (to be repaid within the next 12 months).

In the short-term liabilities, the provisions for other liabilities and charges increased by PLN 26,946,000 (to PLN 63,644,000) In this item, a provision was disclosed for liabilities (if any) for the settlement of additional and replacement works performed by Mostostal Warszawa S.A. in the Parent Undertaking's facilities, i.e. Mechanical Coal Processing Plant in Bogdanka. The Parent Undertaking estimated of the provision based on received cost estimates and its knowledge. The value of that liability is PLN 25.0 million.

The share of equity in the total value of equity & liabilities as of 31 March 2012 and 31 December 2011, amounted to 68.67% and 69.65%, respectively.

In the first quarter of 2012, the Group financed its activities with operating cash flow and cash accumulated in the previous years. The net operating cash flow increased from PLN 77,562,000 (for Q1 2011) to PLN 202,734,000 (for Q1 2012), primarily due to a growth in the volume of the sales of coal.

Analysis of the cash flow statement (PLN million)



Net investing cash flow in the period from 1 January to 31 March 2012 amounted to PLN -138,662,000 and was lower from that of the analogous period of 2011 by PLN 50,400,000: the Parent Undertaking continues to pursue the investment process, however the scope of the related work in individual quarters under analysis was different, therefore the value of the net cash flow in 2012 is lower.

In the period from January to March 2012, the Group generated positive net financing cash flow of PLN 50,000,000 (the third tranche, out of four tranches available from a mid-term working loan at PEKAO S.A., was used), while a year earlier the Group generated negative net financing cash flow of PLN 3,000,000 (repayment of a portion of a loan at PKO BP S.A.).

As at 31 March 2012, the value of cash at hand and in banks amounted to PLN 216,892,000 and was lower by PLN 140,709,000 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

During the first 3 months of 2012, the revenue on sales generated by the LW BOGDANKA Group resulted from coal supply orders under agreements signed by the Parent Undertaking.

Table 5 Production capacity of the LW BOGDANKA Group for Q1 2012 and Q1 2011 ['000 tonnes]

Q1 2012	Q1 2011	Change (2012/2011) [%]
2,180.64	1,322.30	64.91%

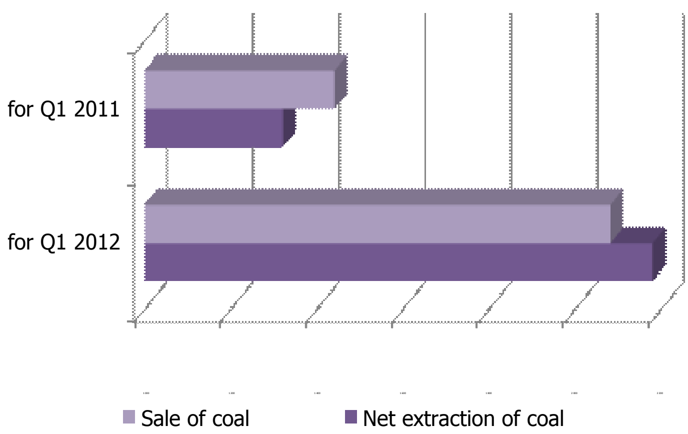
From 1 January to 31 March 2012, as compared to the analogous period of 2011, the extraction of commercial coal increased by 64.91% and amounted to 2,180,640 tonnes, (1,322,300 tonnes in the previous year). The increase in the extraction of the commercial coal by nearly 65% occurred together with an increase by almost 50% of gross extraction, which means that in Q1 2012 the Parent Undertaking recorded a higher output ratio than in the analogous period of the previous year.

Table 6 Sale of coal of the LW BOGDANKA Group for Q1 2012 and Q1 2011 ['000 tonnes]

Q1 2012	Q1 2011	Change (2012/2011) [%]
2,082.91	1,442.27	44.42%

From 1 January to 31 March 2012, 44.42% (640,640 tonnes) more coal was sold as compared to the analogous period of the previous year. In Q1 2012, the sale of the commercial coal was in line with plans and agreements signed by the Parent Undertaking.

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

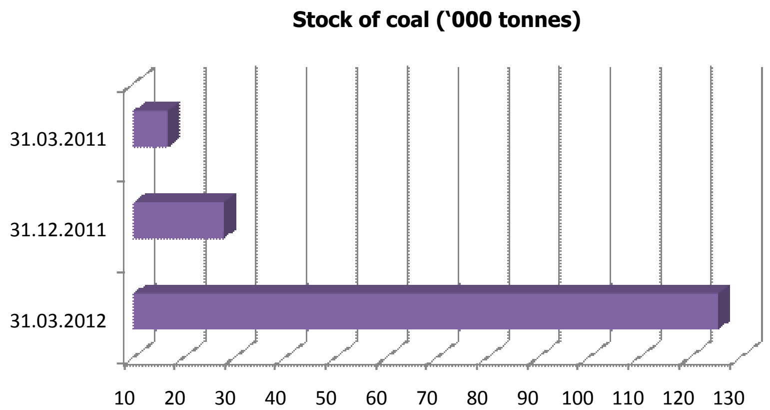


4.2.2. Stock

As at 31 March 2012 stock of commercial coal of the Parent Undertaking amounted to 125,581.59 tonnes, which means that the level of stock increased by 97,730.75 tonnes (+350.91%) as compared to the level of 31 December 2011 and by 108,823.35 tonnes (+649.37%) compared to the level of 31 March 2011. The current level of stock equals to an approx. 5-day extraction of the commercial coal.

Table 7 Stock of coal [tonnes]

Item	31 Mar. 2012	31 Dec. 2011	31 Mar. 2011	Change [%] (31 Mar. 2012/ 31 Dec. 2011)	Change [%] (31 Mar. 2012/ 31 Mar. 2011)
Stock of coal	125,581.59	27,850.84	16,758.24	350.91%	649.37%



4.2.3. Revenue on sales

In Q1 2012, the LW BOGDANKA Group generated sales revenue at a level of PLN 477,302,000, up by PLN 167,341,000 compared to the sales revenue figure for the analogous period of 2011.

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

The main source of sales revenue for the LW BOGDANKA Group in the first quarter of 2012 (as well as in the first quarter of 2011) was production and sale of power coal. From 1 January to 31 March 2012, sales of power coal accounted for 96.87% of the LW BOGDANKA Group's sales revenue (93.28% in the same period of the previous year). The increase in the revenue on sales of coal is a consequence of higher volumes of coal sold (+44.42%), with only slightly higher unit sale price. Additionally, in the consolidated 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. Considering the above, the value indicated in the consolidated profit and loss account for the period from 1 January to 31 March 2012 was adjusted by PLN 22,711,420 while in the same period of the previous year – by PLN 28,632,500 (in Q1 2012, less galleries (by 17.11%) were performed than in the same period of 2011, which resulted in a lower adjustment value).

More than 75% of coal sales (in terms of value) realised in the period from 1 January to 31 March 2012 were carried out on the basis of long–term commercial agreements concluded between the Parent Undertaking and Elektrownia Kozienice S.A., GDF Suez Energia S.A., Elektrownia Ostrołęka S.A. and Grupa Ożarów S.A. A drop in the share of key customers in the total value of revenue (in Q1 2011 the above power plants generated more than 80% of revenue of the LW BOGDANKA Group) is a consequence of diversification of sales to smaller customers (due to additional volume of commercial coal available).

The revenue from other activities accounted for 2.18% of the total revenue in the period from 1 January to 31 March 2012, compared to 4.10% a year earlier; a significant share in that group of revenue was held by revenue connected with the services of coal transport provided by the Parent Undertaking for the benefit of one of the customers as well as revenue on lease of fixed assets.

The revenue on sale of goods and materials decreased in the period under analysis by 55.90%, i.e. by PLN 3,399,000. This amount includes the recorded revenue on sales of scrap; in the previous year this item also included revenue on sales of third-party coal.

The share of revenue from the sale of ceramics in total revenue on sales decreased from 0.66% to 0.39% 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

[in PLN '000]

Item	Q1 2012	Q1 2011	Change 2012/2011 [%]
Sales of coal	462,340	289,138	59.90%
Sales of ceramics	1,889	2,039	-7.36%
Other activities	10,392	12,704	-18.20%
Sales of goods and materials	2,681	6,080	-55.90%
Total revenue on sales	**477,302**	**309,961**	**53.99%**

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

Item	Q1 2012	Share [%]	Q1 2011	Share [%]
Sales of coal	462,340	96.87%	289,138	93.28%
Sales of ceramics	1,889	0.39%	2,039	0.66%
Other activities	10,392	2.18%	12,704	4.10%
Sales of goods and materials	2,681	0.56%	6,080	1.96%
Total revenue on sales	**477,302**	**100.00%**	**309,961**	**100.00%**

The activities of the LW BOGDANKA Group are primarily concentrated in Poland. In Q1 2012 (as well as in Q1 2011), the value of export sales was marginal in the generated revenues and concerned sales of ceramics. The share of export sales in total revenue on sales did not exceed 0.05%.

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

Item	Q1 2012	Share [%]	Q1 2011	Share [%]
Domestic sales	477,158	99.97%	309,888	99.98%
Foreign sales	144	0.03%	73	0.02%
Total revenue on sales	**477,302**	**100.00%**	**309,961**	**100.00%**

4.2.4. Statement of comprehensive income of the Group

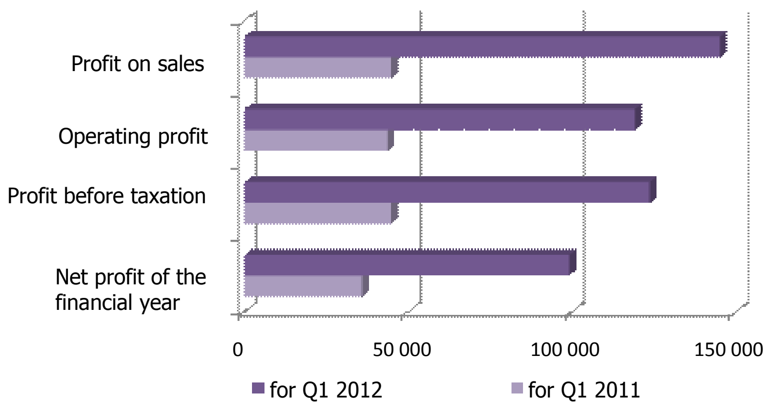
From 1 January to 31 March 2012, revenue on sales of the LW BOGDANKA Group, as compared to the same period of the previous year, increased by 53.99% (to a level of PLN 477,302,000). In the same period, the Group's costs (costs of products, goods and materials sold along with cost of sales and administrative expenses) increased by 25.26% up to a level of PLN 332,091,000. Such dynamics in costs and revenue led to a higher profit on sales - by 223.88%, i.e. PLN 145,211,000 for 3 months of 2012 as compared to PLN 44,835,000 for the same period of 2011.

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

Item	Q1 2012	Q1 2011	Change % (2012/2011)
Revenue on sales	477,302	309,961	53.99%

Cost of products, goods and materials sold, cost of sales, administrative expenses	332,091	265,126	25.26%
Profit on sales	**145,211**	**44,835**	**223.88%**
Other income	784	1,628	-51.84%
Other expenses	240	285	-15.79%
Other net profit/loss	-26,458	-2,480	966.85%
Operating profit	**119,297**	**43,698**	**173.00%**
Financial income	4,409	3,963	11.25%
Financial expenses	3	2,826	-99.89%
Share in (losses)/profits of associated undertakings			-
Profit before taxation	**123,703**	**44,835**	**175.91%**
Income tax	24,493	8,877	175.92%
Net profit	**99,210**	**35,958**	**175.91%**
- attributable to shareholders of the Parent Undertaking	99,106	35,860	176.37%

Analysis of consolidated statement on comprehensive income at individual levels of the Group's operations in PLN '000



Other income

For the first 3 months of 2012, other operating income amounted to PLN 784,000 compared to PLN 1,628,000 for the same period of the previous year, which means a decrease in their value by 51.84%. An amount of PLN 784,000 was recorded as revenue resulting from non-recurring events (primarily special purpose provisions released and compensations received).

Other expenses and other net profit/loss

Other expenses for the first 3 months of 2012 were PLN 240,000, compared to PLN 285,000 for the same period of 2011, which means a decrease in their value by 15.79%. In the analysed period of 2012, other net profit/loss amounted to PLN -26,458,000 compared to PLN -2,480,000 in the analogous period of 2011. In Q1 2012, a provision was made for liabilities (if any) for the settlement of additional and replacement works performed by Mostostal Warszawa S.A. in the Parent Undertaking's facilities, i.e. Mechanical Coal Processing Plant in Bogdanka. The Parent Undertaking estimated of the provision based on received cost estimates and its knowledge. The value of that liability is PLN 25.0 million.

The profit on sales adjusted for other revenue, expenses and other net profit/loss, gives the operating profit (EBIT) for Q1 2012 at a level of PLN 119,297,000, up by 173.00%, i.e. PLN 75,599,000 compared to the result a year earlier.

Financial income

Financial income for 3 months of 2012 was PLN 4,409,000, compared to PLN 3,963,000 a year earlier (an increase by 11.25%). The change in financial income primarily derives from realised currency exchange gains.

Financial expenses

Financial expenses in the analysed period of 2012 amounted to PLN 3,000, compared to PLN 2,826,000 a year earlier (a decrease by PLN 2.823,000, i.e. 99.89%). That fall is a result of the fact that in Q1 2012, the interest accrued on the incurred loans increased the value of outlays for tangible fixed assets in construction (of the Parent Undertaking), and was not included in the tax-deductible costs of the given period.

The pre-tax earnings for 3 months of 2012 were higher by 175.91% than in the previous year - the pre-tax profit for Q1 2012 amounted to PLN 123,703,000 as compared to PLN 44,835,000 for the first quarter of 2011.

A mandatory decrease in profit in the form of corporate income tax resulted in the Group's net profit of the financial year for the period from 1 January to 31 March 2012 amounting to PLN 99,210,000, compared to PLN 35,958,000 for the same period of 2011 - up by 175.91% on a year-to-year basis.

4.2.5. The Group's profitability

Table 12 Profitability ratios of the LW BOGDANKA Group

Item	Q1 2012	Q1 2011	Change [p.p.] 2012-2011	Change (2012/2011) [%]
Gross margin on sales	36.86%	23.49%	13.37	56.92%
EBITDA	41.70%	25.13%	16.57	65.94%
EBIT	24.99%	14.10%	10.89	77.23%
Gross margin	25.92%	14.46%	11.46	79.25%
Net margin	20.79%	11.60%	9.19	79.22%
Return on Assets	3.13%	1.26%	1.87	148.41%
Return on Equity	4.53%	1.81%	2.72	150.28%

During the first quarter of 2012, all profitability ratios achieved higher values than in the same period of the previous year.

Gross margin on sales of the LW BOGDANKA Group increased from 23.49% (for Q1 2011) to 36.86% (for Q1 2012). The change in value of that ratio, was a result of a lower (in nominal terms) increase in the generated revenue in relation to the incurred costs of products, goods and materials – this also translated into an increased gross profit.

In the analysed period, EBIT (operating profit) was 24.99%, which represents an increase by 10.89 p.p. in comparison to the analogous period in the previous year. The change in value of the described ratio results from an increase in the gross profit which is realised by an increase in revenue on sales of coal of the Parent Undertaking.

EBITDA was up from 25.13% (Q1 2011) to 41.70% (Q1 2012). The change in value of the ratio results from – except for the increasing operating profit – the value of amortisation/depreciation increasing from PLN 34,208,000 (Q1 2011) to PLN 79,749,000 (Q1 2012).

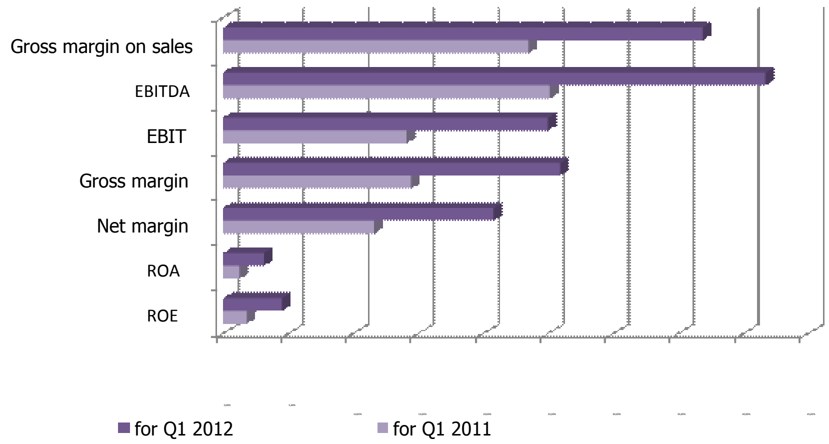
The gross margin for Q1 2012 was 25.92%, 11.46 p.p. higher than the gross margin for Q1 2011.

Net margin on the Lubelski Węgiel Bogdanka Group's operations amounted to 20.79% for Q1 2012, given 11.60% for Q1 2011.

The increase in ROA (from 1.26% for Q1 2011 to 3.13% for Q1 2012) is a consequence of a higher dynamics of the net profit relative to the increase in the value of the Group's assets. The effects of commercial use of assets that have been so far produced by the Parent Undertaking are already noticeable.

As in the case of ROA, the increase in ROE (from 1.81% to 4.53%) was caused by a higher net profit (by 175.91%) with a concurrent increase (by 4.63%) in the value of shareholders' equity.

Profitability analysis



4.2.6. Indebtedness and financing structure of the LW BOGDANKA Group

Table 13 Debt ratios of the LW BOGDANKA Group

Item	31 Mar. 2012	31 Dec. 2011	Change (2012/2011) [%]
Overall debt ratio	31.33%	30.35%	3.23%
Debt to equity ratio	45.63%	43.57%	4.73%
Fixed capital to fixed assets ratio	104.11%	100.68%	3.41%
Short-term debt ratio	11.02%	9.98%	10.42%
Long-term debt ratio	20.31%	20.37%	-0.29%

As at 31 March 2012 the share of liabilities in the financing of operations of the LW BOGDANKA Group, measured with the overall debt ratio, was 31.33% compared to 30.35% as at 31 December 2011. In the period under analysis, long-term liabilities increased by PLN 36,514,000 (another tranche of a loan at PEKAO S.A., was used), and short-term liabilities increased by PLN 52,792,000 (due to, among other factors, a provision for claims (if any) for future investment liabilities towards Mostostal Warszawa S.A.). The LW BOGDANKA Group's debts did not constitute a threat to its operations or ability to punctually pay its liabilities in the period covered by the consolidated financial statements for the first quarter of 2012.

In the analysed period, the debt to equity ratio increased from 43.57% (as at 31 December 2011) to 45.63% (as at 31 March 2012) - which is a result of an increase by PLN 99,210,000 in equity with a simultaneous increase in the Group's total liabilities by PLN 89,306,000.

The fixed capital to fixed assets ratio is above 100%, which indicates that the financial situation of the Group is safe. Following the completion of the investment programme, it should be expected that the ratio will be maintained at a level of ≥100%.

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

Item	31 Mar. 2012	31 Dec. 2011	Change (2012/2011) [%]
Current liquidity ratio	1.85	1.83	1.09%
Quick liquidity ratio	1.64	1.68	-2.38%

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 showing any difficulties in settling its liabilities. The level of the liquidity ratios (both as at 31 March 2012 and 31 December 2011) results from the value of resources from the operating activity as well as the balance of financial resources from loans taken out by the Parent Undertaking.

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

Item	31 Mar. 2012	31 Dec. 2011	Change (2012/2011) [%]
Stock turnover	16.1	20.8	-22.60%
Trade debtors collection rate*	49.9	53.6	-6.90%
Trade creditors payment rate**	72.5	94.5	-23.28%
Operating cycle (1+2)	66.0	74.4	-11.29%
Cash conversion cycle (4-3)	-6.5	-20.1	-67.66%

*Trade debtors and other receivables

**Trade creditors and other liabilities

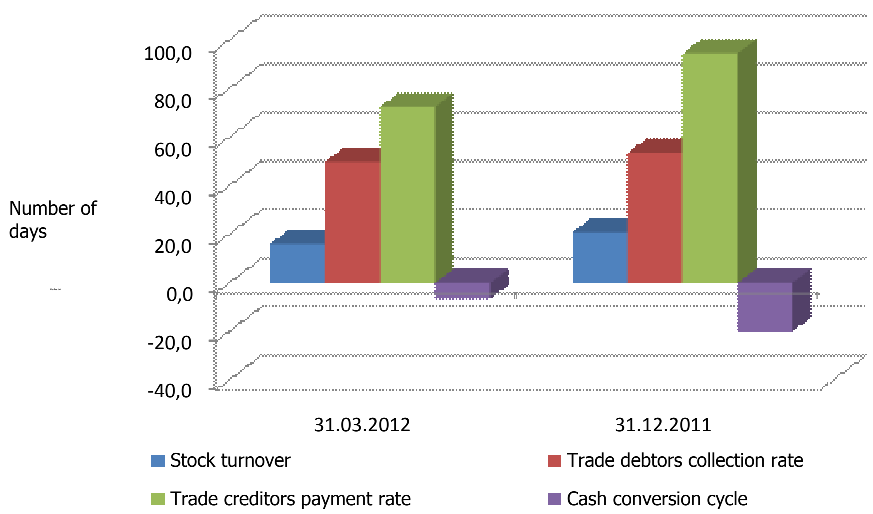
The stock turnover rate was down compared to its level as of 31 December 2011, i.e. 20.8 days against 16.1 days (for Q1 2012) – the increase in the average stock value (as compared to 31 December 2011) was lower than the increase in cost of products, goods and materials sold.

The trade debtors collection rate (measured on the basis of the "trade debtors and other receivables" item) was 49.9 days (as at 31 March 2012) and 53.6 days (as at 31 December 2011). The lower value of the ratio results from a higher dynamics of sales revenue compared to the dynamics of the trade debtors.

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) in the analysed period was at 66.0 days, as compared to 74.4 days as at 31 December 2011 - which indicates that current assets are transferred into cash on average 8.4 days faster.

The trade creditors payment rate (measured on the basis of the "trade creditors and other liabilities" item) decreased in the period covered by financial information from 94.5 days (as at 31 December 2011) to 72.5 days (as at 31 March 2012).

Cash conversion cycle analysis



As a result of the trends described above, a cash conversion cycle of -6.5 days was achieved as at 31 March 2012 compared to -20.1 as at 31 December 2011. The negative value of the cash conversion cycle means that the LW BOGDANKA Group uses non-interest-bearing borrowed capital.

4.3. Capital investments in the LW BOGDANKA Group

The value of cash held by the Group as at 31 March 2012 was PLN 275,520,000, including:

- PLN 58,628,000 disclosed in fixed assets,
- PLN 216,892,000 disclosed in current assets.

The amount of PLN 58,628,000 covers assets accumulated by the Parent Undertaking in the Mine Closure Fund, to be allocated for the coverage of costs of a mine closure (these resources are held in a long-term bank deposit). Other cash is held in short-term bank deposits (including overnight deposits) – the level of deposits depends on internal forecasts regarding inflows and outflows.

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

In the first quarter of 2012, 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.

4.5. Information on financial instruments

In the three months of 2012 the Group did not use any financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of solvency.

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 Group 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.

4.6. 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 (commercial 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.

4.6.1. Costs by type

In the three months of 2012, LW BOGDANKA S.A.'s incurred costs with respect to type in the amount of PLN 414,583,000 compared to PLN 328,974,000 incurred in the analogous period of 2011, which means that the costs increased by 26.02% (PLN 85,609,000). The above nominal increase in costs was largely the result of a dynamic increase in depreciation/amortisation costs, taxes and charges as well as external services. After the adjustment of costs by type by change in products and the cost of own work, and after including costs of goods and materials sold, the cost of sales is obtained, which for the three months of 2012 amounted to PLN 332,987,000 as compared to PLN 260,500,000 incurred in the analogous period of 2011 (an increase by 27.83%, i.e. by PLN 72,487,000).

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

Item	for 3 months of 2012	for 3 months of 2011	Change (%)	Change (PLN '000)
Amortisation/depreciation	78,763	33,388	135.90%	45,375
Materials and energy used	109,848	104,552	5.07%	5,296
Contracted services	95,145	78,500	21.20%	16,645
Employee benefits	105,148	91,537	14.87%	13,611
Entertainment and advertising expenses	2,559	3,382	-24.33%	-823
Taxes and charges	9,023	5,523	63.37%	3,500
Other expenses	14,097	12,092	16.58%	2,005
TOTAL COSTS BY TYPE	**414,583**	**328,974**	**26.02%**	**85,609**
Change in products	-14,998	16,705	-189.78%	-31,703
Operating expenses	**399,585**	**345,679**	**15.59%**	**53,906**
Activities for own needs	69,215	91,085	-24.01%	-21,870
Cost of goods and materials sold	2,617	5,906	-55.69%	-3,289
Cost of sales	**332,987**	**260,500**	**27.83%**	**72,487**

In the analysis of the amortisation/depreciation costs, it should be pointed that their dynamic growth (by nearly 136%) is principally resulting from a growth in value of fixed assets subject to natural depreciation (mining excavations) and to depreciation with a straight-line method applied to other fixed assets.

A strong increase in costs of taxes and charges was mainly a consequence of a nearly 65% growth in the excavation of commercial coal and the related mining royalty whose share in the total value of taxes and charges is almost 50%. Additionally, although to a lesser extent, the recorded increase in the discussed costs by type was affected by higher real property tax resulting from the taxation of fixed assets put into operation in the previous year (the facilities of the Stefanów Field).

The higher value of contracted services results primarily from the costs of drilling, mining and similar works, performed mainly in the Stefanów Field. The recorded increase in in the extraction of coal and commercial coal translated into larger volume of stone subject to utilisation, which also caused an increase in value of the related services.

The increase in employee benefits is a consequence of both a higher number of staff from 4,033 at the end of March 2011 to 4,325 at the end of March 2012, as well as the signed agreement on increasing the average monthly pay at the Company by 5.5% in 2012.

The increase in other expenses, by 16.58%, results to a great extent from higher insurance costs of the Company's property, which in turn is a consequence of an increase - in terms of quantity and value – of fixed assets owned by the Company.

In the analysis of the increase in costs of materials and energy consumption it should be pointed that the recorded growth is an effect of a nearly 23% rise in the energy costs, with an almost unchanged level of nominal costs of materials used. In the first quarter of 2012, three panels were permanently excavated (up to four temporarily), while a year ago only two panels, which resulted in a nearly 50% rise in the extraction of coal.

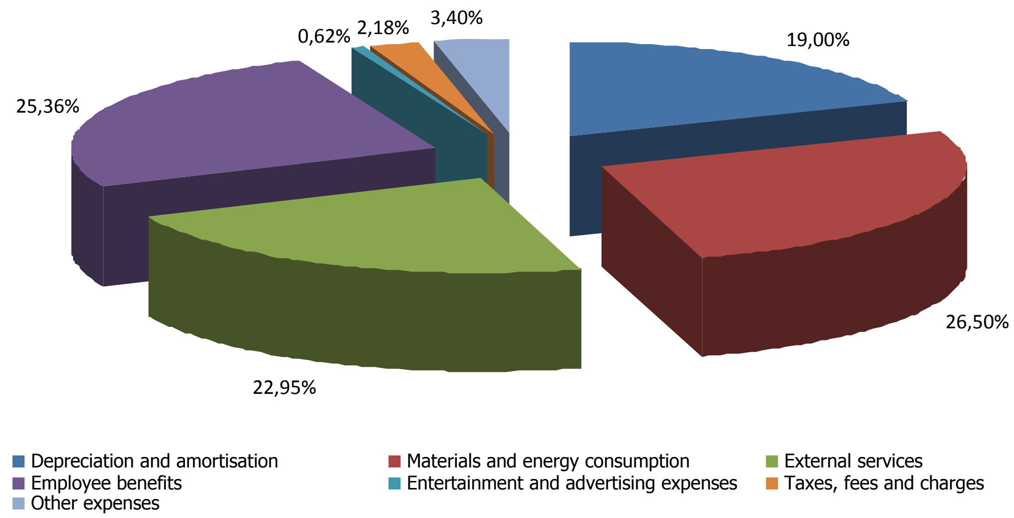
The changes presented in the group of costs by type had an impact on the change in their structure. In the analysed period, as was the case a year earlier, the most significant item were the costs of materials and energy used, however their share fell from the level of 31.78% in Q1 2011 to 26.50% in Q1 2012, i.e. by 5.28 p.p. The share of employee benefits costs fell by 2.47 p.p. and it currently makes 25.36% of the total costs by type. The share of contracted services costs was also down, and their share at the end of March 2012 amounted to 22.95%.

In the periods under analysis, the share of amortisation/ depreciation costs increased from the level of 10.15% in Q1 2011 to 19.00% in Q1 2012, i.e. by 8.85 p.p.

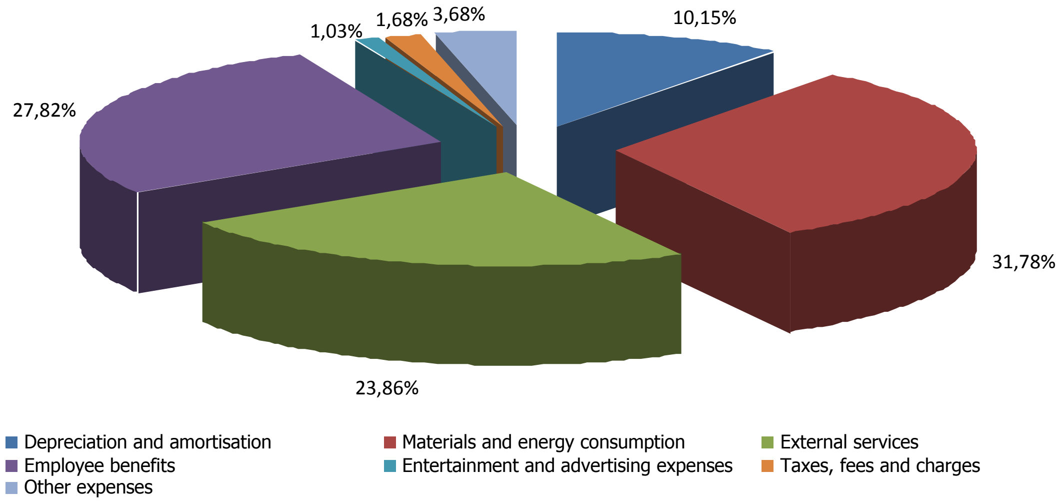
Table 17 Structure of costs by type at LW BOGDANKA S.A.

Item	for 3 months of 2012	for 3 months of 2011	Change (%)
Amortisation/depreciation	19.00%	10.15%	87.2%
Materials and energy used	26.50%	31.78%	-16.6%
Contracted services	22.95%	23.86%	-3.8%
Employee benefits	25.36%	27.83%	-8.9%
Entertainment and advertising expenses	0.62%	1.03%	-39.8%
Taxes and charges	2.18%	1.68%	29.8%
Other expenses	3.39%	3.67%	-7.9%
TOTAL	**100.00%**	**100.00%**	

Costs by type for Q1 2012



Costs by type for Q1 2011



4.6.2. Costs by function

In the period from 1 January to 31 March 2012 Lubelski Węgiel Bogdanka S.A.'s own cost of products sold amounted to PLN 332,987,000, and was higher from the cost incurred in the analogous period of 2011 by PLN 72,487,000, or 27.83%. An analysis of individual components of the own cost of sales shows that its increase is largely attributable to an increase in the cost of products, goods and materials sold (+29,85%, i.e. PLN +69,556,000), which is a result of an increase in the volume of the commercial coal sold – by 44.4% - recorded in the analysed period as well as of the changes in the groups of costs by type, as described above.

An increase in administrative costs (+14.28%) was also recorded, which was caused mainly by higher costs of taxes and administrative fees, higher remuneration and related costs (personnel expenses) and costs connected with insurance, maintenance and protection of the Company's assets. The lowest dynamics were recorded in the group of selling costs – increase by 4.09%.

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

Item	for 3 months of 2012	for 3 months of 2011	Change (%)	Change (PLN '000)
Costs of products, goods and materials sold	302,611	233,055	29.85%	69,556
Selling costs	10,084	9,688	4.09%	396
Administrative costs	20,292	17,757	14.28%	2,535
Cost of sales	**332,987**	**260,500**	**27.83%**	**72,487**

Due to the recorded increase in products, goods and materials sold, the share of this cost group increased in the cost of sales structure with a concurrent reduction in cost groups, i.e. selling costs and administrative costs.

The share of costs of products, goods and materials sold increased from 89.46% in Q1 2011 to 90.88% in Q1 2012. The share of selling costs in the period under analysis was down from 3.72% to 3.03%, and administrative costs – from 6.82% to 6.09%.

Table 19 Structure of costs by function at LW BOGDANKA S.A.

Item	for 3 months of 2012	for 3 months of 2011	Change [%]
Costs of products, goods and materials sold	90.88%	89.46%	1.59%
Selling costs	3.03%	3.72%	-18.55%
Administrative costs	6.09%	6.82%	-10.70%
Cost of sales	**100.00%**	**100.00%**	**X**

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

The Company plans that the structure of financing its property investment expenses will remain unaltered, i.e. they will mainly be financed using its own funds; however in the second quarter 2012 it is planned to increase the value of the interest-bearing debt by further PLN 50 million, in line with the tender completed in December 2011 (the result of the tender was announced in Current Report No. 30/2011 of 23 December 2011).

The Management Board does not rule out further increasing of the share of debt financing of the planned investments. As at the date of drafting this Report, the LW BOGDANKA S.A. sees no threat as to the possibility to obtain its additional financing in the form of debt. The loan currently held by the Parent Undertaking in the amount of PLN 391 million constituted, as at 31 March 2012, approx. 17.4% of the shareholders' equity and approx. 12.0% of the balance-sheet total.

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

5.1. Material investments of the LW BOGDANKA Group in the first quarter of 2012

In the first quarter of 2012 the LW BOGDANKA Group performed investment works necessary to double coal extraction in 2014.

The table below presents a list of key investment outlays incurred in the first quarter of 2012.

Table 20 Key investment outlays incurred in the 3 months of 2012 and 3 months of 2011 [PLN '000]

Item	1 Jan. 2012 – 31 Mar. 2012	1 Jan. 2011 – 31 Mar. 2011
Investment outlays on acquisition of tangible fixed assets	133,125	192,095
Investment outlays on acquisition of intangible fixed assets	183	236

Investment outlays (payments according to dates stipulated in agreements) include liabilities on account of investments executed in the previous year and a part of outlays incurred in the first quarter of 2012.

In the three months of 2012, the outlays on tangible fixed assets under construction incurred on account of investment amounted to PLN 121,849,000. These outlays concern the following investment groups:

Table 21 Key material investments of the LW BOGDANKA Group in the 3 months of 2012 and the 3 months of 2011 [PLN '000]

Key material investments	Outlays incurred from 1 Jan. 2012 to 31 Mar. 2012	Outlays incurred from 1 Jan. 2011 to 31 Mar. 2011
Construction and assembly works	71,329	78,928
Order picking and purchases of finished goods	50,337	5,472

Other	183	259
Prepayments for fixed assets under construction	-	1,828
Total	**121,849**	**86,487**

5.2. Material investments of the Company in the first quarter of 2012

Gr. 1 Investments in development

A. Investments in technical infrastructure

Construction of storage reservoirs in the Stefanów Field

In the first quarter of 2012, the following works were performed:

1. Storage reservoir for the excavated material 3fS in the Stefanów Field – the reservoir was deepened along the section from 24.0 running metres to 49.5 running metres. A feeding mouth is being made.

Construction of buildings in the Stefanów Field

In the first quarter of 2012, the following works were performed:

1. The main fan station in shaft 2.1. – trial operations completed;
2. Manoeuvring yard in the Stefanów Field – design documentation was prepared;
3. Extension of work stations for loading lamps - completed.

Central air-conditioning system of the Stefanów Field

In the first quarter of 2012 a tender process commenced concerning the development of the central air-conditioning system in the Stefanów Field with the cooling capacity of 1 MW

Extension of the Mechanical Coal Processing Plant

In the first quarter of 2012, the following works were performed:

1. Task 2 – Extension of the MCPP processing capacity from its current level of 1,200 up to 2,400 t/h:

   works progress 60%

   a/ Currently the working plans and specifications stage is coming to an end.

   b/ Dry line facilities - finishing and installation works and erection of machines are taking place.

   c/ Stone haulage facilities - finishing and installation works and erection of machines are taking place.

   d/ Facility 47.1 – rebuilding of ceilings and strengthening of the steel structure are in progress.

   e/ Facility 103.1 and 106.1 – foundations have been made.

1. Extension of the coal yard - a tender procedure for design documentation related to extension of the existing coal yard has been announced (Building permit design and Working plans and specifications).

B. Making coal seams available in the Stefanów Field

The following works were performed in the first quarter of 2012:

Workings making available 385/2 seam VII - Stefanów

a/ Under-panel heading for 6/VII/385 – in progress – 4 183.0 rm
b/ Cross-heading 6/VII/385 – drilling has started – 16 rm
c/ Cross-heading for 6/VII/385 – drilling in progress – 105.0 rm

Workings making available 385/2 seam VIII - Stefanów
a/ Under-panel heading for 1/VIII/385 – in progress – 4846.5 rm

b/ Technological cross-heading 1/VIII/385 – drilling has started – 85.0 rm
c/ Cross-heading for 1/VIII/385 – drilling in progress – 86.0 rm

Gr. 3 Replacement investments

A. Modernization and repairs of machines and devices

The following works were performed in the first quarter of 2012:

Modernizations of machines and devices

a/ Modernization of combustion locomotives LZH-50 Scharf - realization in progress (1 pc. has been realized);
b/ Modernization of suspended locomotives Bevex 60 – realized.

Repair of machines and devices

a/ Periodic repairs of railway cars - in progress - 40 cars have been repaired.

B. Building and modernization of structure and installations

Modernization of the existing construction facilities

a/ Development of the parking lot in Nadrybie - winner of the ender procedure for contracting has been selected

110 kV switching station facilities, lifting machines and other power supply systems

a/ Modernization of the B 1100A emergency-inspection hoist - completed

Telecommunication systems and devices

a/ Modernization and extension of the telephone exchange in the Management's office - in progress

Power supply and telecommunication networks - in progress

Computer management system

a/ Other software dedicated to the mine's needs - in progress b/ 2nd stage of RRCP replacement + access control of entry to/exit from the mine - realized
c/ Implementation of safety systems for networks and servers - in progress

MCPP replacement investments

a/ Wagons sprinkling station – preparation of the design documentation is in progress

Gr. 4 Environmental protection

Certain works were in progress in the first quarter of 2012. They were related to the extension of the mining waste dump in Bogdanka – preparation of the design documentation is in progress

Gr. 5 Building and modernisation of workings in the Bogdanka and Nadrybie Fields

The following works were performed in the first quarter of 2012:

Workings making available 385/2 field I and II - Bogdanka

a/ Technological haulage heading 1/II/385 – drilling has started
b/ Ramp 6fB – drilling is over;

Cut workings -seam 382 field I and II(N) - Bogdanka

a/ Over-panel heading 2 for panel 6/I – drilling in progress;

Cut workings -seam 385/2 field IV - Bogdanka

a/ Over-panel heading for 6/IV/385 – completed;
b/ Under-panel heading for 9/IV/385 – drilling in progress;
c/ Under-panel heading for 7/IV/385 – drilling has started;

Cut workings -seam 385/2 field VI - Nadrybie

a/ Over-panel heading for 5/VI/385 – realized;
b/ Eastern heading 4a/385 – completed;

Cut workings -seam 382 field II(E) - Nadrybie

a/ Over-panel heading for 3/II – realization in progress;
b/ Under-panel heading for 4/II – completed

Cut workings -seam 391 field V - Stefanów-Nadrybie

a/ Ramp 2/VI – completed;

Modernization of workings

a/ Workings rebuilding – realization in progress

Modernization of storage reservoirs

a/ Storage reservoir 3fB – realization in progress

Gr. 6 Purchase of machines and devices

Purchase and installation of panel complexes

1. Coal-ploughing complex 2

   a/ Purchase of coal-ploughing complex 2 – realization in progress. In 2011 a delivery contract for the complex was signed. Delivery is scheduled before 31 July 2012

Purchase and installation of new machines and devices

2 road heading machines were purchased in the first quarter of 2012.

Purchase of ready products

Purchase positions that were realized in the first quarter of 2012 include mechanical power engineering devices, means of transport and other.

5.3. Material investments of the subsidiary – Łęczyńska Energetyka Sp. z o.o.

Investment outlays of Łęczyńska Energetyka in the first quarter of 2012 amounted to PLN 533,000.

5.4. Equity investments of the Company, including equity investments made outside of the Group, and a description of financing methods

In the first quarter of 2012, the LW BOGDANKA Group did not make any equity investments.

Provided that statutory bodies give their approvals, and Łęczyńska Energetyka adopts its own development strategy which consists in the construction of a heat and power station, the Company does not rule out the possibility that in 2012 it will participate in the subsidiary's project. Final decision will depend on the choice of a method for implementing the investment.

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 PRESENTED IN THE QUARTERLY REPORT AS COMPARED TO THE FORECAST RESULTS

LW BOGDANKA S.A. did not publish financial results forecasts for 2012.

7. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP

A strategic development objective of LW BOGDANKA S.A. is to build and increase the Company's value for the shareholders by means of:

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

b) maintaining a stable position as the main supplier of coal in eastern Poland, in particular for the commercial power industry;

c) strengthening its competitive position by cutting unit costs of extraction and production.

The main strategic development objectives defined by the Company are:

a) doubling the level of extraction of raw materials and thereby doubling the share in the market for hard coal producers in Poland;

b) improving the efficiency of hard coal extraction and production;

c) ensuring that LW BOGDANKA is self-sufficient regarding the supply of electricity by developing its activities as regards the production of electricity;

d) environmental protection measures.

Strategic development objectives defined by the Company along with a description of planned activities:

1. Doubling the level of extraction of hard coal:

a) increasing production capacity of the Company by enlarging the Stefanów Field

The major component of the LW BOGDANKA development strategy is the enlargement of the Stefanów Field, which will make it possible to double the production capacity from 5.8 million tonnes in 2010 to the target level of 11.5 million tonnes per annum in 2014.

The main investments related to the enlargement of the Stefanów Field include:

- extension of the mining area:
- Extension of the Mechanical Coal Processing Plant:

b) Increase in employment and human resource management

c) Marketing operations

2. Improving the efficiency of hard coal extraction:

a) Implementing a plough technique of coal getting in mining longwalls (gaining access to new industrial reserves)

b) Improving the efficiency of hard coal production

c) Restructuring and management of non-productive assets

d) Management of by-products

3. Developing electricity production activities

Conversion of a heat-generating plant of Łęczyńska Energetyka into a heat and power station.

4. Environmental protection measures

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. Risks associated with the Group's social and economic environment and market environment

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

The Group's financial standing depends on the economic situation in Poland and in the world. The financial results generated by the Group are affected by such factors as the rate of increase in domestic and global GDP, including in particular, the rate of increase in industrial production, changes in exchange rates, the level of inflation, the rate of unemployment, and the demand for electricity and heat energy, etc. 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, taking into account the long-term commercial agreements, which oblige the customers to purchase specified volumes of power coal, the risk of a significant decline in the Group's results is scarce. This thesis finds its confirmation in the fact that regardless of the macroeconomic situation in Poland and in the world, since 1994 the LW BOGDANKA Group has regularly achieved positive financial results. The Group's financial results may also decline if current taxes are raised (such as mining royalty), new taxes are imposed, or new fees for hard coal extraction are introduced.

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;
- "Privatisation Plan for 2012-2013", adopted by the Council of Ministers in March 2012.

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

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

The levels of prices of raw materials for power production, including in particular the prices of power coal, and raw materials alternative to power coal (crude oil, natural gas, renewable sources) on global markets, and also on the domestic market, are of great significance for the activities conducted by the Group. The current difficult situation on global financial markets, the crisis of the Euro zone, and the crisis in the Middle East (Iran) may bring changes in the demand for fuel, and consequently, changes in global market prices of energy carriers such as coal, which may affect the Group's financial results. The prices of power coal on global markets have dropped by 25% within a year. LW Bogdanka S.A. mitigates the risk associated with changes in the prices of raw materials for power production by undertaking measures aimed at reducing prime costs of coal extraction, which at the same time increases its competitiveness, and by concluding long-term commercial agreements with major customers for power coal.

8.1.3. 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 second Directive mentioned above, the Republic of Poland could apply a transitional period until 1 January 2012 in order to adjust the national tax levels applicable to coal and coke to the relevant minimum tax level. During the transitional period, the excise tax applicable to coal and coke was not charged. The regulations which became effective after the end of the said transition period, i.e. after 1 January 2012, may result in an increase in the prices of coal for heating purposes for final recipients, may also increase arduous bureaucracy connected with the sale of coal exempt from excise tax, and make coal less competitive in relation to other energy source materials. This, in turn, may adversely affect the future financial results achieved by all coal mining industry entities in Poland, including the LW BOGDANKA Group. However, the risk for the Group is limited as most of LW Bogdanka's coal is sold for electricity production purposes, and new national excise tax regulations provide for a wide range of exemptions, which, among other things, cover electricity production, cogeneration of electricity and heat, other selected industries, as well as individual consumers of coal. Moreover, it is important to emphasise that thanks to its relatively low costs of hard coal extraction, the Group can more flexibly respond to the changing market circumstances as far as the introduction of excise tax is concerned (and new taxes: coal tax or other taxes related to the use of coal as fuel, including a possible tax on mineral deposits).

Ambiguous interpretations of the new tax law are yet another factor influencing the risk associated with the excise tax. This brings a possibility of formal errors which may exclude the Group from exemptions from the excise tax on sales. The Group mitigates this risk by organising excise tax training courses, cooperating with reputable tax advisors, requesting tax authorities to issue tax rulings, and introducing a clause to commercial agreements which provides for transferring a possible excise tax on a buyer in the event that a given transaction is subject to excise tax.

8.1.4. 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 taken out, as well as in the event of contracting new loans, or refinancing the existing ones. A possible increase in interest rates may result in an increase in financial expenses of the Group, and hence have an adverse effect on the Group's financial results (or, alternatively, a possible decrease in interest rates may cause a decrease in financial expenses of the Company bringing a positive effect on its financial results). In the Group's assessment, the interest rate risk has a limited bearing on the financial standing of the LW BOGDANKA Group given a relatively low degree of financing the Group's assets with third party capital. This risk may increase largely if accompanied by a substantial growth in the share of debt financing associated with the Parent Undertaking's development strategy (enlargement of the Stefanów Field), and the development strategy of Łęczyńska Energetyka, which consists in the execution of the investment "Modernization and extension of the heating plant in Bogdanka into a combined heat and power generating plant". The shareholders' decisions regarding the distribution of net profit will also affect the possibility of increasing the debt. The Group does not use any hedging instruments against the risk of fluctuations in interest rates.

8.1.5. Risk connected with exchange rates

Analysis of historical data of the Group shows that about 0.03% of the value of its total revenue on sales came from export. The territory of Poland remains the main market for the Group, and most transactions are settled in the domestic currency. As at the date of submitting the Report, the Group's operations are not exposed to currency risk.

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

Currently, the LW BOGDANKA Group implements a large investment programme associated with increasing the extraction capacity by enlarging the Stefanów Field. The planned investments are to be financed both with own funds and debt financing, currently totalling PLN 391 million. In December 2011 the Parent Undertaking announced the results of a public tender for additional third party financing in the amount of PLN 200 million (as announced in Current Report No. 30/2011 of 23 December 2011), out of which, as at the date of submitting this Report, PLN 150 million has been used. LW BOGDANKA intends to withdraw the remaining PLN 50 million until 30 June 2012. As per the assumptions, the Company did not encounter any problems as regards the availability of financing (5 offers participated in the tender procedure), and the final price was lower than the Company forecast. At present, LW Bogdanka sees no threat as to the possibility to acquire additional financing in the form of debt for implementation of its investments. The Group's current loan in the amount of PLN 391 million accounts for approx. 17.4% of the shareholders' equity, and approx. 12.0% of the balance-sheet total.

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

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

8.1.8. Risk of restrictive EU climate policy also with respect to the CO2 emissions

The EU climate policy resulting from the Framework Convention of the United Nation on Climate Changes (Kyoto Protocol) stipulates limiting the emission of greenhouse gases to the atmosphere. The regulations adopted in Poland are compliant with the EU laws. The European Commission declares limiting the CO2 emissions by 20% until 2020. Moreover, it suggests introducing a system of auctions for emission permits from 2013. The system will mean that instead of receiving free emission rights (as in the period 2008-2012), the companies will be forced to purchase emission permits in open tenders. In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. Limitation of the CO2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties as regards competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the Group (LW BOGDANKA), and in consequence, may have a negative impact on its financial results. It is hard to evaluate this risk and it is hard to undertake any activities aimed at limiting it, given the fact that regardless of the proposed strict EU climate policy, works are still in progress in relation to the final form of obligations to reduce the emission of CO2 in the respective sectors of economy, and no binding decisions have been made, thus it's not known at what actual level the limits of CO2 emission will be. New technologies known as "clean coal technologies" have already appeared in such countries as USA, China and Australia. They are being gradually improved, but, when applied, they will significantly reduce the problem of CO2 emission.

8.1.9. 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. At present, the Group (LW BOGDANKA) has long-term contracts which secure it against the risk of a change over the next few years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained. LW BOGDANKA is taking measures in order to further secure its supplies of coal for commercial power production in the long-term perspective, relating to existing and prospective power units within the area of its operations. The Company is also undertaking activities together with other entities to explore the possibilities to expand the application of hard coal in Poland, which are aimed at establishing a coal gasification installation in the future.

8.1.10. Risk of hostile takeover of the Group

Lubelski Węgiel BOGDANKA S.A., as a result of its IPO on the Warsaw Stock Exchange, has been a public company since 25 June 2009. On 9 March 2010, the State Treasury sold, in block trades, 15,882,000 shares it was holding, which accounted for 46.7% of the Company's share capital. As a consequence, LW BOGDANKA S.A. became a private entity, 90.5% shares of which can be subject of trade on the WSE. This situation poses a risk of the so-called hostile takeover. The Company is implementing its investment programme (Stefanów Field), which is to bring about a growth in the extracting capacity of the mine up to 11.5 million tonnes of coal per year (starting from 2014), and consequently, the achievement of better results as well as technical and economic and financial indices. The prospects of such a growth, together with the lack of full economic effects prior to the programme completion in 2014, pose a risk of change in control over the Company on terms that would be unfavourable for the existing shareholders.

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 as well as to our resource potential and growth perspectives.

8.2. Risk directly associated with the Group's operations

8.2.1. 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 making timely deliveries to the customers of the Group (LW BOGDANKA), and therefore on the financial results achieved by the Group in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA uses the longwall system and currently extracts coal from three mining faces which operate simultaneously. At the target production capacity, however, coal is obtained from four mining faces operating simultaneously. If a periodic stoppage occurs at one of the faces, the technical and technological mining conditions make it possible to maintain the planned level of extraction by intensifying work at the other face. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.2 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down. Irrespective of the factors described above, the Bogdanka mine has a system of underground coal storage reservoirs. Two new reservoirs have recently been constructed in Stefanów (the third one is under construction). Raw coal reservoirs are also located on the surface. It should also be pointed out that the Group uses advanced mining equipment and machines in its mining operations and conducts intensive research and development works aimed at increasing the productivity of its operations by means of introducing solutions with a high degree of technical and technological reliability and increasing the safety of the work environment. These measures will significantly reduce the Group's technical and technological risk.

8.2.2. 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 Group stresses that LW BOGDANKA is systematically taking action aimed at minimising the risk associated with the possibility of IT systems malfunctioning. A "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." has been implemented, which regulates organisational and technical measures for IT environment protection. This refers to such measures as the organisation of access to data, making safety copies and their storage, using firewalls, anti-virus systems on servers and employees' PCs. The procedures for maintaining the continuity of key systems' operation have been designed and implemented.

The servers supporting the systems are a high-class equipment. In 2010, LW Bogdanka implemented a server cluster for main ORACLE databases and a centralised data backup, and in 2011 a virtual cluster system for other servers. An integrated supporting Internet security system has also been implemented. IT systems used at the LW Bogdanka Group have no effect on operating activities associated with extracting hard coal and therefore if they malfunction the continuity of hard coal extraction would not be threatened.

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

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

- consolidation processes in the mining 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 Company'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 LW Bogdanka have fume desulphurisation installations, the risk associated with the less favourable quality parameters of the coal produced by LW BOGDANKA is, in the Group's assessment, very limited.

8.2.4. Risk of delays in the planned investments

The LW Bogdanka Group is carrying out activities aimed at increasing 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, lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were launched. The extension of the Mechanical Coal Processing Plant, scheduled for the end of 2011, was not executed due to reasons attributable to the contractor. The Company exercises due diligence in the actions taken to ensure that the extension of the Mechanical Coal Processing Plant is completed as soon as reasonably possible. This investment should have been completed by the end of 2013 in order to commence the extraction of approx. 11 million tonnes in 2014. This will facilitate full coal beneficiation as of 2014 when the extension of the mine is scheduled for completion. Before the investment in question is formally completed, the Company will continue to exploit coal deposits from the individual extraction fields (Bogdanka, Stefanów) in such a way so as to fully correlate the quality of the excavated output with the deadline for achieving full coal processing capacity by the Mechanical Coal Processing Plant. These actions are of great significance in terms of guaranteeing that the Company will meet its production and sales targets, as well as the quality parameters expected by the buyers and specified in the one-year and long-term contracts concluded with key energy sector customers. The agreement with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A., the subject matter of which is the extension of the Mechanical Coal Processing Plant, and which covers detailed designs, facility construction, delivery of machines and equipment, on-site assembly, launch and start-up of machines and equipment, and obtaining permits for use, was described in the Issue Prospectus of LW Bogdanka S.A. of 21 December 2011 in section 8.6.7.1.

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

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, six trade union organisations operate at the Group, associating approx. 64% of the Group's 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 generated mainly by LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Group could affect the operating activities conducted by LW BOGDANKA. It concerns also possible protests connected with a risk of a hostile takeover of LW BOGDANKA, and thus a takeover of the whole Group. In the Group's opinion, cooperation between the Management Boards of the Parent Undertaking and the subsidiary and the trade unions operating within the Group 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.

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

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.

8.2.7. Key supplier risk

The specific nature of the Group's operations (both of LW BOGDANKA 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 with finding proper suppliers, as well as a risk of suppliers failing to meet their obligations under agreements concluded with the companies.

Upon signing agreements with the suppliers, the LW BOGDANKA Group assesses possible threats to 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.

8.2.8. Risk of unfavourable/inappropriate contractual terms being concluded

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

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

8.3. Financial risk factors

8.3.1. Liquidity risk

A major factor in evaluating insolvency risk is the level of operating cash flows, cash and liquidity ratios. As at 31 March 2012, the Group's cash amounted to PLN 216,892,000, current ratio was 1.85, and quick ratio - 1.64. In the first quarter of 2012, operating cash flow generated by the Group was higher by approx. 162% compared to the analogous period of the previous year. As of the date of submitting this Report, the Group is not threatened with insolvency. In order to avoid potential threats to the Group's solvency in the future and to minimise liquidity risk, the Group prepares long- and short-term analyses and forecasts as the basis for identifying the Group's cash requirements. This makes it possible to plan inflows and outflows and to determine the optimum level of cash and the optimum method of financing for the future, taking into account the principles of economic calculation.

8.3.2. Insurance risk

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

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's companies have to hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including Best Available Technology, 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 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 IPPS requirements (Zakład Ceramiki Budowlanej EkoKlinkier, mining waste dump). Both LW BOGDANKA and Łęczyńska Energetyka were granted the CO2 emission allowances for the settlement period 2008-2012. Furthermore, it must be stressed that since the environmental law regulations are subject to continuous changes, and the prevailing last years' trends in the EC environmental laws lead to tightening the standards of environmental protection, it cannot be ruled out that in the future further legislative changes will introduce even stricter standards of the use of the environment, which may also apply to LW BOGDANKA and Łęczyńska Energetyka. The changes may lead to the necessity of adjusting the companies' operations to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air, or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to LW BOGDANKA or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays, and hence adversely affect the Group's financial results. In order to reduce the risk related to the provisions of the amended Mining Waste Act, in 2011 LW BOGDANKA developed a mining waste management programme and received the approval of Lublin Marshal's Office (decision). On the basis of the decision, the Company applied to Lublin Marshal's Office for a permit to operate a waste utilisation facility. Therefore, the Company's operations in this respect will comply with the new requirements by 1 May 2012.

8.5. Risk factors associated with proceedings and legal environment

8.5.1. Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken by the Company. Regular amendments to tax regulations and rigorous curative provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks, even for the Company which strictly abides by tax regulations. Any tax rulings issued following its stock exchange debut may tarnish the Company's image and goodwill. 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 returns submitted by the Group companies may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions with related entities, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities. In order to limit this type of risk the Company applies various tax optimisation and tax planning methods, consequently limiting to a large extent the impact of such potential adverse events on the operations and financial performance of particular companies.

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

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

Fiscal procedures covering the period between 2003 and 2006 are currently pending in order to determine the amount of the Company's property tax liabilities. The procedures have been initiated by the Heads of the Communes of Puchaczów, Cyców and Ludwin. As regards administrative decisions already issued which specify the amount of property tax, the authorities of first instance determined that property tax also applies to underground workings and the infrastructure located in these workings. Therefore, the Company faces the risk of its position on the scope of assets subject to property tax being questioned by tax authorities and administrative courts. However, as regards the possible negative financial consequences for the Company, it seems that the risk has been reduced significantly as a result of the Polish Constitutional Tribunal's opinion expressed in its judgment of 13 September 2011 in case P 33/09. In its judgment, the Constitutional Tribunal found 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. Underground workings are not building facilities (building equipment) within the meaning of the Building Law, but 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. that in accordance with the Building Law the structures may be considered:

1) only the structures listed explicitly in Article 3.3 of the Polish Building Law or any other provisions thereof or any schedule thereto, comprising, together with installations and equipment, a building structure referred to in Article 3.1.b of the Polish Building Law, i.e. provided that such structures constitute a complete technical and usable facility,

2) only the technical facilities specified in Article 3.9 of the Polish Building Law or any other provisions thereof or any schedule thereto, which, if the said facilities are not listed explicitly, requires a proof that owing to those facilities the building structure may be used in accordance with its designation, excluding, however: (1) building equipment related to building structures in the form of a structure within the meaning of the Polish Building Law, which cannot be classified as structures within the meaning of the Local Taxes and Fees Act, and (2) building equipment related to building structures in the form of small architectural structures, with a proviso that within the meaning of the Polish Building Law installations do not constitute building equipment;

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 paid attention to the fact that in each tax case regarding infrastructure located in underground workings, it is necessary to precisely determine which of the facilities and equipment located in such workings can be classified as structures within the meaning of the Local Taxes and Charges Act, as this would eliminate the risk of the related decisions being made on the basis of questionable generalisations.

The Constitutional Tribunal 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. Based on the identified facilities in workings, which may be subject to the real property tax, the Company estimated the amount of the provision as at 31 March 2012.

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

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. The created pits are recorded in the accounting books as fixed assets or directly as operating costs and the point when such costs are incurred. The pits comprising a fixed underground mine infrastructure are classified by the Group 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 Group, 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 or its varying interpretations, particularly with regard to tax law, geological and mining law, the law governing business activity, labour and social security law and the law relating to securities, could have adverse consequences for the Group's companies. Particularly frequent are interpretational changes in tax laws. There is no consistency in the practice of tax authorities or in case law relating to taxation. If tax authorities adopt an interpretation of tax law which differs from that adopted by the Group's companies or if the Mining Law introduces new requirements to be imposed on the Parent Undertaking LW BOGDANKA, it could lead to a deterioration of its financial situation and as a result negatively affect Group's results and development prospects.

8.5.5. Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. are listed on the Warsaw Stock Exchange, the Group is subject to provisions which impose a number of requirements, including connected with securing equal access to certain information on the Group's operations to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (Dz. U. of 2009, No. 185, item 1439). For a failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the Companies' operations from the perspective of disclosure requirements.

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

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the first quarter of 2012, 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. TRANSACTIONS WITH RELATED ENTITIES

In the first quarter of 2012 the Company and its subsidiary did not conclude any 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 item 10 of the Consolidated Quarterly Financial Statements of the LW BOGDANKA Group for the first quarter of 2012.

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 GROUP SETTLING ITS LIABILITIES

11.1. Taking measures to obtain a new licence

At the end of the last year, LW Bogdanka S.A. commenced a procedure regarding acquisition of rights to geological information in the "K–3" and "K–6, K–7" deposits. The next stage will involve preparing all documents necessary to obtain a licence for extracting minerals in that area.

11.2. Employment

Employment at the Company as at 31 March 2011 and 2012 is presented in the table below:

Table 1 Employment at the Company as at 31 March 2011 and 2012

Employment	31 March 2011	31 March 2012	Change Q1 2012/ Q1 2011 [%]
Total workers	3,454	3,769	109.12%
Underground workers	2,600	2,835	109.04%
Surface workers	854	934	109.37%
Full-time employees underground	301	317	105.31%
Full-time employees on the surface	279	286	102.51%
Total underground	2,901	3,152	108.65%
Total staff	4,034	4,372	108.38%

In the first quarter of 2012, the number of employees increased by 338, i.e. by 8.38% as compared to the number of employees at the end of the first quarter of 2011.

In the first half of 2012, 210 persons were employed at LW BOGDANKA S.A.; including 182 persons employed from outside the mining industry, 17 mining school graduates, and 11 graduates of other schools.

At the same time, 22 employees left the Company in the first quarter of 2012.

- 16 persons retired (pensions or disability pensions);
- 2 person deceased;
- 4 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 employee turnover rate, calculated as the product of the difference between the number of people taken on and the number of people dismissed in a given period divided by the number of employees as of the end of the first quarter of 2012, is 0.043, which shows that more people are employed than dismissed. 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 Company benefits from its efforts to improve the qualifications of its personnel. Employment stability improves the employees' morale. The Company can also make full use of its personnel's innovative ideas. Knowledge of the Company's organisational structure helps to improve its internal processes.

11.3. Resolution of the Annual General Shareholders Meeting of 27 April 2012 regarding distribution of net profit for 2011, setting a dividend date, and dividend payment date.

On 27 April 2012, the Annual General Shareholders Meeting of the Company adopted a resolution on distribution of net profit for 2011.

It was decided at the Annual General Shareholders Meeting that the net profit generated by the Company in 2011 in the amount of PLN 218,977,735.69 (two hundred and eighteen million nine hundred and seventy-seven thousand seven hundred thirty five zlotys 69/100) will be distributed as follows:

1. The amount of PLN 136,054,360.00 (one hundred thirty-six million fifty-four thousand three hundred and sixty zlotys) - for distribution to the Company's shareholders, i.e. to pay a dividend of PLN 4 (four zlotys 00/100) per share.
2. The amount of PLN 82,923,375.69 (eighty-two million nine hundred and twenty-three thousand three hundred and seventy-five 69/100) - to the Company's reserve capital.

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

The General Shareholders Meeting set the dividend date for 18 May 2012 and dividend payment date for 14 August 2012, as per a request filed by a Company's shareholder during the Annual General Shareholders Meeting. As a result, the period between the dividend date and the dividend payment date exceeds 15 business days and is incompliant with Rule IV.6 of the Code of Best Practice for WSE Listed Companies, which is attached as an Appendix to Resolution No. 20/1287/2011 of the WSE Board of 19 October 2011. The shareholder's rationale behind the extension of the time lapse recommended by the Code of Best Practice is that the Company needs time for collecting funds necessary for the payment of the dividend.

The Company published the information in Current Report No. 23/2012 of 27 April 2012.

11.4. Appointment of the Supervisory Board Members for the 8th term of office

On 27 April 2012 the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. as a result of the resolutions adopted, appointed the following persons to the Supervisory Board for the 8th term of office:

- Mr Robert Bednarski;
- Mr Witold Daniłowicz;
- Mr Raimondo Eggink;
- Mr Dariusz Formela;
- Mr Eryk Karski;
- Mr Stefan Kawalec;
- Mr Tomasz Mosiek.

According to the declarations submitted, the new members of the Supervisory Board are not involved in any activity competing with the Company. They are not shareholders in any partnership competing with the Company, they do not hold positions in corporate bodies of any company competing with the Company, and they are not members of corporate bodies of any legal persons competing with the Company. They are not entered into the Register of Insolvent Debtors maintained under the Act on the National Court Register of 20 August 1997 (Dz. U. of 2007, No. 168, item 1186).

The Company published this information in Current Report No. 25/2012 of 27 April 2012.

11.5. Amendments to the Articles of Association of LW Bogdanka S.A.

On 27 April 2012 the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. adopted Resolutions Nos. 3-9 concerning amendments to the Company's Articles of Association. The scope of the changes covers the obligations of the Supervisory Board. As a results of the amendments, the list of Management Board's activities which require an approval of the Supervisory Board in order to be effective has been expanded.

The existing provisions of the Articles of Association of LW BOGDANKA S.A. and the amendments introduced were presented in Current Report No. 26/2012 of 27 April 2012.

11.6 Free of charge shares for eligible employees

Due to the fact that LW BOGDANKA S.A. was created as a result of the restructuring of a state enterprise into a joint stock company, it was subject to the provisions of the Act on Commercialisation and Privatisation. In accordance with Article 36 of the Act on Commercialisation and Privatisation and on the basis of Article 17 of the Company's Articles of Association, eligible employees have a right to a free-of -charge acquisition of up to 15% of shares held by the State Treasury as at the date of the Company's registration, i.e. 3,243,000 (three million two hundred and forty-three thousand) series B registered shares of the Company.

Eligible employees may exercise the aforementioned right, provided that within 6 months from the date of the Company's registration, they submit a written statement on the intention to acquire the shares. Failure to submit the statement within the aforementioned time-limit led to the loss of the right to acquire the shares free of charge. In case of the Company, the aforementioned six-month time-limit commenced on the date when the Act became effective. Therefore, in compliance with Article 77 of the Act on Commercialisation and Privatisation, the six-month period lapsed on 8 October 1997.

Lists of eligible employees were created at the Company, enumerating those who submitted the statements on the intention to acquire the shares. Written complaints submitted by the employees were also considered. The list was created on 22 October 1997.

The transaction of disposal of 1,689,939 shares of LW BOGDANKA S.A. effected by the State Treasury on 8 December 2009 pursuant to general rules, became a gateway for the commencement of the process of making the shares of LW BOGDANKA S.A. available free of charge to eligible employees pursuant to the aforementioned Act on Commercialisation and Privatisation as well as the Regulation of the Minister of the State Treasury of 29 January 2003 on detailed rules of dividing eligible employees into groups, determining the number of shares available for each of these groups as well as acquiring the shares by the eligible employees (Dz.U.03.35.303).

The list of the eligible employees, including their period of employment in the state-owned company under commercialisation, its predecessor and the Company as well as the total period of employment in these entities, was presented in the Company's registered office on 29 December 2009.

On 3 February 2010 the Management Board of LW BOGDANKA S.A. as well as the representatives of the trade unions operating at the Company signed an agreement on specifying the number of shares of LW BOGDANKA S.A. available to each of the eligible groups, divided according to the total period of employment in the state enterprise KWK Bogdanka, its predecessor as well as the Company.

On 8 February 2010 the Management Board created a final list of the eligible employees, supplemented by the data on the number of shares to which the eligible employees are entitled.

The process of signing agreements on free-of-charge acquisition of shares commenced on 7 April 2010, and ended on 9 March 2012.

The right to acquire the Company's shares free of charge became effective upon the lapse of 3 months from the disposal by the State Treasury of the first shares pursuant to general rules, i.e. from 9 March 2010 onwards, and it may be exercised by the eligible employees until 9 March 2012. The right to acquire the shares free of charge is subject to inheritance, subject to the provisions of Article 38c)2–4 of the Act on Commercialisation and Privatisation. The shares acquired free of charge by the eligible employees may not be traded until the lapse of two years, or - in the case of employees being members of the Company's Management Board - three years, from the disposal by the State Treasury of the first shares on general terms.

In its Current Report No. 33/2011 of 28 December 2011, the Company announced the information regarding the final number of series B shares which, pursuant to a resolution of the Company's Management Board of 15 December 2011, were converted from registered shares into bearer shares upon the lapse of the third business day following the Prospectus issue date, and which will be subject to the application for admission and introduction to trading on the regulated market of the Warsaw Stock Exchange. The final number of these shares was 3,208,111.

On the same day, an application for introducing shares to trading was submitted to the WSE. In its Current Report No. 34/2011 of 28 December 2011, the Company announced that Dom Inwestycyjny BRE Banku S.A., an authorised representative acting on behalf of the Company, filed an application for introducing the shares to trading on the Warsaw Stock Exchange, following the registration of the shares in the National Depository for Securities.

According to the above-mentioned Current Report, the total number of series B ordinary bearer shares covered with the application, and introduced to public trading following the registration, amounted to 3,208,111. The total number of all shares in public trading following the introduction of shares covered with the application amounted to 33,978,701. Registration and introduction date was also proposed to take place on 4 January 2012.

On 29 December 2011, the Management Board of the National Depository for Securities decided to register in the National Depository for Securities 3,208,111 series B ordinary bearer shares of LUBELSKI WĘGIEL BOGDANKA S.A., provided that the company running the regulated market decides to introduce these shares to trading on the same regulated market on which other shares of that company marked PLLWBGD00016 have already been introduced.

A day later, on 30 December 2011, the Management Board of the Warsaw Stock Exchange, based on the application referred to in Current Report No. 34/2011, adopted a resolution regarding admission and introduction to public trading on the WSE's Main Market of series B ordinary bearer shares of Lubelski Węgiel Bogdanka S.A. 3,208,111 series B ordinary bearer shares of Lubelski Węgiel Bogdanka S.A. were introduced to trading.

On 4 January 2012, 3,208,111 employee shares of Lubelski Węgiel BOGDANKA S.A. acquired free of charge by the Company's employees, were introduced to the Warsaw Stock Exchange. On the same day, the National Depository for Securities registered the Company's shares. As at the date of submitting this Report, the remaining shares intended for a free-of-charge acquisition by eligible employees and held by the Management Board are registered shares.

11.6. Adoption of the CSR strategy for 2012-2015

On 1 March 2012, the Management Board of the Company announced that Lubelski Węgiel Bogdanka S.A. adopted for implementation the Corporate Social Responsibility Strategy (CSR) for 2012-2015. This is a basic corporate document which presents the vision and the objectives that Bogdanka intends to achieve through sustainable development. It was created on the basis of key CSR challenges faced by the worldwide mining industry. The PwC team for sustainable development and corporate responsibility supported the Company in creating the Strategy.

For many years now, LW Bogdanka S.A. has been applying a number of corporate responsibility practices to its business activities. Adopting and implementing the comprehensive CSR Strategy means that the Company has an obligation to undertake specific measures in such areas as:

- ethics and communication transparency in business practice;
- security and development of the Company employees;
- innovative and active influence on the surroundings and the environment;
- achieving business objectives in accordance with the rules of sustainable development.

The CSR Strategy for LW Bogdanka S.A. is also a commitment to constant monitoring of all the yardsticks of the activities undertaken, and to report the company's social engagement, for instance in sports and culture sponsorship, environmental protection, or improvement of the employees' security and self-development.

On 17 January 2012, the Management Board of LW Bogdanka S.A. adopted a resolution on creating the "Solidarni Górnicy" (Solidary Miners) foundation and accepting its Articles of Association.

The objective of the foundation is to provide financial support and assistance to the employees injured in accidents, those who suffer from illnesses, economically disadvantaged and their families, to support cultural, health-promoting and ecology-promoting events, and other events on a local and regional level, and to provide help to the victims of catastrophes, accidents and natural disasters.

11.7. Conclusion of a new long-term significant agreement with Elektrownia Kozienice S.A. for the purpose of a Elektrownia Kozienice's power unit currently under development; conclusion of an annex to the existing long-term agreement

On 23 January 2012 the Company concluded a new Long-Term Agreement No. UW/LW/01/2012, which supplements the existing one regarding the supply of power coal (the "Agreement") with Elektrownia Kozienice S.A. with registered office in Świerże Górne, Kozienice, 26-900 Kozienice 1 (the "Purchaser"), for the purpose of Elektrownia Kozienice S.A. power unit which is currently under development.

The Agreement was signed for the period from the execution until 31 December 2036, with the power coal supplies to commence in the 1st calendar quarter of 2017. The Agreement provides for 20 calendar years of power coal supplies for the purpose of Elektrownia Kozienice S.A. power unit currently under development.

The estimated net value of the Agreement at supply prices as at the date of the Current Report amounted to PLN 11.248 billion, without taking into account the volume quantity tolerance of +/- 5% provided for in the Agreement.

The Agreement sets out the following conditions:

1. The prices of the power coal will be set for a given calendar year of physical supplies by way of negotiations, taking into account the dynamics of price movements with respect to power coal supplies in Poland;
2. Annual agreements will be signed to specify: volume, supply schedule, supply prices, declared quality parameters, other rules governing logistics and supply settlements during the term of the annual agreement.
3. The Parties to the agreement have the right to terminate it in the event that they fail to successfully negotiate prices for the following calendar year during the term of the Agreement, upon a two-years' notice which starts on 1 January of the following year;
4. Additionally, the Purchaser has the right to terminate the Agreement, upon a six-months' notice if all of the following conditions do not occur jointly by 31 December 2012:
   a) an agreement for the construction of the power unit is signed,
   b) financing of the unit construction is closed, and the closing is confirmed by a resolution of the Management Board of Elektrownia Kozienice S.A.

The Agreement provides for the following liquidated damages:

1. for a failure to collect or supply the volume of coal resulting from the supply schedule, the liquidated damages account for 20% of the value of coal which has not been collected or supplied.
2. if the coal supplied by the Seller has quality parameters worse than border parameters specified in the Agreement - the liquidated damages account for 1%-5% of the net value of the given supply of power coal;
3. Each of the Parties to the Agreement has the right to claim supplementary damages on general terms if the liquidated damages are insufficient to cover the value of the incurred damage.

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

In addition, on 23 January 2012 the Company signed Annex 1 to the existing Long-Term Agreement No. UW/LW/01/2010 on the supply of power coal with Elektrownia Kozienice S.A. with registered office in Świerże Górne, Kozienice, 26-900 Kozienice 1. The Long-Term Agreement was referred to in the following Current Reports published by the Company: No. 5/2010 dated 5 March 2010, No. 44/2010 dated 20 December 2010, and No. 31/2011 dated 27 December 2011, and remains in force and effect until 31 December 2025.

According to Annex 1, the existing manner of setting prices in annual agreements will be changed and the solution adopted in the new additional Agreement will be applied as follows: the prices of the power coal will be set for a given calendar year of supplies by way of negotiations, taking into account the dynamics of price movements with respect to power coal supplies in Poland.

As a result of concluding the new additional agreement No. UW/LW/01/2012 and Annex 1 to the existing Long-Term Agreement No. UW/LW/01/2010, the Parties are now bound by two long-term agreements whose total value for the period 2011-2036, as at the date of signing the Annex, amounted to approx. PLN 22.772 billion, at the prices applicable at that time.

The Agreement and the Annex were described in Current Report No. 3/2012 of 23 January 2012.

11.9 Concluding a significant agreement with PGNIG Termika S.A.

On 23 April 2012 the Company (the "Seller") concluded an Agreement on Sale/Purchase of Power Coal (the "Agreement") with PGNIG Termika S.A., with registered office in Warsaw, 03-216 Warsaw, ul. Modlińska 15 (the "Buyer"). The Agreement concerns coal supplies provided by the Company in 2013-2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A. (formerly Vattenfall Heat Poland S.A.).

The Agreement is in effect from the date of conclusion thereof until 31 December 2015.

The value of the Agreement at current prices amounts to approx. PLN 1,062,180,000 net without regard to permissible deviations and tolerance specified in the Agreement.

The Agreement provides for the following liquidated damages or compensation:

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

b) The Buyer may demand liquidated damages from the Seller for exceeding the quality parameters by 1-3% of the value, in the monthly settlement.

c) If the coal delivered to the Buyer under this Agreement shall be subject to excise tax, and on the basis of a decision of a relevant institution the Buyer will be obliged to pay it due to reasons attributable to the Seller, on the basis of a decision of a relevant institution the Buyer will encumber the Seller with compensation on the basis of a note, equivalent of the paid excise tax, as a result of imposing excise tax on the coal in question, along with the statutory interest.

d) If the coal delivered to the Buyer under this Agreement shall be subject to excise tax, and the Seller will be obliged to pay it due to reasons attributable to the Buyer or his authorised carrier, on the basis of a decision of a relevant institution the Seller will encumber the Buyer with compensation on the basis of a note, equivalent of the paid excise tax, as a result of imposing excise tax on the coal in question, along with the statutory interest.

e) Each of the Parties has the right to claim supplementary compensation on terms specified in the Polish Civil Code if the liquidated damages shall not cover the value of the inflicted damage.

The Agreement provides for the following terms of termination:

a) Each of the Parties has the right to terminate the Agreement upon a twelve-months' notice.

b) In the event of repeating failure to meet by the Seller the quality border parameters of the coal supplied, the Buyer has the right to terminate the Agreement with immediate effect, irrespective of the applied liquidated damages.

The Agreement sets out the following conditions precedent:

a) In the event that the supply price for 2014 is not established by 30 April 2013, the Agreement becomes automatically terminated as at 31 December 2013.

b) In the event that the supply price for 2015 is not established by 30 April 2014, the Agreement becomes automatically terminated as at 31 December 2014.

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

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

Moreover, the Company announced that the total value of all agreements binding the Company with PGNIG Termika S.A., regarding supplies of power coal for the purposes of Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A., amounts to approx. PLN 1,315,910,000 net without regard to permissible deviations and tolerance specified in the agreements, and these are the following agreements:

(a) an Agreement on Sale/Purchase of Power Coal, with the value of approx. PLN 1,062,180,000 net, which is the subject of this report, and determines the supplies of power coal for 2013-2015.

(b) an Agreement on Sale/Purchase of Power Coal of 11 April 2011, which was subject of Current Report No 7/2011, with the value of approx. PLN 217,560,000 net, and determines the basic supplies of power coal in 2012.

(c) an Agreement on Sale/Purchase of Power Coal of 2 April 2012, with the value of approx. PLN 36,230,000 net, which determines the additional supplies of power coal in 2012.

The Agreement was described in Current Report No. 13/2012 of 23 April 2012.

11.10 Partial release of the provisions for property tax on the value of underground workings

By virtue of Current Report No. 4/2012 of 2 February 2012, the Company announced that on 2 February 2012, in connection with the judgement of the Constitutional Tribunal with regard to imposing property tax on the value of underground workings announced on 13 September 2011, it adopted a resolution on partial release of the provisions for property tax on the value of underground workings (the "Property Tax") and established the following balance of provisions and amounts due from municipalities on account of property tax as at 31 December 2011:

- the provisions released amount to PLN 53.6 million (the principal amount together with interest). in connection with overall risk associated with pending disputes with municipalities, the balance of provisions and liabilities on account of the property tax in dispute has been retained in the amount of PLN 16.6 million (the principal amount together with interest).

- Amounts due from municipalities on account of the disputed property tax already paid in the amount of PLN 16.3 million will be disclosed in the financial statements for 2011.

The effect of the said transaction on the financial result will amount to the following:

- before taxation: PLN 69.9 million;

- reduced by the deferred income tax: PLN 58.8 million.

This was announced in Current Report No. 4/2012 of 2 February 2012.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS:

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