The Lubelski Węgiel BOGDANKA Group

Condensed Interim Consolidated Financial Statements

for the period of six months ended 30 June 2012

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

Interim Statement of Financial Position (Balance Sheet)

	Note	30 Jun. 2012	31 Dec. 2011
Assets			
Fixed assets			
Tangible fixed assets	5	2,653,113	2,605,312
Intangible fixed assets	6	9,320	9,931
Trade debtors and other receivables		710	685
Cash and cash equivalents		60,170	58,288
		2,723,313	2,674,216
Current assets			
Stock		110,368	43,494
Trade debtors and other receivables		234,554	255,698
Cash and cash equivalents		329,847	102,820
		674,769	402,012
TOTAL ASSETS		**3,398,082**	**3,076,228**
Shareholders' equity			
Shareholders' equity attributable to shareholders of the Parent Undertaking			
Ordinary shares	7	301,158	301,158
Other capitals		1,345,888	1,261,013
Retained profits		522,827	570,896
		2,169,873	2,133,067
Non-controlling interests		**9,966**	**9,579**
Total shareholders' equity		**2,179,839**	**2,142,646**
Liabilities			
Long-term liabilities			
Loans and borrowings	10	431,000	341,000
Deferred income tax liabilities		54,129	70,659
Employee benefits payable	11	120,369	113,144
Provisions for other liabilities and charges	12	77,634	76,856
Grants	9	18,617	19,111
Trade creditors and other liabilities		4,521	5,796
		706,270	626,566
Short-term liabilities			
Loans and borrowings	10	12,185	-
Employee benefits payable	11	38,319	34,109
Current income tax liabilities		7,231	2,034
Provisions for other liabilities and charges	12	66,347	36,698
Trade creditors and other liabilities		251,837	234,175
Dividend payable	16	136,054	-
		511,973	307,016
Total liabilities		**1,218,243**	**933,582**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**3,398,082**	**3,076,228**

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

Interim Consolidated Statement of Comprehensive Income

	Note	For 6 months ended 30 June	
		2012	**2011**
Revenue on sales		906,538	582,081
Costs of products, goods and materials sold		(605,093)	(460,465)
Gross profit		**301,445**	**121,616**
Selling costs		(20,021)	(19,469)
Administrative costs		(42,711)	(37,062)
Other income		1,568	7,951
Other expenses		(443)	(514)
Other losses - net		(27,023)	(2,113)
Operating profit		**212,815**	**70,409**
Financial income		5,666	9,444
Financial expenses		(5,123)	(2,806)
Net financial income		543	6,638
Share in profits/(losses) of associated undertakings		-	(18)
Profit before taxation		**213,358**	**77,029**
Income tax	14	(40,111)	(14,866)
Net profit for the financial year		**173,247**	**62,163**
including:			
- attributable to shareholders of the Parent Undertaking	15	172,860	61,935
- attributable to non-controlling interests		387	228
Total income for the period		**173,247**	**62,163**
including:			
- attributable to shareholders of the Parent Undertaking	15	172,860	61,935
- attributable to non-controlling interests		387	228
Earnings per share attributable to the shareholders of the Parent Undertaking during the year (in PLN per share)			
- basic		5.08	1.82
- diluted		5.08	1.82

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

Interim Consolidated Statement of Movements in Equity

	Attributable to shareholders of the Parent Undertaking					
	Ordinary shares	**Other capitals**	**Retained profits**	**Total**	**Non-controlling interests**	**Total shareholders' equity**
As at 1 January 2011	**301,158**	**1,081,298**	**577,309**	**1,959,765**	**9,254**	**1,969,019**
Total income for the accounting period	-	-	61,935	61,935	228	62,163
Dividends concerning 2010 (Note 16)	-	-	(47,619)	(47,619)	-	(47,619)
Transfer of the result for 2010	-	179,715	(179,715)	-	-	-
As at 30 June 2011	**301,158**	**1,261,013**	**411,910**	**1,974,081**	**9,482**	**1,983,563**
As at 1 January 2012	**301,158**	**1,261,013**	**570,896**	**2,133,067**	**9,579**	**2,142,646**
Total income for the accounting period	-	-	172,860	172,860	387	173,247
Dividends concerning 2011 (Note 16)	-	-	(136,054)	(136,054)	-	(136,054)
Transfer of the result for 2011	-	84,875	(84,875)	-	-	-
As at 30 June 2012	**301,158**	**1,345,888**	**522,827**	**2,169,873**	**9,966**	**2,179,839**

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

Interim Consolidated Statement of Cash Flows

	Note	For 6 months ended 30 June	
		2012	**2011**
Operating cash flow			
Operating cash inflow	17	409,863	180,386
Interest paid		(957)	-
Income tax paid		(51,442)	(12,434)
Net operating cash flow		**357,464**	**167,952**
Investing cash flow			
Acquisition of tangible fixed assets		(222,729)	(372,917)
Interest paid regarding investing activity		(7,299)	(5,755)
Acquisition of intangible fixed assets		(219)	(393)
Inflow from the sale of tangible fixed assets		79	55
Interest received		3,612	7,992
Other net investing cash flow		(1,999)	-
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(1,882)	(1,764)
Net investing cash flow		**(230,437)**	**(372,782)**
Financing cash flow			
Loans and borrowings received		100,000	-
Loans and borrowings repaid		-	(6,000)
Net financing cash flow		**100,000**	**(6,000)**
Net increase / (decrease) in cash and cash equivalents		227,027	(210,830)
Cash and cash equivalents at beginning of period		102.820	472,101
Cash and cash equivalents at end of period		**329.847**	**261,271**

Notes on the Condensed Interim Consolidated Financial Statements

1. General information

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

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

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

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

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

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

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

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

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

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

As at 30 June 2012, the Parent Undertaking held 88.70% of shares in the capital of the subsidiary undertaking Łęczyńska Energetyka Sp. z o.o.

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

1.2. Assumption of the Company going concern

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

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

2. Description of key accounting principles applied

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

2.1. Basis of preparation

These condensed interim consolidated financial statements of LW Bogdanka S.A. Group for the first six months of 2012 were prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting".

These condensed interim consolidated financial statements were prepared according to the historical cost principle, including the valuation at fair value of certain components of tangible fixed assets in connection with assuming fair value as a presumed cost, which was carried out as at the day of the Group's transition to the IFRS, i.e. 1 January 2005.

Drawing up the condensed interim consolidated financial statements in accordance with IAS 34 requires the use of certain significant accounting estimates. It also requires that the Management Board exercise its own judgement when applying the accounting principles adopted by the Group. The main estimates and judgements have not changed since the publication of the annual consolidated financial statements for 2011.

Standards and interpretations used for the first time in 2012

The following amendments to the existing standards published by the International Accounting Standards Board and endorsed by the European Union come into force in the year 2012:

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"**– transfer of financial assets, endorsed by the European Union on 22 November 2011 (applicable to annual periods beginning on or after 1 July 2011).

The aforesaid standards, interpretations and standard amendments did not impact materially the current accounting policy of the Group.

Standards and interpretations already published and endorsed by the European Union, but not effective yet

Upon approval of these condensed interim consolidated financial statements, the Group was not applying the following standards, standard amendments or interpretations which were published and endorsed by the European Union for use within the European Union but which were not effective yet:

- **Amendments to IAS 1 "Presentation of Financial Statements" –** presentation of items of other comprehensive income (applicable to annual periods beginning on or after 1 July 2012),

- **Amendments to IAS 19 "Employee Benefits"** – amendments to accounting principles for benefits after the employment term (applicable to annual periods beginning on or after 1 January 2013).

Standards and interpretations adopted by IASB, but not endorsed by the European Union yet

At present, the IFRS endorsed by the European Union do not differ substantially from the regulations adopted by the International Accounting Standards Board (IASB), save for the following standards, standard amendments or interpretations which as at 22 August 2012 were not adopted for use:

- **IFRS 9 "Financial Instruments"** (applicable to annual periods beginning on or after 1 January 2015),
- **IFRS 10 "Consolidated Financial Statements"** (applicable to annual periods beginning on or after 1 January 2013),
- **IFRS 11 "Joint Arrangements"** (applicable to annual periods beginning on or after 1 January 2013),
- **IFRS 12 "Disclosures of Shares in Other Entities"** (applicable to annual periods beginning on or after 1 January 2013),
- **IFRS 13 "Fair Value Measurement"** (applicable to annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) "Separate Financial Statements"** (applicable to annual periods beginning on or after 1 January 2013),
- **IAS 28 (amended in 2011) "Investments in Associates and Joint Ventures"** (applicable to annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards"** – Hyperinflation and elimination of strict deadlines for the entities adopting IFRS for the first time (applicable to annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards"** – Government loans (applicable to annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** – offsetting of financial assets and liabilities (applicable to annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"** – mandatory effective date and transitional provisions,
- **Amendments to IAS 12 "Income Taxes"** – Deferred tax: recovery of assets (applicable to annual periods beginning on or after 1 January 2012),
- **Amendments to IAS 32 "Financial Instruments: Presentation"** – offsetting of financial assets and liabilities (applicable to annual periods beginning on or after 1 January 2014),
- **Amendments to various standards "Improvements to IFRS (2012)" –** amendments made under the annual IFRS improvements project and published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34), primarily oriented at eliminating inconsistencies and specifying terminology (applicable to annual periods beginning on or after 1 January 2013),
- **IFRIC 20 Interpretation "Stripping Costs in the Production Phase of a Surface Mine"** (applicable to annual periods beginning on or after 1 January 2013).

The Group's Management Board estimated that the aforesaid standards, interpretations and standard amendments would not materially impact these condensed interim consolidated financial statements, if adopted by the Group as at the reporting date.

At the same time, hedge accounting for the portfolio of financial assets and liabilities whose principles have not been adopted for use by the European Union yet still remain outside the regulations endorsed by the European Union.
The Group's Management Board estimated that using hedge accounting for the portfolio of financial assets and liabilities according to IAS **39 "Financial Instruments: Recognition and Measurement"** would not materially impact these condensed interim consolidated financial statements, if adopted by the entity as at the reporting date.

3. Information on business segments

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

The Management Board does not apply division into segments for managing the Group since the Parent Undertaking mainly focuses its activities on the production and sale of coal. Revenue on sales of other products and services in the period between 1 January 2012 and 30 June 2012 amounted to PLN 28,381,000 (PLN 45,800,000 in the first half of 2011), which accounts for 3.13% and 7.87% of total revenue on sales, respectively.

The Group operates primarily in Poland. In the period between 1 January 2012 and 30 June 2012, revenue from foreign sales amounted to PLN 429,000, which accounts for 0.05% of total revenue on sales in the year in question. The Group does not hold assets or liabilities outside Poland.
Accordingly, the Group does not present its results by geographical segments.

4. Information regarding seasonality

The production is not seasonal, whereas seasonal character of sales can be noticed in the case of retail sales at a point of coal sale. Sales for individual customers account for 0.38% of the total sales. This has no significant effect on operating and financing activity of the Group.

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

5. Tangible fixed assets

	Land	Buildings and structures (including mining excavations)	Plant and equipment	Vehicles	Other tangible fixed assets	Tangible fixed assets in construction	Total
As at 1 January 2011							
Cost or assessed value	3,169	1,487,336	922,696	99,634	15,641	621,849	3,150,325
Depreciation	-	(574,345)	(411,657)	(53,293)	(9,785)	-	(1,049,080)
Net book value	**3,169**	**912,991**	**511,039**	**46,341**	**5,856**	**621,849**	**2,101,245**
As at 30 June 2011							
Net book value at beginning of year	3,169	912,991	511,039	46,341	5,856	621,849	2,101,245
Increases	-	2,614	-	-	-	356,899	359,513
Transfer from fixed assets in construction	924	296,443	123,983	3,788	1,109	(426,247)	-
Decreases*	(139)	(6,164)	(51)	(150)	(88)	(566)	(7,158)
Depreciation	-	(39,503)	(31,549)	(2,311)	(597)	-	(73,960)
Net book value	**3,954**	**1,166,381**	**603,422**	**47,668**	**6,280**	**551,935**	**2,379,640**
As at 30 June 2011							
Cost or assessed value	3,954	1,724,948	1,043,157	100,932	16,530	551,935	3,441,456
Depreciation	-	(558,567)	(439,735)	(53,264)	(10,250)	-	(1,061,816)
Net book value	**3,954**	**1,166,381**	**603,422**	**47,668**	**6,280**	**551,935**	**2,379,640**
As at 1 January 2012							
Cost or assessed value	3,850	2,029,838	1,212,676	104,694	14,529	386,426	3,752,013
Depreciation	-	(614,644)	(468,444)	(53,703)	(9,910)	-	(1,146,701)
Net book value	**3,850**	**1,415,194**	**744,232**	**50,991**	**4,619**	**386,426**	**2,605,312**
As at 30 June 2012							
Net book value at beginning of year	3,850	1,415,194	744,232	50,991	4,619	386,426	2,605,312
Increases	-	-	-	-	-	205,488	205,488
Transfer from fixed assets in construction	184	256,303	28,111	4,635	226	(289,459)	-
Decreases*	(102)	(4,533)	(33)	(21)	-	(1,300)	(5,989)
Depreciation	-	(109,188)	(39,101)	(2,953)	(456)	-	(151,698)
Net book value	**3,932**	**1,557,776**	**733,209**	**52,652**	**4,389**	**301,155**	**2,653,113**
As at 30 June 2012							
Cost or assessed value	3,932	2,277,718	1,239,911	107,953	14,716	301,155	3,945,385
Depreciation	-	(719,942)	(506,702)	(55,301)	(10,327)	-	(1,292,272)
Net book value	**3,932**	**1,557,776**	**733,209**	**52,652**	**4,389**	**301,155**	**2,653,113**

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

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

6. Intangible fixed assets

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 January 2011					
Cost or assessed value	4,045	4,480	10,763	60	19,348
Amortisation	(2,823)	(1,043)	(4,513)	(14)	(8,393)
Net book value	**1,222**	**3,437**	**6,250**	**46**	**10,955**
As at 30 June 2011					
Net book value at beginning of year	1,222	3,437	6,250	46	10,955
Presentation adjustment	-	(41)	41	-	-
Increases	275	118	-	-	393
Amortisation	(125)	(102)	(577)	(12)	(816)
Net book value	**1,372**	**3,412**	**5,714**	**34**	**10,532**
As at 30 June 2011					
Cost or assessed value	4,266	4,293	11,235	46	19,840
Amortisation	(2,894)	(881)	(5,521)	(12)	(9,308)
Net book value	**1,372**	**3,412**	**5,714**	**34**	**10,532**
As at 1 January 2012					
Cost or assessed value	4,339	4,444	11,235	47	20,065
Depreciation	(2,880)	(1,143)	(6,097)	(14)	(10,134)
Net book value	**1,459**	**3,301**	**5,138**	**33**	**9,931**
As at 30 June 2012					
Net book value at beginning of year	1,459	3,301	5,138	33	9,931
Increases	144	75	-	-	219
Amortisation	(139)	(105)	(577)	(9)	(830)
Net book value	**1,464**	**3,271**	**4,561**	**24**	**9,320**
As at 30 June 2012					
Cost or assessed value	4,483	4,498	11,235	38	20,254
Amortisation	(3,019)	(1,227)	(6,674)	(14)	(10,934)
Net book value	**1,464**	**3,271**	**4,561**	**24**	**9,320**

7. Share capital

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2011	34,014	170,068	131,090	301,158
As at 30 June 2011	34,014	170,068	131,090	301,158
As at 1 January 2012	34,014	170,068	131,090	301,158
As at 30 June 2012	34,014	170,068	131,090	301,158

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

8. Other capitals

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

9. Grants

	30 Jun. 2012	31 Dec. 2011
Long-term liabilities		
Grants	18,617	19,111
	18,617	**19,111**

The grant received should be settled in the full amount on the moment it is amortised in full, sold or if an asset financed with that grant is liquidated.

10. Loans and borrowings

	30 Jun. 2012	31 Dec. 2011
Long-term:		
Bank loans:	431,000	341,000
- PKO BP S.A.	241,000	241,000
- PEKAO S.A.	190,000	100,000
Short-term:		
Bank loans:	12,185	-
- PEKAO S.A.	12,185	-
	443,185	**341,000**

The bank loans mature on 31 December 2014 and bear interest equal to 3M WIBOR + bank margin. The fair value of loans does not significantly differ from their carrying value. The Group takes out loans in PLN. Details on maturity dates of the loan are presented below.

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

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
As at 30 June 2012				
Loans and borrowings	12,185	150,000	281,000	-

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

The Group does not have any unutilised overdraft credit lines as at 30 June 2012.

11. Employee benefits payable

	30 Jun. 2012	31 Dec. 2011
Liabilities as disclosed in the interim consolidated statement of financial position:		
- Retirement and disability benefits	27,783	28,497
- Long service awards	41,713	42,068
- Coal allowances in kind	73,340	70,272
- Other benefits for employees	15,852	6,416
	158,688	**147,253**
Including:		
Long-term	120,369	113,144
Short-term	38,319	34,109

12. Provisions for other liabilities and charges

	Mine closure	Mining damage	Legal claims	Real property tax	Total
As at 1 January 2011	**67,314**	**7,095**	**13,020**	**62,574**	**150,003**
Including:					
Long-term	67,314	-	-	-	67,314
Short-term	-	7,095	13,020	62,574	82,689
Recognition in the interim consolidated statement of comprehensive income					
- Creation of additional provisions	1,714	-	24	6,917	8,655
- Release of an unused provision	-	(2,062)	(2,376)	-	(4,438)
- Interest	-	-	24	681	705
- Discount settlement	1,647	-	-	-	1,647
- Provisions used during a year	-	(1,058)	(5)	-	(1,063)
As at 30 June 2011	**70,675**	**3,975**	**10,687**	**70,172**	**155,509**
Including:					
Long-term	70,675	-	-	-	70,675

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

Short-term	-	3,975	10,687	70,172	84,834
As at 1 January 2012	**76,856**	**5,360**	**14,751**	**16,587**	**113,554**
Including:					
Long-term	76,856	-	-	-	76,856
Short-term	-	5,360	14,751	16,587	36,698
Recognition in the Interim Consolidated Statement of Comprehensive Income					
- Creation of additional provisions	(1,194)	-	25,983	2,606	27,395
- Interest	-	-	673	988	1,661
- Discount settlement	1,972	-	-	-	1,972
- Provisions used during a year	-	(554)	(47)	-	(601)
As at 30 June 2012	**77,634**	**4,806**	**41,360**	**20,181**	**143,981**
Including:					
Long-term	77,634	-	-	-	77,634
Short-term	-	4,806	41,360	20,181	66,347

(a) Mine closure

The Group establishes a provision for expenses related to closure of a mining plant, as required under applicable provisions. The value of closing the mine calculated as at 30 June 2012 amounts to PLN 77,634,000.

(b) Removing mining damage

Given the need to remove mining damage, the Parent Undertaking creates a provision for mining damage. As at 30 June 2012, the estimated value of works necessary for damage removal is: PLN 4,806,000.

(c) Legal claims

The amount disclosed constitutes a provision for certain legal claims filed against the Company by customers and suppliers. The amount of the provision is disclosed in the Interim Consolidated Statement of Comprehensive Income as "Other net profit / (loss)". In the Management Board's opinion, supported by an appropriate legal opinion, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 30 June 2012.

(d) Real property tax

The amount disclosed constitutes a provision for real property tax. While preparing statements for real property tax, the Parent Undertaking (like other mining companies in Poland) does not take into account the value of buildings and equipment located in mining excavations for the purpose of calculating this tax.

In previous years, the Parent Undertaking created provision for a real property tax based on full value of mine excavations. In connection with a ruling of the Constitutional Tribunal of 13 September 2011 and justification given to that extent, related to the charging of real property tax on mining excavations or their parts, as well as in connection with the currently prevailing line of decisions given by administrative courts (provided it is upheld), there are chances that the Parent Undertaking may obtain resolutions consisting in dismissal of a portion of the tax proceedings because the tax liability has become barred by statute of limitations. The provision created as at 30 June 2012 comprises overdue payments of real property tax, for

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

the period 2007-2011 and the first half of 2012, estimated on the basis of an initial analysis of types of infrastructure components located in underground mining excavations and an initial estimate of their value.
The values connected with real property tax are disclosed in the Interim Consolidated Statement of Comprehensive Income under "Cost of products, goods and materials sold". The amount of the provision thus estimated of PLN 20,181,000 is disclosed in the books as at 30 June 2012 (as at 30 June 2011 - PLN 70,172,000).

13. Unusual events affecting the financial result

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

14. Income tax

	1 Jan. 2012-30 Jun. 2012	1 Jan. 2011-30 Jun. 2011
Current tax	56,457	16,150
Deferred tax	(16,346)	(1,284)
	40,111	**14,866**

Income tax in the condensed interim consolidated financial statements was established pursuant to the expected tax rate for 2012 of 18.8% (2011: 19.3%). The effective tax rate applied was determined after conducting an analysis of permanent and temporary differences in income tax for previous years.

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

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

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

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

15. Earnings per share

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

	1 Jan. 2012-30 Jun. 2012	1 Jan. 2011-30 Jun. 2011

Earnings attributable to shareholders of the Parent Undertaking	172,860	61,935
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN per share)	**5.08**	**1.82**

(b) Diluted

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

16. Dividend per share

In the first half of 2012 and in the same period of 2011, the Parent Undertaking did not pay any dividend to Shareholders. The payment of dividend for 2011, in the amount of PLN 136,054,000, took place on 14 August 2012. In compliance with Resolution No. 26 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 27 April 2012, the profit for 2011 in the amount of PLN 136,054,000 has been distributed among the Parent Undertaking's shareholders. The dividend rate due to shareholders of the Parent Undertaking is presented in the table below.

	1 Jan. 2012-30 Jun. 2012	**1 Jan. 2011-30 Jun. 2011**
Dividend due	136,054	47,619
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
Dividend per share (in PLN per share)	**4.00**	**1.40**

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

17. Net operating cash inflow

	Note	**30 Jun. 2012**	**30 Jun. 2011**
Profit before taxation		213,358	77,029
- Depreciation of tangible fixed assets	5	151,698	73,960
- Amortisation of intangible fixed assets	6	830	816
- (Profit)/Loss on sale of tangible fixed assets		(26)	3,368
- Net financial income		(543)	(6,638)
- Share in losses of affiliated undertakings		-	18
- Change in employee benefits payable		11,435	(491)
- Change in provisions		30,427	3,859
- Creating revaluation write-offs for tangible fixed assets		1,021	139
- Other flows		347	216
Changes in working capital			
- Stock		(66,874)	17,781
- Trade debtors and other receivables		21,119	(10,734)
- Trade creditors and other liabilities		47,071	21,063
Operating cash inflow		**409,863**	**180,386**

Balance-sheet change in accounts receivable	21,119	(10,772)
Change in accrued interest	-	38
Change in accounts receivable for the purposes of the interim consolidated statement of cash flows	**21,119**	**(10,734)**

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

Balance-sheet change in liabilities		151,947	45,928
Change in investment liabilities		31,178	22,697
Liabilities on account of dividend concerning the previous year	16	(136,054)	(47,619)
Change in the grant received		-	(96)
Change in interest		-	153
Change in liabilities for the purposes of the interim consolidated statement of cash flows		**47,071**	**21,063**

Increase in tangible fixed assets	198,850	355,975
Interest paid regarding investing activity	(7,299)	(5,755)
Change in investment liabilities	31,178	22,697
Acquisition of tangible fixed assets	**222,729**	**372,917**

18. Contingent items

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

In the ‘provision for legal claims’ 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's Management Board estimated of the provision based on received cost estimates and its knowledge. The estimated amount of the provision of PLN 25,000,000 was disclosed in books as at 30 June 2012.

In connection with the conclusion of the long-term loan agreement with PKO Bank Polski S.A. on 27 May 2008, the Parent Undertaking issued a blank promissory note with declaration, covering the amount corresponding to the amount of debt under the loan plus interest and other Bank's costs, for the purpose of securing the repayment of the abovementioned loan. The value of the used portion of the loan as at 30 June 2012 amounted to PLN 443 million and has been disclosed as liability in the consolidated statement of financial position of the Group. Further, the loan agreement provides for a collateral in the form of deduction from the Parent Undertaking's bank account and transfer of receivables from the sale of coal up to the amount of liability under the loan plus interest.

19. Future contractual liabilities

Investment liabilities

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

	30 Jun. 2012	31 Dec. 2011
Tangible fixed assets	213,853	267,044

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

	30 Jun. 2012	31 Dec. 2011	30 Jun. 2011
Remuneration of Management Board members	1,677	4,162	2,321
Remuneration of the Supervisory Board members	184	348	174

21. Events after the balance-sheet date

The presented financial results for the first half of 2012 refer to the events, identified by the Group that occurred in this period. After the balance-sheet date no events affecting the financial results occurred that would not be disclosed in these condensed interim consolidated financial statements.

22. Approval of the Condensed Interim Consolidated Financial Statements

The Management Board of Lubelski Węgiel Bogdanka S.A. declares that as of 22 August 2012, it approves these condensed interim consolidated financial statements of the Group for the period from 1 January to 30 June 2012 for publication.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

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