Lubelski Węgiel BOGDANKA S.A.

Condensed Interim 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	2,602,887	2,554,740
Intangible fixed assets	6	9,301	9,900
Long-term investments		73,341	73,341
Cash and cash equivalents		60,170	58,288
		2,745,699	2,696,269
Current assets			
Stock		107,031	41,572
Trade debtors and other receivables		232,323	252,605
Cash and cash equivalents		296,434	70,397
		635,788	364,574
TOTAL ASSETS		**3,381,487**	**3,060,843**
Shareholders' equity			
Ordinary shares	7	301,158	301,158
Other capitals		1,349,255	1,266,331
Retained profits		513,690	561,749
Total shareholders' equity		**2,164,103**	**2,129,238**
Liabilities			
Long-term liabilities			
Loans and borrowings	10	431,000	341,000
Deferred income tax liabilities		56,164	72,491
Employee benefits payable	11	119,533	112,326
Provisions for other liabilities and charges	12	77,634	76,856
Grants	9	18,617	19,111
Trade creditors and other liabilities		4,452	5,731
		707,400	627,515
Short-term liabilities			
Loans and borrowings	10	12,185	-
Employee benefits payable	11	38,319	34,109
Provisions for other liabilities and charges	12	66,347	36,698
Current income tax liabilities		7,303	2,136
Trade creditors and other liabilities		249,776	231,147
Dividend payable	16	136,054	-
		509,984	304,090
Total liabilities		**1,217,384**	**931,605**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**3,381,487**	**3,060,843**

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

Interim Statement of Comprehensive Income

	Note	For 6 months ended 30 June 2012	2011
Revenue on sales		903,599	573,284
Costs of products, goods and materials sold		(605,631)	(453,976)
Gross profit		**297,968**	**119,308**
Selling costs		(20,147)	(19,413)
Administrative costs		(41,159)	(35,582)
Other income		1,284	7,628
Other expenses		(443)	(514)
Other profits/(losses) - net		(26,959)	(2,070)
Operating profit		**210,544**	**69,357**
Financial income		5,080	8,770
Financial expenses		(5,111)	(2,806)
Net financial income/expenses		(31)	5,964
Profit before taxation		**210,513**	**75,321**
Income tax	14	(39,594)	(14,537)
Net profit for the period		**170,919**	**60,784**
Total income for the period		**170,919**	**60,784**
Earnings per share attributable to the Company's shareholders during the year (in PLN per share)			
- basic	15	5.02	1.79
- diluted	15	5.02	1.79

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

Interim Statement of Movements in Equity

	Note	Ordinary shares	Other capitals	Retained profits	Total shareholders' equity
As at 1 January 2011		**301,158**	**1,086,588**	**570,133**	**1,957,879**
Total income for the accounting period		-	-	60,784	60,784
Dividends concerning 2010	16	-	-	(47,619)	(47,619)
Transfer of the result for 2010		-	179,743	(179,743)	-
As at 30 June 2011		**301,158**	**1,266,331**	**403,555**	**1,971,044**
As at 1 January 2012		**301,158**	**1,266,331**	**561,749**	**2,129,238**
Total income for the accounting period		-	-	170,919	170,919
Dividends concerning 2011	16	-	-	(136,054)	(136,054)
Transfer of the result for 2011		-	82,924	(82,924)	-
As at 30 June 2012		**301,158**	**1,349,255**	**513,690**	**2,164,103**

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

Interim Statement of Cash Flows

	Note	For 6 months ended 30 June	
		2012	**2011**
Operating cash flow			
Operating cash inflow	17	407,167	178,691
Interest paid		(945)	-
Income tax paid		(50,753)	(11,803)
Net operating cash flow		**355,469**	**166,888**
Investing cash flow			
Acquisition of tangible fixed assets		(221,139)	(370,569)
Interest paid regarding investing activity		(7,299)	(5,755)
Acquisition of intangible fixed assets		(219)	(384)
Inflow from the sale of tangible fixed assets		79	55
Interest received		3,027	7,317
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		**(229,432)**	**(371,100)**
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		226,037	(210,212)
Cash and cash equivalents at beginning of period		70.397	439,314
Cash and cash equivalents at end of period		**296.434**	**229,102**

Notes on the Condensed Interim Financial Statements

1. General information

1.1. Information on the Company

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-owned 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 in Katowice at ul. Kopernika 26.

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 Company is the parent undertaking in the Group of Lubelski Węgiel Bogdanka S.A. The Group prepares condensed interim consolidated financial statements for the period of 6 months ended on 30 June 2012.

1.2. Assumption of the Company going concern

The condensed interim 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 Company's activities.

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

2. Description of key accounting principles applied

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

2.1. Basis of preparation

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

These condensed interim 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 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 judgment while applying accounting principles adopted by the Company. The significant estimates and judgments made have not changed since the publication of the annual 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 Company.

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

Upon approval of these condensed interim financial statements, the Company 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 Company estimated that the aforesaid standards, interpretations and standard amendments would not materially impact these condensed interim financial statements, if adopted by the Company 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 Company 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 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 financial statements. That standard requires that financial statements of the undertaking present a series of data concerning individual segments, while the approach to segmentation of the undertaking presented in the financial statements should be consistent with the division into segments used for purposes of making strategic management decisions.

The Management Board does not apply division into segments for managing the Company because the Company 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 25,443,000, which accounts for 2.82% of total revenue on sales.
Accordingly, the Company does not present its results broken down by industry segments.

The Company 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 Company does not hold assets or liabilities outside Poland.

Accordingly, the Company 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 to individual customers account for 0.38% of the total sales. They do not have any significant impact on the operating and financial activities of the Company.

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	2,882	1,439,653	913,709	98,841	12,240	601,345	3,068,670
Depreciation	-	(547,377)	(406,101)	(52,695)	(8,085)	-	(1,014,258)
Net book value	**2,882**	**892,276**	**507,608**	**46,146**	**4,155**	**601,345**	**2,054,412**
As at 30 June 2011							
Net book value at beginning of year	2,882	892,276	507,608	46,146	4,155	601,345	2,054,412
Increases	-	-	-	-	-	355,116	355,116
Transfer from fixed assets in construction	924	296,311	111,581	3,470	421	(412,707)	-
Decreases*	(139)	(6,164)	(46)	(23)	-	(821)	(7,193)
Depreciation	-	(38,403)	(31,065)	(2,273)	(422)	-	(72,163)
Net book value	**3,667**	**1,144,020**	**588,078**	**47,320**	**4,154**	**542,933**	**2,330,172**
As at 30 June 2011							
Cost or assessed value	3,667	1,674,562	1,021,779	100,024	12,616	542,933	3,355,581
Depreciation	-	(530,542)	(433,701)	(52,704)	(8,462)	-	(1,025,409)
Net book value	**3,667**	**1,144,020**	**588,078**	**47,320**	**4,154**	**542,933**	**2,330,172**
As at 1 January 2012							
Cost or assessed value	3,667	1,977,798	1,191,123	103,791	13,347	375,509	3,665,235
Depreciation	-	(586,336)	(462,166)	(53,103)	(8,890)	-	(1,110,495)
Net book value	**3,667**	**1,391,462**	**728,957**	**50,688**	**4,457**	**375,509**	**2,554,740**
As at 30 June 2012							
Net book value at beginning of year	3,667	1,391,462	728,957	50,688	4,457	375,509	2,554,740
Increases	-	-	-	-	-	203,846	203,846
Transfer from fixed assets in construction	184	254,316	25,967	4,635	133	(285,235)	-
Decreases*	(102)	(4,575)	(33)	(21)	-	(1,300)	(6,031)
Depreciation	-	(108,082)	(38,252)	(2,909)	(425)	-	(149,668)
Net book value	**3,749**	**1,533,121**	**716,639**	**52,393**	**4,165**	**292,820**	**2,602,887**
As at 30 June 2012							
Cost or assessed value	3,749	2,223,649	1,216,214	107,049	13,441	292,820	3,856,922
Depreciation	-	(690,528)	(499,575)	(54,656)	(9,276)	-	(1,254,035)
Net book value	**3,749**	**1,533,121**	**716,639**	**52,393**	**4,165**	**292,820**	**2,602,887**

* 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	4,011	4,330	10,763	24	19,128
Amortisation	(2,791)	(893)	(4,513)	(14)	(8,211)
Net book value	**1,220**	**3,437**	**6,250**	**10**	**10,917**
As at 30 June 2011					
Net book value at beginning of year	**1,220**	**3,437**	**6,250**	**10**	**10,917**
Presentation adjustment	-	(41)	41	-	-
Increases	266	118	-	-	384
Amortisation	(123)	(102)	(577)	-	(802)
Net book value	**1,363**	**3,412**	**5,714**	**10**	**10,499**
As at 30 June 2011					
Cost or assessed value	4,074	4,293	11,235	22	19,624
Amortisation	(2,711)	(881)	(5,521)	(12)	(9,125)
Net book value	**1,363**	**3,412**	**5,714**	**10**	**10,499**
As at 1 January 2012					
Cost or assessed value	4,293	4,294	11,235	22	19,844
Amortisation	(2,840)	(993)	(6,097)	(14)	(9,944)
Net book value	**1,453**	**3,301**	**5,138**	**8**	**9,900**
As at 30 June 2012					
Net book value at beginning of year	1,453	3,301	5,138	8	9,900
Increases	144	75	-	-	219
Amortisation	(136)	(105)	(577)	-	(818)
Net book value	**1,461**	**3,271**	**4,561**	**8**	**9,301**
As at 30 June 2012					
Cost or assessed value	4,437	4,348	11,235	22	20,042
Amortisation	(2,976)	(1,077)	(6,674)	(14)	(10,741)
Net book value	**1,461**	**3,271**	**4,561**	**8**	**9,301**

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 Company have been fully paid up.

8. Other capitals

Pursuant to the Articles of Association, the Company 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 Company 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 Company does not have any unutilised overdraft credit lines as at 30 June 2012.

11. Employee benefits payable

	30 Jun. 2012	30 Jun. 2011
Liabilities as disclosed in the Interim Statement of Financial Position		
- Retirement and disability benefits	26,947	28,939
- Long service awards	41,713	39,422
- Coal allowances in kind	73,340	65,646
- Other benefits for employees	15,852	2,931
	157,852	**136,938**
Including:		
Long-term	119,533	114,895
Short-term	38,319	22,043

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 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
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

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

Short-term	-	5,360	14,751	16,587	36,698
Recognition in the Interim 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 Company creates a provision for costs of liquidating a mining plant, which it is obliged to incur under current laws. 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 of removing mining damage, the Company 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 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 Company (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 Company 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 Company 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 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 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

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

In the period of six months of 2012, no unusual events occurred that would seriously affect the financial position of the Company.

14. Income tax

	1 Jan. 2012-30 Jun. 2012	1 Jan. 2011-30 Jun. 2011
Current tax	55,924	15,835
Deferred tax	(16,330)	(1,298)
	39,594	**14,537**

Income tax in the condensed interim financial statements was calculated 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 Company 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 may not be ruled out that such costs could be classified for the purposes of corporate income tax in a way that differs from the classification presented by the Company, which could potentially result in adjustments in corporate income tax settlements and a potential 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. As a result, amounts disclosed in the condensed interim financial statements might 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 Company's shareholders 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 the Company's shareholders	170,919	60,784
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN per share)	**5.02**	**1.79**

(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 Company does not have instruments causing dilution of potential ordinary shares. Diluted earnings per share are therefore equal to basic earnings per share of the Company.

16. Dividend per share

In the first half of 2012 and in the same period of 2011, the Company 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 allocated for distribution to the Company's shareholders. The dividend rate due to shareholders of the Company 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 Company's shareholders 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		210,513	75,321
- Depreciation of tangible fixed assets	5	149,668	72,163
- Amortisation of intangible fixed assets	6	818	802
- Profit/Loss on sale of tangible fixed assets		(26)	3,368
- Net financial income/expenses		31	(5,964)
- Change in employee benefits payable		11,417	(569)
- Change in provisions		30,427	3,859
- Other flows		-	299
- Creating revaluation write-offs for tangible fixed assets		1,021	139
Changes in working capital			
- Stock		(65,459)	17,260
- Trade debtors and other receivables		20,282	(14,171)
- Trade creditors and other liabilities		48,475	26,184
Operating cash inflow		**407,167**	**178,691**

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

Balance-sheet change in accounts receivable		20,282	(14,209)
Change in accrued interest		-	38
Change in accounts receivable for the purposes of the interim statement of cash flows		**20,282**	**(14,171)**
Balance-sheet change in liabilities		153,404	49,006
Change in investment liabilities		31,125	24,740
Change in the grant received		-	(96)
Liabilities on account of dividend concerning the previous year	16	(136,054)	(47,619)
Change in interest		-	153
Change in liabilities for the purposes of the interim statement of cash flows		**48,475**	**26,184**
Increase in tangible fixed assets		197,313	351,584
Interest paid regarding investing activity		(7,299)	(5,755)
Change in investment liabilities		31,125	24,740
Acquisition of tangible fixed assets		**221,139**	**370,569**

18. Contingent items

The Company 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.

Potential arrears in the real property tax may result primarily from discrepancies between the approach of the Company and that of tax authorities applied to the determining of the subject of taxation with respect to structures located in mining excavations and calculating their value.
Provisions were created for those contingent liabilities (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 Company’s facilities, i.e. Mechanical Coal Processing Plant in Bogdanka. The Company’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 agreements with PKO Bank Polski S.A. and PEKAO S.A., the Company issued blank promissory notes with declaration, covering the amount corresponding to the amount of debt under the loans plus interest and other Bank's costs, for the purpose of securing the repayment of the abovementioned loans. The value of the used loans as at 30 June 2012 amounts to PLN 443 million and has been disclosed as liability in the Interim Statement of Financial Position of the Company. Further, the loan agreements provide for collaterals in the form of deduction from the Company's bank account and transfer of receivables from the sale of coal up to the amount of liability under the loan plus interest.
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All amounts in the tables are in PLN thousand, unless otherwise specified.

19. Future contractual liabilities

Investment liabilities

Contractual investment liabilities incurred as at the balance-sheet date, but still not disclosed in the Interim Statement of Financial Position, amount to:

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

20. Transactions with related entities

All transactions with the subsidiary are concluded as part of regular operations of the Company and are performed on an arms' length basis.

The revenue of the Company resulting from the cooperation with its subsidiary, Łęczyńska Energetyka, primarily refer to the sale of coal and brick as well as the payments for lease of premises, telecommunications services and re-invoicing the cost of electricity.

Purchases primarily include the purchase of heat power, potable water and the maintenance services for sewage installations, central heating, tailwater and water grid.

In the reporting periods ending on 30 June 2011 and 30 June 2012, the value of tradeover on account of purchase with the subsidiary Łęczyńska Energetyka Sp. z o.o. in Bogdanka and the total liabilities of the Company towards that entity for subsequent balance-sheet dates were as follows:

	30 Jun. 2012	31 Dec. 2011	30 Jun. 2011
Purchases in period	9,252	11,707	5,253
Total liabilities at end of period including VAT	811	1,577	677

In the reporting periods ending on 30 June 2011 and 30 June 2012, the value of tradeover on account of sales with the subsidiary Łęczyńska Energetyka Sp. z o.o. in Bogdanka and the total receivables of the Company towards that entity for subsequent balance-sheet dates were as follows:

	30 Jun. 2012	31 Dec. 2011	30 Jun. 2011
Sales in period	5,874	8,368	4,313
Total receivables at end of period including VAT	1,203	2,340	1,216

21. 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

22. Events after the balance-sheet date

The presented results for the first half of 2012 refer to the events, identified by the Company 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 financial statements.

23. Approval of the Condensed Interim Financial Statements

The Management Board of Lubelski Węgiel Bogdanka S.A. declares that as of 22 August 2012, it approves these condensed interim financial statements of the Company 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