DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2012 to 30 June 2012

BOGDANKA, AUGUST 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 30 June 2012, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the Parent Undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. 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 (29 August 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 ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. was included in the condensed interim consolidated financial statements of the LW BOGDANKA Group for the first half of 2012 (the "Interim Consolidated Financial Statements") by the full consolidation method.

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

Parent Undertaking of the LW 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),
o) education (Section P).

The Company's supplementary activities

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the framework 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 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 production 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

<u>Direct subsidiary undertaking:</u>

Łęczyńska Energetyka sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.	(81) 443 11 02, (81) 462 55 53
Fax:	(81) 443 11 01
Website:	www.lebog.com.pl
e-mail:	biuro@lebog.com.pl
Industry Identification Number (REGON):	004164490
Tax Registration Number (NIP):	713-020-71-92

Share capital (as at 30 June 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 mines involving supplying heat energy and conducts water/wastewater management.

The Group's 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

Since the publication of the annual consolidated financial statements for 2011, the legal status has not changed. In connection with the above, Ekspert sp. z o.o. has not been included in the consolidation.

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 the LW BOGDANKA Group, including as a result of merging business units, the takeover or sale of units of the LW BOGDANKA Group, long-term investments, and the division, restructuring and discontinuation of activities

In the first half of 2012 there were no changes in the structure of the 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 HALF OF 2012

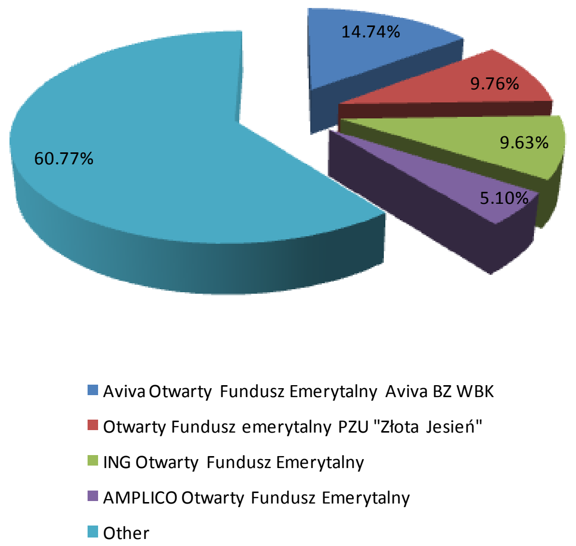
2.1 Shareholders holding at least 5% of the total number of votes at the General Shareholders Meeting (the "GSM"), either directly or indirectly through subsidiaries, as at the date of submitting the semi-annual report, and changes in the ownership structure of substantial shareholdings in the period from the publication of the last quarterly report.

Table 1 The shareholding structure of LW BOGDANKA S.A. as at 9 May 2012 and 29 August 2012

Shareholder	9 May 2012		29 August 2012	
	Number of shares/ Number of votes at the GSM	The share in the share capital and the share in the total number of votes at the GSM (%)	Number of shares/ Number of votes at the GSM	The share in the share capital and the share in the total number of votes at the GSM (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,014,644	14.74	5,014,644	14.74
Otwarty Fundusz Emerytalny PZU "Złota Jesień" **	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny***	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10
Other	20,668,422	60.77	20,668,422	60.77
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

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

The shareholding structure of LW BOGDANKA S.A. as at 29 August 2012



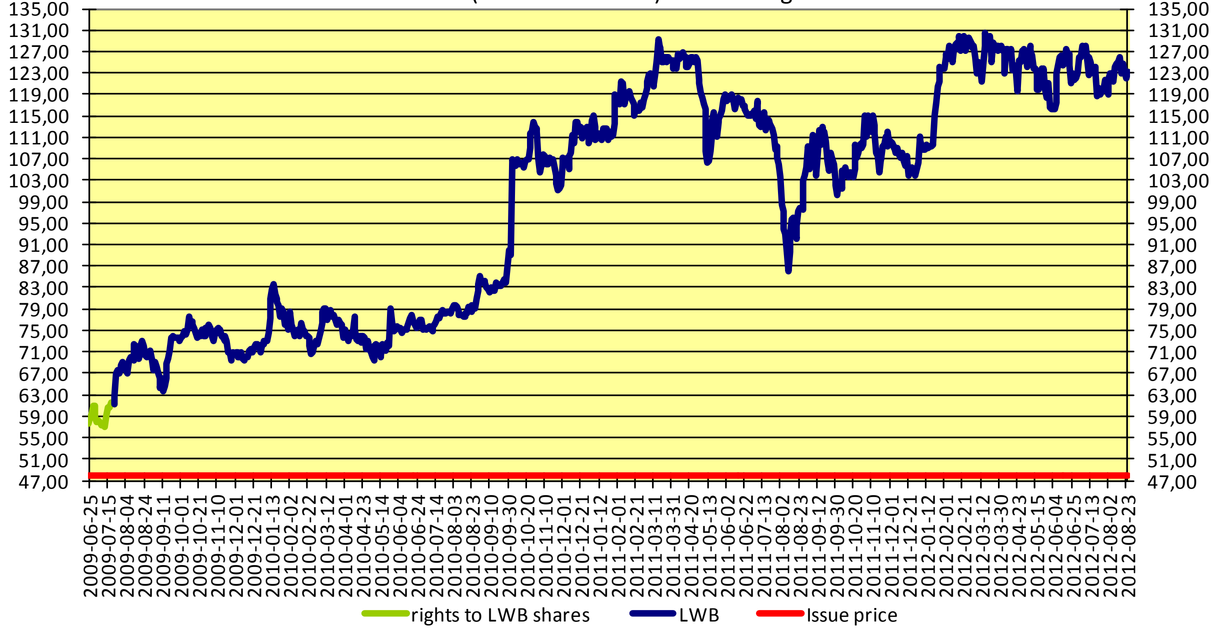
2.2 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the semi-annual report, and changes in shareholdings in the period from the publication of the last quarterly report, separately for each person

Tabela 2 Table of holdings of shares of LW BOGDANKA S.A.

	Number of shares as at the date of submitting the Report for Q1 2012 (9 May 2012)	**Number of shares as at the date of submitting the Report for 1H 2012 (29 August 2012)**
The Management Board		
Mirosław Taras	2,737	2,737
Krystyna Borkowska	1,299	1,299
Zbigniew Stopa	5,703	5,703
Waldemar Bernaciak	2,162	2,162
Lech Tor	1,124	1,124
The Supervisory Board appointed at the Annual General Shareholders Meeting (27 April 2012)		
Witold Daniłowicz	0	0
Stefan Kawalec	0	0
Raimondo Eggink	0	0
Eryk Karski	0	0
Tomasz Mosiek	0	0
Robert Bednarski	0	0
Dariusz Formela	0	0

2.3 Price of Rights to Shares/ Shares of the Company since its IPO on the Warsaw Stock Exchange

Chart - Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 26 August 2011



3. PRINCIPLES OF DRAWING UP THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Group draws up its financial statements on the basis of the International Financial Reporting Standards. Those standards, referred to jointly as the International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The condensed interim consolidated financial statements of the LW BOGDANKA Group for the first half of 2012 were drawn up in accordance with International Accounting Standard 34 - "Interim Financial Reporting", applying the same accounting standards for the current and comparable period.

The Group's condensed interim consolidated financial statements were drawn up in accordance with the historical cost principle, taking into account a valuation at fair value of certain tangible fixed assets in connection with the adoption of fair value as a presumed cost, which was carried out on the date of the 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.

4. ANALYSIS OF AND INFORMATION ON THE BASIC ECONOMIC AND FINANCIAL VALUES DISCLOSED IN THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST HALF OF 2012, I.E. FROM 1 JANUARY 2012 TO 30 JUNE 2012

This section presents selected ratios characterising the Group's financial position for the period from 1 January 2012 to 30 June 2012, calculated on the basis of the financial data included in the LW BOGDANKA Group's consolidated interim 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

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

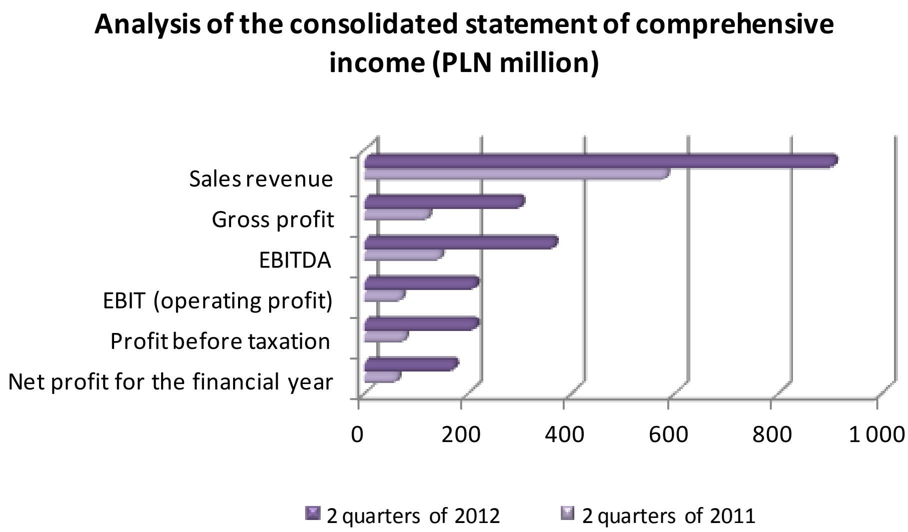
Item	Q2 2012	Q2 2011	Change [%] (2012/2011)	2 Qs 2012	2 Qs 2011	Change [%] (2012/2011)
Revenue on sales	429,236	272,120	57.74	906,538	582,081	55.74
Gross profit	125,516	48,798	157.22	301,445	121,616	147.87
EBITDA	166,297	67,279	147.18	365,343	145,185	151.64
EBIT (Operating profit)	93,518	26,711	250.11	212,815	70,409	202.26
Profit before taxation	89,655	32,194	178.48	213,358	77,029	176.98
Net profit	74,037	26,205	182.53	173,247	62,163	178.70
Operating cash flow	154,730	90,390	71.18	357,464	167,952	112.84
Investing cash flow	-91,775	-183,720	-50.05	-230,437	-372,782	-38.18
Financing cash flow	50,000	-3,000	-	100,000	-6,000	-

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

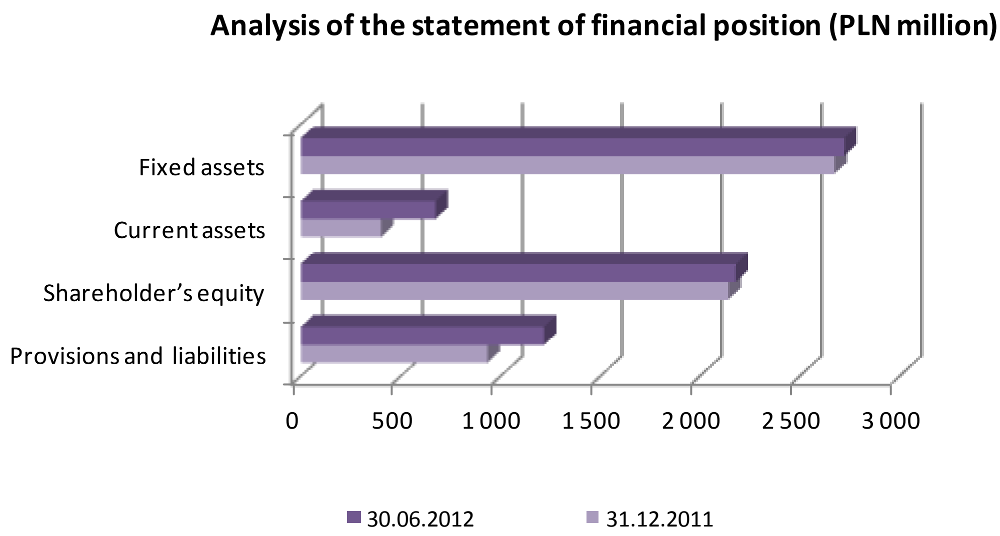
Item	30 June 2012	Structure of the balance sheet [%]	31 December 2011	Structure of the balance sheet [%]	Change (2012/2011) [%]
Total assets	3,398,082	100.00	3,076,228	100.00	10.46
Fixed assets	2,723,313	80.14	2,674,216	86.93	1.84
Current assets	674,769	19.86	402,012	13.07	67.85
Shareholders' equity	2,179,839	64.15	2,142,646	69.65	1.74
Provisions and liabilities	1,218,243	35.85	933,582	30.35	30.49

The financial statements prepared for the period from 1 January 2012 to 30 June 2012 show that the Lubelski Węgiel BOGDANKA Group's revenue on sales amounts to PLN 906,538,000, which represents an increase by 55.74%, or by PLN 324,457,000, compared to the same period of the previous year. In the second quarter only the Group's revenue on sales amounted to PLN 429,236,000, compared to PLN 272,120,000 in the analogous period of 2011 (increase by 57.74%, i.e. PLN 157,116,000).

The Group's operating profit grew from PLN 70,409,000 (for 1H 2011) to PLN 212,815,000 (for 1H 2012), with the year-to-year change of + PLN 142,406,000, i.e. 202.26%. EBITDA (operating profit before depreciation/amortisation) for the period from 1 January to 30 June 2012 amounted to PLN 365,343,000 compared to PLN 145,185,000 in the same period of 2011. The increase in the operating profit derives from the launch of the Stefanów Field (in October 2011), and in consequence, an additional volume of coal allocated for sale. The second quarter itself saw an increase in the operating profit from PLN 26,711,000 (Q2 2011) to PLN 93,518,000 (Q2 2012).



The net profit for the first half of 2012 amounted to PLN 173,247,000, compared to PLN 62,163,000 for the same period of 2011, which represents an increase by 178.70%, i.e. by PLN 111,084,000. In the second quarter of 2012 the LW BOGDANKA Group generated net profit in the amount of PLN 74,037,000, as compared to PLN 26,205,000 in the second quarter of 2011 (an increase by 182.53%).



The Group's consolidated statement of financial position prepared as of 30 June 2012 shows an increase in the balance-sheet total to PLN 3,398,082,000, or by PLN 321,854,000, 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 2,723,313,000 (30 June 2012). This increase (+1.84%) 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 674,769,000 (PLN +272,757,000 or +67.85%), 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 were also reflected in the structure of assets: the share of fixed assets decreased from 86.93% (as at 31 December 2011) to 80.14% (as at 30 June 2012), while the share of current assets increased from 13.07% (as at 31 December 2011) to 19.86% (as at 30 June 2012).

On the side of equity & liabilities, shareholders' equity increased to PLN 2,179,839,000 (i.e. by 1.74%). This is a consequence of adding the net result for Q1 2012 to the shareholders' equity, and accounting for the net result for 2011. In the analysed period the Group's total provisions and liabilities grew by PLN 284,661,000, as a result of:

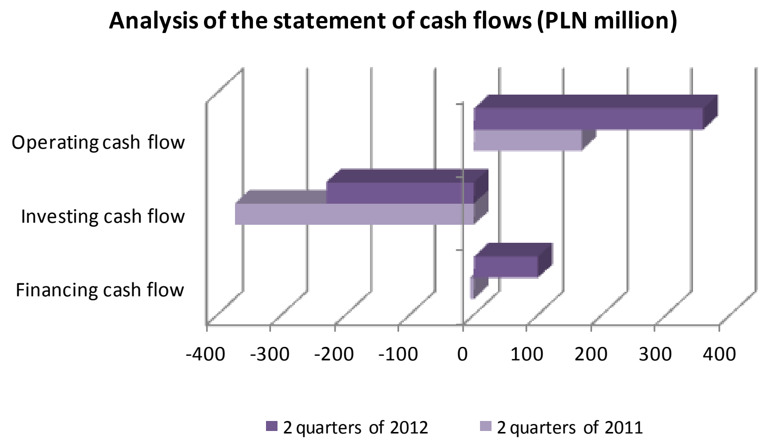
- an increase in long-term liabilities by PLN 79,704,000 (to PLN 706,270,000);
- an increase in short-term liabilities by PLN 204,957,000 (to PLN 511,973,000).

In the long-term liabilities, credits and loans increased by PLN 90,000,000 – in the first half of 2012 the Parent Undertaking used PLN 100,000,000 of the working loan at PEKAO S.A. (as per the schedule); and, at the same time, PLN 10,000,000 from a loan at PKO BP became a short-term loan (to be repaid within the next 12 months). Moreover, a grant for construction of a mining lift for shaft 2.1 in the Stefanów Field received by the Company is settled in the group of long-term liabilities under discussion. The carrying value of the grant, as at 30 June 2012, amounts to PLN 18,617,000.

In the short-term liabilities, provisions for other liabilities and charges increased by PLN 29,649,000 (to the amount of PLN 66,347,000). In this item, 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 the provision based on cost estimates and its knowledge. The value of this liability amounts to PLN 25 million. Credits and loans increased to PLN 12,185,000. This is a result of the above-mentioned change of the part of the loan taken out at PKO BP from a long-term into a short-term one. In addition, the amount in question includes interest paid after the balance-sheet date, which concerned the reporting period from 1 January 2012 to 30 June 2012.

The share of equity in the total value of equity & liabilities as of 30 June 2012 and 31 December 2011 amounted to 64.15% and 69.65%, respectively.

In the first half 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 167,952,000 (for 1H 2011) to PLN 357,464,000 (for 1H 2012), primarily due to a growth in the volume of the sales of coal.



Net investing cash flow in the period from 1 January to 30 June 2012 amounted to PLN -230,437,000 and was higher from that of the analogous period of 2011 by PLN 142,345,000. The Parent Undertaking continues to pursue the investment, however the scope of works performed in individual halves of the year was different.

In the period from January to June 2012, the Group generated positive net financing cash flow of PLN 100,000,000 (the last two available tranches from a mid-term working loan at PEKAO S.A. were used), while a year earlier, the Group generated negative net financing cash flow of PLN 6,000,000 (repayment of a portion of the loan at PKO BP S.A.).

As at 30 June 2012, the value of cash at hand and in banks amounted to PLN 329,847,000 and was higher by PLN 68,576,000 in comparison with the analogous period 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 6 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.

Tabela 5 Net coal production of the LW BOGDANKA Group in 1H 2012 and 1H 2011 [in '000 tonnes]

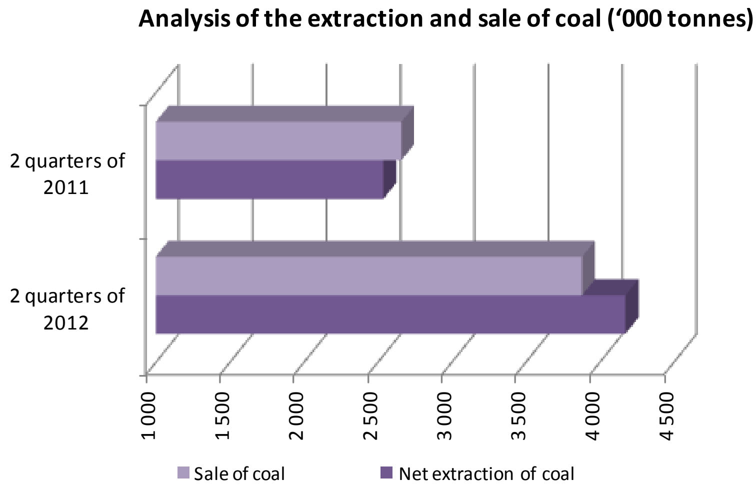
H1 2012	H1 2011	Change (2012/2011) [%]
4,175.06	2,537.68	64.52

From 1 January to 30 June 2012, as compared to the analogous period of 2011, the extraction of commercial coal increased by 64.52% and amounted to 4,175,060 tonnes, (2,537,680 tonnes in the previous year). The increase in the extraction of the commercial coal by nearly 65% occurred together with an increase by almost 46% of gross extraction, which means that in the first half of 2012 the Parent Undertaking recorded a higher output ratio than in the analogous period of the previous year.

Tabela 6 Sale of coal of the LW BOGDANKA Group for H1 2012 and H1 2011 ['000 tonnes]

H1 2012	H1 2011	Change (2012/2011) [%]
3,881.41	2,659.57	45.94%

From 1 January to 30 June 2012, 45.94% (1,221,840 tonnes) more coal was sold as compared to the analogous period of the previous year. In the first half of 2012, the sale of the commercial coal was in line with plans and agreements signed by the Parent Undertaking.

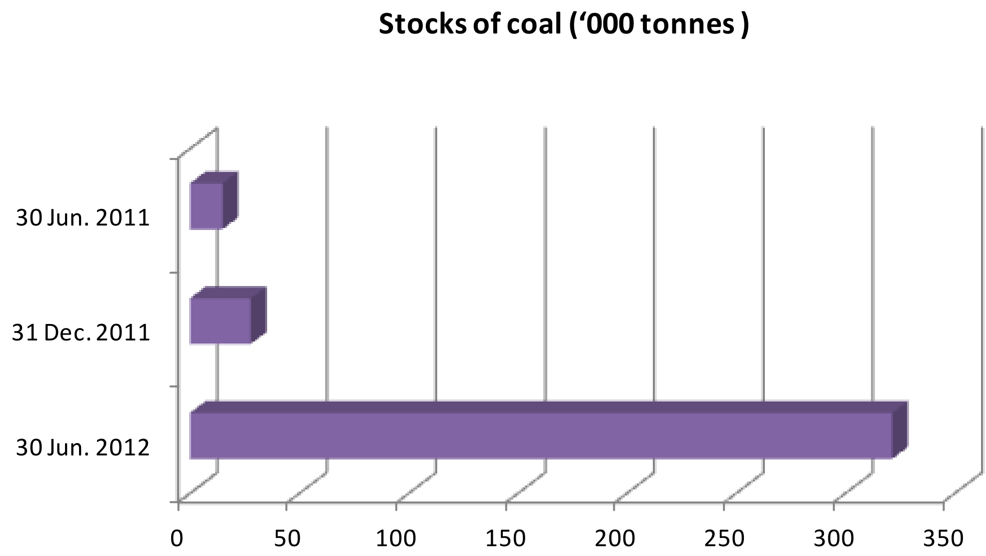


4.2.2 Stock

As at 30 June 2012 stock of commercial coal of the Parent Undertaking amounted to 321,443.14 tonnes, which means that the level of stock increased by 293,592.30 tonnes (+1,054.16%) as compared to the level of 31 December 2011, and by 306,603.96 tonnes (+2,066.18%) compared to the level of 30 June 2011. The current level of stock results from a delivery schedule specified on the basis of agreements with recipients of coal. It approximately corresponds to a twelve-day output of commercial coal, and constitutes operational technological stock.

Tabela 7 Stock of coal [tonnes]

Item	30 Jun. 2012	31 Dec. 2011	30 Jun. 2011	Change [%](30 Jun. 2012/ 30 Dec. 2011)	Change [%](30 Jun. 2012/ 30 Jun. 2011)
Stock of coal	321,443.14	27,850.84	14,839.18	1054.16%	2066.18%



4.2.3 Revenue on sales

In the first half of 2012, the LW BOGDANKA Group's generated sales revenue was at the level of PLN 906,538,000, up by PLN 324,457,000 compared to the sales revenue figure for the analogous period of 2011.

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

The main source of sales revenue for the LW BOGDANKA Group in the first half of 2012 (as well as in the first half of 2011) was production and sale of power coal. From 1 January to 30 June 2012, sales of power coal generated 96.87% of the LW BOGDANKA Group's sales revenue (92.13% 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 (+45.94%), with a higher unit sale price. In the financial statements published by the Group, for presentation purposes data in the profit and loss account concerning revenue on sales of coal and costs of products, goods and materials sold are adjusted (*in minus*) by the value of sold coal that was obtained during drilling of excavations. Bearing in mind the above, the value indicated in the consolidated profit and loss account for the period from 1 January to 30 June 2012 was adjusted by PLN 41,640,000 while in the same period of the previous year – by PLN 54,164,000 (in the first half of 2012, less galleries (by 17.81%) were performed than in the same period of 2011, which resulted in a lower adjustment value).

Over 74% of coal sales (in terms of value) realised in the period from 1 January to 30 June 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. A drop in the share of key customers in the total value of revenue (in Q1 2011 the above power plants generated more than 85% 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 2.09% of the total revenue in the period from 1 January to 30 June 2012, compared to 4.08% 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 67.23%, i.e. by PLN 11,689,000. This amount includes first of all 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 0.80% to 0.40% of the Group's total revenue.

Table 8 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group

[PLN '000]

Item	2 Qs 2012	2 Qs 2011	Change [%] (2012/2011)
Sales of coal	878 156	536 281	63.75
Sales of ceramics	3 726	4 649	-19.85
Other activities	18 959	23 765	-20.22
Sales of goods and materials	5 697	17 386	-67.23
Total revenue on sales	**906 538**	**582 081**	**55.74**

Tabela 9 Revenue on sales of the LW BOGDANKA Group - structure by product types

Item (PLN '000)	2 Qs 2012	% share	2 Qs 2011	% share
Sales of coal	878 156	96.87	536 281	92.13
Sales of ceramics	3 726	0.41	4 649	0.80
Other activities	18 959	2.09	23 765	4.08
Sales of goods and materials	5 697	0.63	17 386	2.99
Total revenue on sales	**906 538**	**100.00**	**582 081**	**100.00**

The activities of the LW BOGDANKA Group are primarily concentrated in Poland. In the first half of 2012 as well as in the first half of 2011 export sales were marginal for generated revenue and involved sales of ceramics. The share of export sales in total revenue on sales did not exceed 0.05%.

Tabela 10 Geographical structure of revenue on sales of the LW BOGDANKA Group

Item (PLN '000)	2 Qs 2012	% share	2 Qs 2011	% share
Domestic sales	906 109	99.95	581 832	99.96
Foreign sales	429	0.05	249	0.04
Total revenue on sales	**906 538**	**100.00**	**582 081**	**100.00**

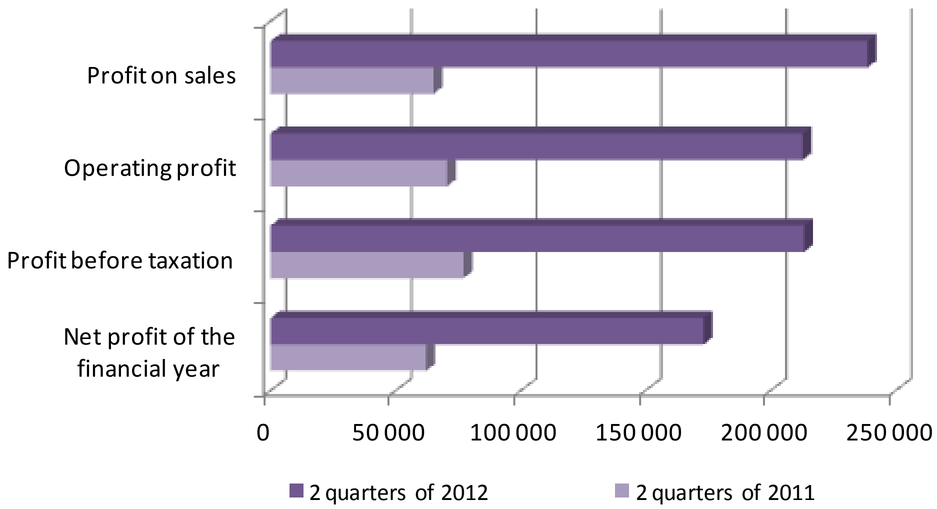
4.2.4 Statement of comprehensive income of the Group

From 1 January to 30 June 2012, revenue on sales of the LW BOGDANKA Group, as compared to the same period of the previous year, increased by 55.74% (to a level of PLN 906,538,000). 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 29.17% up to a level of PLN 667,825,000. Such dynamics in costs and revenue led to the profit on sales increasing by 266.77%, i.e. PLN 238,713,000 for 6 months of 2012 as compared to PLN 65,085,000 for the same period of 2011.

Tabela 11 Selected items of the statement of comprehensive income of the LW BOGDANKA Group

Item	2 Qs 2012	2 Qs 2011	Change % (2012/2011)
Revenue on sales	906,538	582,081	55.74
Cost of products, goods and materials sold, cost of sales, administrative expenses	667,825	516,996	29.17
Profit on sales	**238,713**	**65,085**	**266.77**
Other income	1,568	7,951	-80.28
Other expenses	443	514	-13.81
Other net profit/loss	-27,023	-2,113	1,178.89
Operating profit	**212,815**	**70,409**	**202.26**
Financial income	5,666	9,444	-40.00
Financial expenses	5,123	2,806	82.57
Share in (losses)/profits of associated undertakings		-18	-100.00
Profit before taxation	**213,358**	**77,029**	**176.98**
Income tax	40,111	14,866	169.82
Net profit	**173,247**	**62,163**	**178.70**
- attributable to shareholders of the Parent Undertaking	172,860	61,935	179.10

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



Other income

For 6 months of 2012, other operating revenues amounted to PLN 1,568,000 compared to PLN 7,951,000 for the same period of the previous year – this means a decrease in their value by 80.28%. In the first half of 2011, as compared to the same period of the previous year, provisions of greater value were released.

Other expenses and other net profit/loss

Other expenses for the first half of 2012 were PLN 443,000, compared to PLN 514,000 for the same period of 2011, which means a decrease in their value by 13.81%. In the analysed period of 2012, other net profit/loss amounted to PLN -27,023,000 compared to PLN -2,113,000 in the analogous period of 2011. In the first half of 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 the provision based on cost estimates and its knowledge. The value of this liability amounts to PLN 25 million.

The profit on sales adjusted for other revenue, expenses and other net profit/loss, gives the operating profit (EBIT) for the first half of 2012 at a level of PLN 212,815,000, up by 202.26%, i.e. PLN 142,406,000 compared to the result a year earlier.

Financial income

Financial income for 6 months of 2012 amounted to PLN 5,666,000 compared to PLN 9,444,000 a year ago (decrease of 40.00%). The decrease in financial income is a result mainly of a lower average amount of cash in the Group in the first half of 2012 as compared to the first half of 2011. The Group conducts an unchanged policy of keeping cash in bank deposits.

Financial expenses

Financial expenses in the analysed period of 2012 amounted to PLN 5.123,000, compared to PLN 2,826,000 a year earlier (a decrease by PLN 2.317,000, i.e. 82.57%). That increase is a result of the fact that in the first half of 2011, 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 6 months of 2012 were higher by 176.98% than in the previous year - the pre-tax profit for the first half of 2012 amounted to PLN 213,358,000 as compared to PLN 77,029,000 for the first half 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 30 June 2012 amounting to PLN 173,247,000, compared to PLN 62,163,000 for the same period of 2011 - up by 178.70% on a year-to-year basis.

4.2.5 The Group's profitability

Tabela 12 Profitability ratios of the LW BOGDANKA Group

Item	2 Qs 2012	2 Qs 2011	Change [p.p.] 2012-2011	Change [%] (2012/2011)
Gross margin on sales	33.25%	20.89%	12.36	59.17
EBITDA	40.30%	24.94%	15.36	61.59
EBIT	23.48%	12.10%	11.38	94.05
Gross margin	23.54%	13.23%	10.31	77.93
Net margin	19.11%	10.68%	8.43	78.93
Return on Assets	5.35%	2.18%	3.17	145.41
Return on Equity	8.02%	3.15%	4.87	154.60

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 20.89% (for the first half of 2011) to 33.25% (for the first half of 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 23.48%, which represents an increase by 11.38 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.

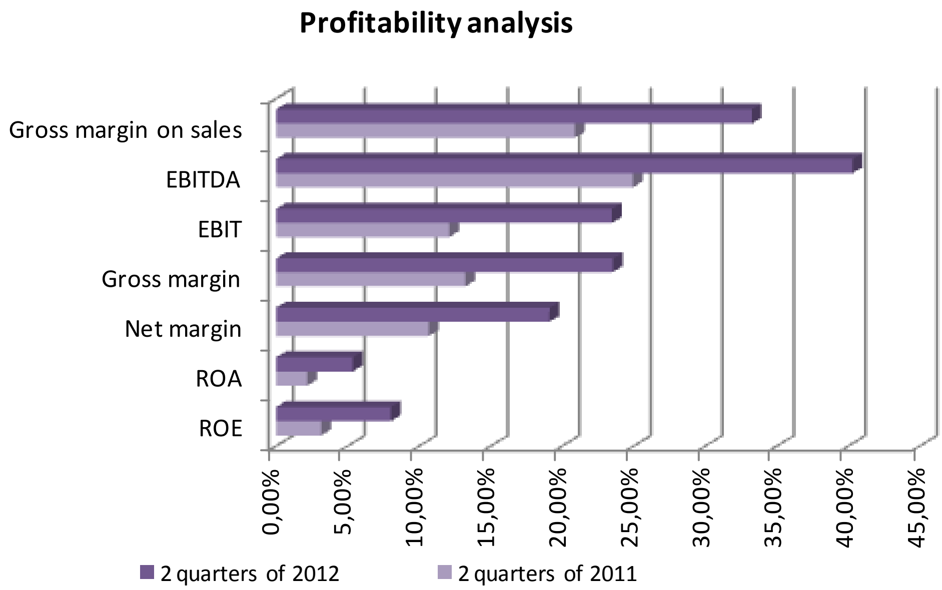
EBITDA was up from 24.94% (first half of 2011) to 40.30% (first half of 2012). The change in value of the ratio results from – except for the increasing operating profit – the value of amortisation/depreciation increasing from PLN 74,776,000 (first half of 2011) to PLN 152,528,000 (first half of 2012).

Gross margin for the first half of 2012 amounted to 23.54% and was higher than the gross profitability for the first half of 2011 (by 10.31 p.p.).

Net margin on the Lubelski Węgiel Bogdanka S.A. Group's operations amounted to 19.11% for the first half of 2012, compared to 10.68% for the first half of 2011.

The increase in ROA (from 2.18% for the first half of 2011 to 5.35% for the first half of 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 3.15% to 8.02%) was caused by a higher net profit (by 178.70%) with a concurrent increase (by 1.74%) in the value of shareholders' equity.



4.2.6 Indebtedness and financing structure of the LW BOGDANKA Group

Tabela 13 Debt ratios of the LW BOGDANKA Group

Description	30 Jun 2012	31 Dec 2011	Change [%] (2012/2011)
Overall debt ratio	35.85%	30.35%	18.12
Debt to equity ratio	55.89%	43.57%	28.28
Fixed capital to fixed assets ratio	103.13%	100.68%	2.43
Short-term debt ratio	15.07%	9.98%	51.00
Long-term debt ratio	20.78%	20.37%	2.01

As of 30 June 2012, the share of liabilities in the financing of the LW BOGDANKA Group, measured with the overall debt ratio, amounted to 35.85% and, respectively, 30.35% as of 31 December 2011. In the period under analysis, long-term liabilities increased by PLN 79,704,000 (two last tranches of a loan at PEKAO S.A. were used), and short-term liabilities increased by PLN 204,957,000 (due to, among other factors, dividend liabilities [PLN 136,054,000] and 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, in the period covered by the consolidated interim financial statements for 2012, to its operations or ability to punctually pay its liabilities.

In the analysed period, the debt to equity ratio increased from 43.57% (as at 31 December 2011) to 55.89% (as at 30 June 2012) – which is a result of an increase by PLN 37,193,000 in equity with a simultaneous increase in the Group's total liabilities by PLN 284,661,000.

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

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

Description	30 Jun. 2012	31 Dec .2011	Change [%] (2012/2011)
Current liquidity ratio	1.51	1.49	1.34
Quick liquidity ratio	1.27	1.33	-4.51

In the period covered by the consolidated interim financial statements, the liquidity ratios of the LW BOGDANKA Group remained at a safe level, and the Group is not having any difficulties in settling its liabilities. The level of liquidity ratios (both as at 30 June 2012 and 31 December 2011) is a reflection of the balance of funds originated from conducted operating activities and from the balance of cash funds from loans contracted by the Parent Undertaking.

Tabela 15 Turnover rates of the LW BOGDANKA Group (in days)

Description	30.06.2012	31.12.2011	Change [%] (2012/2011)
Stock turnover	23.1	20.8	11.06
Trade debtors collection rate*	49.2	53.6	-8.21
Trade creditors payment rate**	73.1	94.5	-22.65
Operating cycle (1+2)	72.3	74.4	-2.82
Cash conversion cycle (4-3)	-0.8	-20.1	-96.02

* Trade debtors and other receivables

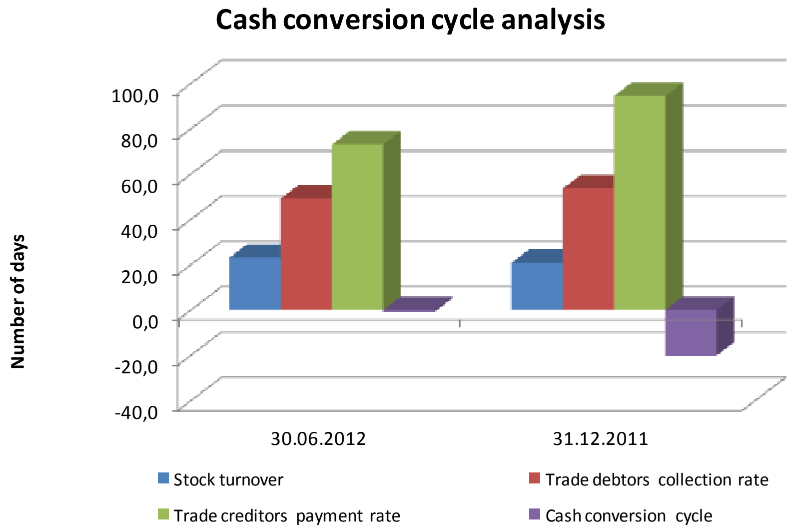
** Trade creditors and other liabilities

Compared to the rate as at 31 December 2011, the stock turnover rate increased from 20.8 days to 23.1 days (for the first half of 2012) – the nominal increase in the average level of stock (compared to the balance as at 31 December 2011) was higher than the nominal increase in the cost of products, goods and materials sold.

The trade debtors collection rate (calculated on the basis of the balance sheet item "Trade and other debtors") was 49.2 days (as at 30 June 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 negative 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 72.3 days, as compared to 74.4 days as at 31 December 2011 – which indicates that current assets are transferred into cash on average 2.1 days faster.

The trade creditors payment rate (calculated on the basis of the balance sheet item "Trade and other creditors") in the period covered by financial information got shorter from 94.5 days (as at 31 December 2011) to 72.3 days (as at 30 June 2012) – in both periods compared the average trade creditors was at a similar level.



The trends described above resulted in the cash conversion cycle of –0.8 days as at 30 June 2012 compared to - 20.1 days as at 31 December 2011.

The negative value of the cash conversion cycle ratio indicates that the Lubelski Węgiel Bogdanka S.A. Group uses non-interest-bearing borrowed capital.

4.3 Capital investments in the LW BOGDANKA Group

The value of cash held by the Group as at 30 June 2012 was PLN 390,017,000, including:

- PLN 60,170,000 disclosed in fixed assets,
- PLN 329,847,000 disclosed in current assets,

The amount of PLN 60,170,000 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 financial instruments

In the first half of 2012 the Company did not use any financial instruments with regard 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 cooperation with banks is very good, which allows the Group to obtain financing in the event of payment gridlocks.

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

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

4.5.1 Costs by type

In the first half of 2012, LW BOGDANKA S.A. incurred costs with respect to type in the amount of PLN 804,592,000 compared to PLN 651,187,000 incurred in the analogous period of 2011, which means that the costs increased by 23.56% (PLN 153,405,000). The above nominal increase in costs was largely the result of a dynamic increase of depreciation/amortisation costs, taxes and charges, as well as external services costs. After the adjustment of costs by type by change in stocks and the cost of own work capitalised yields and after including costs of goods and materials sold, the own cost of sales is obtained, which in the first half of 2012 amounted to PLN 666,937,000 (increased by 31.04%, i.e. by PLN 157,966,000) as compared to PLN 508,971,000 obtained in the same period of 2011.

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

Description	6 months of 2012	6 months of 2011	Change (%)	Change (PLN '000)
Depreciation and amortisation	150,486	72,965	106.24%	77,521
Materials and energy consumption	209,302	203,345	2.93%	5,957
Outsourced services	200,743	162,487	23.54%	38,256
Employee benefits	207,799	182,773	13.69%	25,026
Entertainment and advertising expenses	4,978	6,049	-17.71%	-1,071
Taxes, fees and charges	15,934	10,762	48.06%	5,172
Other expenses	15,350	12,806	19.87%	2,544
TOTAL COSTS BY TYPE	**804,592**	**651,187**	**23.56%**	**153,405**
Change in inventory of products and accruals and deferrals, including:	-28,270	32,538	-186.88%	-60,808
*change in products **	*-47,527*	*19,090*	*-348.96%*	*-66,617*
*change in deferrals and accrued income ***	*-10,014*	*-14,274*	*-29.84%*	*4,260*
*change in accrued expenses ****	*29,271*	*27,722*	*5.59%*	*1,549*
Operating expenses	**776,322**	**683,725**	**13.54%**	**92,597**
Activities for the Company's own needs	114,939	190,670	-39.72%	-75,731
Cost of goods and materials sold	5,554	15,916	-65.10%	-10,362
Cost of sales	**666,937**	**508,971**	**31.04%**	**157,966**

** - comprises change in products manufactured by the Company, i.e. coal, bricks and wall blocks.*

***- comprises such items of deferrals and accrued income as: Zakładowy Fundusz Świadczeń Socjalnych (ZFŚS, the Company Social Benefits Fund), insurance of persons and foods, costs of panel strengthening.*

**** - comprises such positions of accruals as: additional annual award (so called "fourteen") and an award on the occasion of miner's day (St. Barbara Day).*

In the analysis of the amortisation/depreciation costs, it should be pointed that their dynamic growth (by over 106%) 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 services in connection thereto.

The increase in employee benefits is a consequence of both a higher number of staff from 4,047 at the end of June 2011 to 4,437 at the end of June 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 19.87%, 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.

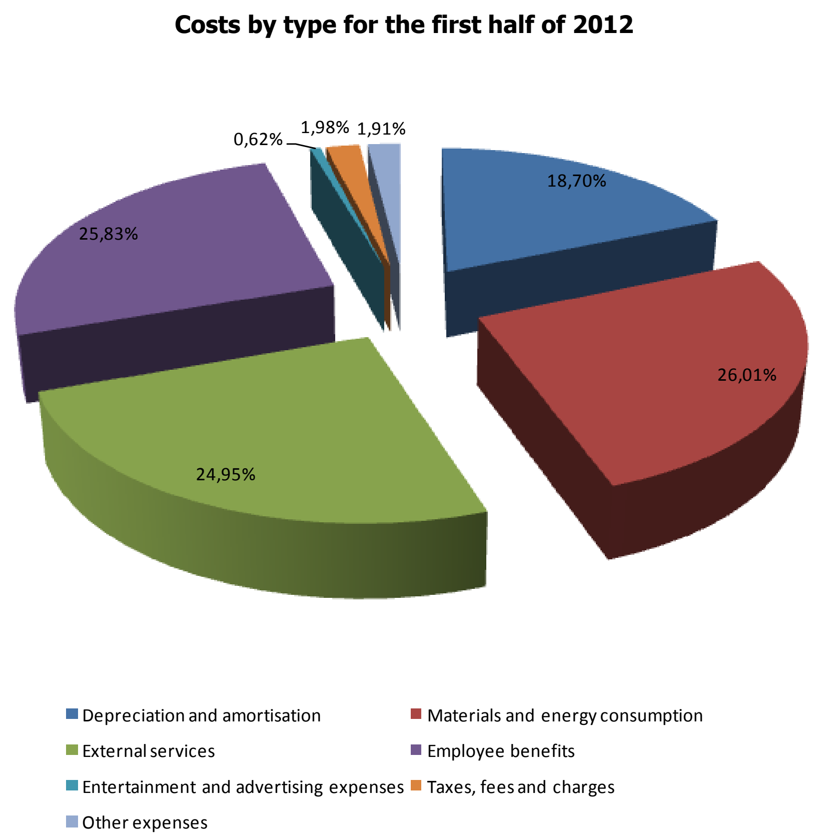
In the analysis of the increase in costs of materials and energy consumption it should be pointed that the recorded growth is an effect of a nearly 24% rise in the energy costs, with an almost 2% drop of nominal costs of materials used. In the first half of 2012, three panels were permanently excavated (up to four temporarily), while a year ago only two panels, which resulted in a nearly 46% rise in the extraction of coal, compared to the same period in the previous year.

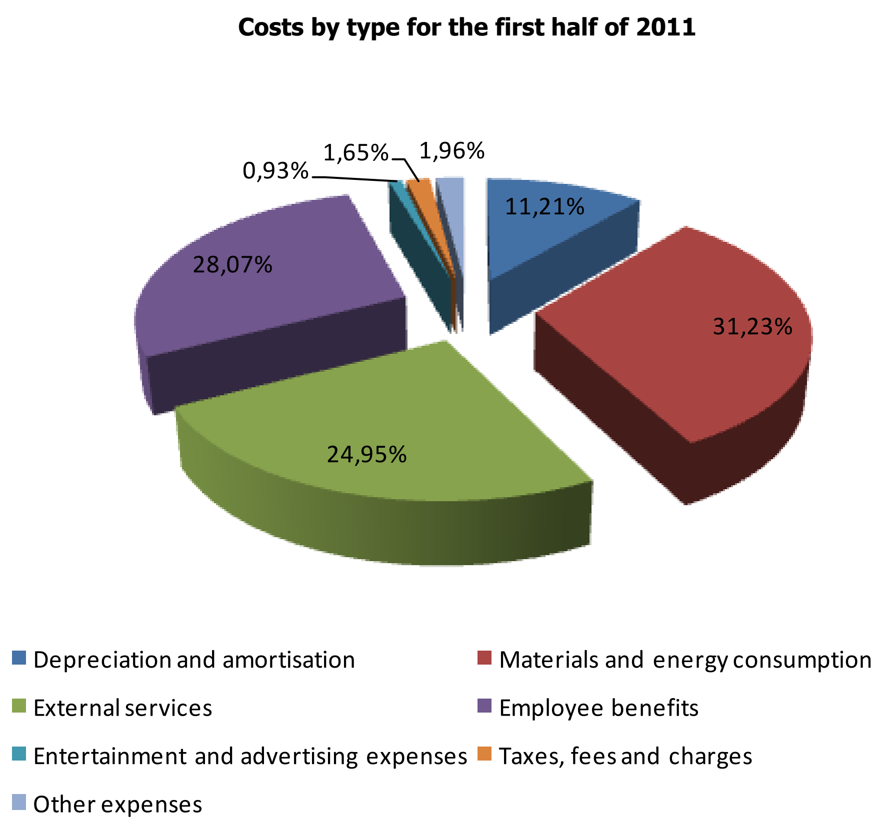
The changes presented in the group of costs by type had impact on the change in the structure thereof. In the analysed period, as was the case a year earlier, the most significant position was the costs of materials and energy used and their share decreased from the level of 31.23% in the first half of 2011 to the level of 26.01% in the first half of 2012, i.e. by 5.22 p.p. The share of employee benefits costs fell by 2.24 p.p. and it currently makes 25.83% of the total costs by type. In the periods under analysis, the share of outsourced services (24.95%) has not changed.

In the periods under analysis, the share of amortisation/depreciation costs increased significantly, i.e. from the level of 11.21% in the first half of 2011 to 18.70% in the first half of 2012, i.e. by 7.49 p.p.

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

Description	6 months of 2012	6 months of 2011	Change (%)
Depreciation and amortisation	18.70%	11.21%	66.8%
Materials and energy consumption	26.01%	31.23%	-16.7%
Outsourced services	24.95%	24.95%	
Employee benefits	25.83%	28.07%	-8.0%
Entertainment and advertising expenses	0.62%	0.93%	-33.3%
Taxes, fees and charges	1.98%	1.65%	20.0%
Other expenses	1.91%	1.96%	-2.6%
Total	**100.00%**	**100.00%**	


Costs by type for the first half of 2012
0,62%
1,98%
1,91%
18,70%
25,83%
26,01%
24,95%
Depreciation and amortisation
Materials and energy consumption
External services
Employee benefits
Entertainment and advertising expenses
Taxes, fees and charges
Other expenses


Costs by type for the first half of 2011
0,93%
1,65%
1,96%
11,21%
28,07%
31,23%
24,95%
Depreciation and amortisation
Materials and energy consumption
External services
Employee benefits
Entertainment and advertising expenses
Taxes, fees and charges
Other expenses

4.5.2 Costs by function

In the period from 1 January to 31 June 2012 Lubelski Węgiel Bogdanka S.A.'s cost of products sold amounted to PLN 666,937,000, which means an increase by PLN 157,966,000, or 31.04%, compared to the analogous period in 2011. An analysis of the different components of the cost of sales shows that the increase is largely attributable to an increase in the cost of products, goods and materials sold (+33.41%, i.e. PLN +151,655,000), which is a result of an increase in the amount of power coal sold recorded in the analysed period, as well as of the changes in costs by type described above.

An increase in administrative expenses (+15.67%) was also recorded, which was caused mainly by higher costs of tax and administrative charges, higher 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 3.78%.

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

Description	6 months of 2012	6 months of 2011	Change (%)	Change (PLN '000)
Costs of products, goods and materials sold	605,631	453,976	33.41%	151,655
Selling costs	20,147	19,413	3.78%	734
Administrative expenses	41,159	35,582	15.67%	5,577
Cost of sales	**666,937**	**508,971**	**31.04%**	**157,966**

The recorded increase in products, goods and materials sold with a concurrent increase in cost of products sold, resulted in a minor change in the share of this cost group in the structure of cost of products sold. The share of other cost groups, i.e. sale costs and administrative expenses, decreased.

The share of costs of products, goods and materials sold increased from 89.19% in the first half of 2011 to 90.81% in the first half of 2012. The share of selling costs in the periods under analysis dropped from 3.81% to 3.02%, and administrative expenses – from 6.99% to 6.17%.

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

Description	6 months of 2012	6 months of 2011	Change [%]
Costs of products, goods and materials sold	90.81%	89.19%	1.82%
Selling costs	3.02%	3.81%	-20.73%
Administrative costs	6.17%	6.99%	-11.73%
Cost of sales	**100.00%**	**100.00%**	**x**

4.6 Assessment of the possibilities of investment plans' execution

The Company plans that the structure of financing its property investment expenses will not be subject to major alterations, i.e. they will mainly be financed using its own funds and debt.

The Management Board does not rule out further increasing the share of debt financing in the planned investments. As at the date of providing this Report, the Company sees no threat as to the possibility to acquire additional financing in the form of debt. As at 30 June 2012 the Parent Undertaking's current loan in the amount of PLN 441 million accounted for approx. 20.4% of the shareholders' equity and approx. 13.0% of the balance-sheet total.

LW BOGDANKA S.A. does not plan for 2012 any capital expenditure in unrelated undertakings.

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

5.1 Material investments of the LW BOGDANKA Group in the first half of 2012

In the first half of 2012 the LW BOGDANKA Group executed the scope of investment works necessary to double coal extraction in 2014.

A list of key investment expenses incurred in the first half of 2011 and 2012 is presented in the table below.

Tabela 20 Key investment expenses incurred in the 6 months of 2012 and 6 months of 2011 [PLN '000]

Description	01 Jan. 2012 - 30. Jun. 2012	01 Jan. 2011 – 30 Jun. 2011
Investment expenses on acquisition of tangible fixed assets	222,729	372,917
Interest paid regarding investing activity	7,299	5,755
Investment expenses on acquisition of intangible fixed assets	219	393

Investment expenses (payments according to dates under the agreement) include liabilities due to investments executed in the previous year and part of outlays incurred in the first half of 2012.

In the first half of 2012, due to investment execution the outlays on tangible fixed assets in construction amounted to PLN 205,488,000. These outlays concern the following investment groups:

Tabela 21 Key material investments of the LW BOGDANKA Group in the 6 months of 2012 and the 6 months of 2011 [PLN '000]

Key material investments	Outlays incurred from 1 Jan. 2012 to 30 Jun. 2012	Outlays incurred from 01 Jan. 2011 – 30 Jun. 2011
Construction and assembly works	133,959	253,591
Order picking and purchases of finished goods	70,410	102,213
Other	1,119	1,055
Prepayments for fixed assets under construction	-	40
Total	**205,488**	**356,899**

The key objective of the investment plan for two quarters of 2012 was to complete the commenced tasks aiming at doubling the production capacity in 2014. To date, progress in implementing the plan has made it possible to launch mining operations through the 2.1. shaft in the Stefanów Field in October 2011.

The plan for Q1 and Q2 2012 included groups of tasks; development and replacement-related investments, investments in environmental protection, execution and modernisation of headings in the Bogdanka and Nadrybie Fields, as well as purchase of machines and devices.

Development-related investments were focused on investments in technical infrastructure, i.e. continuation of outward extension of the Mechanical Cal Processing Plant and making opening-out headings in seam 385/2 at the Stefanów Field.

As far as the purchase of machines and devices is concerned, the most important investment was delivery of the second plough system 2 - delivery began in July 2012.

Most important investments in Q2 2012:

Gr. 1. Development investments

A. Investments in technical infrastructure

Construction of excavation and ventilation shaft 2.1 in the Stefanów Field – on 9 May 2012 a permit for continuous operation of a shaft hoist in shaft 2.1 was obtained.

Construction of storage reservoirs in the Stefanów Field – July 2012 - final reception of the output storage reservoir 3fS in the Stefanów Field.

Central air conditioning system for the Stefanów Field - in the second quarter of 2012 the tender proceeding concerning extension of the central air conditioning system in the Stefanów Field by an extra 1 MW of cooling power was pending

Extension of the Mechanical Coal Processing Plant:

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

1. Task 2 – Extension of the MCPP processing capacity from its current level of 1200 up to 2400 t/h:

   works progress as at 30 June 2012 – 65%:

   a/ the working plans and specifications stage was coming to an end. Further works include completion of the working plans and specifications for jig washer and heavy liquid washer facilities in machine, technological and electrical branch and developing a control algorithm.

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

   c/ Stone haulage facilities – finishing and installation works and erection of machines.

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

   e/ Facilities 103.1 and 106.1 Jig washer and heavy liquid washer - erection of the steel structure was in progress.

   f/ Roads and yards - earthworks have begun.

2. 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 available the coal beds in the Stefanów Field– in the second quarter of 2012 opening-out headings of total length being 2289 rm were drilled.

Gr. 2 Other investments in development

In the second quarter of 2012 the conceptual design if the central air conditioning system underground the Bogdanka Field was executed.

Gr. 3 Replacement investments

A. Modernizations and overhauls of machines and devices – in the second quarter of 2012 works related to modernization of machines and devices were performed, as well as overhauls of machines and devices, including suspended and combustive locomotives S-200 and Belt conveyors.

B. Construction and modernization of facilities and installations – in the second quarter of 2012 works related to construction of civil engineering facilities at the surface of Nadrybie and Bogdanka Fields were performed, plus modernization of the existing civil engineering facilities were executed.

Gr. 4 Environmental protection

Certain works were in progress in the second quarter of 2012. They were related to the **extension of the mining waste dump** in Bogdanka and construction of the "Szczecin" reservoir.

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

In the second quarter of 2012 **opening-out headings** and **coal seam openings** of total length being 6911 rm were drilled.

Moreover, outward extensions of headings were realized and modernization of 3fB storage reservoir was completed.

Gr. 6 Purchase of machines and devices

Currently **delivery if the second plough system** for wall 2/VI/385 is in progress, pursuant to the contract dated 31 May 2011. Along with the delivery the wall planned to be activated for the second week of October 2012 is being reinforced.

Purchase of fixed assets – in the second quarter of 2012 the planned fixed assets were purchased.

5.2 Capital investments of the LW BOGDANKA Group in the first half of 2012

In the first half of 2012, the LW BOGDANKA Group did not carry out any equity investments.

6. 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.

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

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

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.

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

The levels of prices of raw materials for power production, 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, in consequence, on the domestic market, are of great significance for the activities conducted by the Group. Additionally, the current difficult situation on global financial markets, the crisis of the Euro zone, and the crisis in the Middle East (Iran, Syria), weakening the economic growth in China as well as slowing down of economic development in Poland, combined with increased stock of unsold coal of global and domestic coal producers resulting from a decrease in demand for coal, may bring changes in the demand for fuel, and consequently, changes in global and domestic market prices of energy carriers such as coal, which may affect the Group's financial results. 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.

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

In accordance with the regulations of the European law, Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, and Council Directive 2004/74/EC of 29 April 2004 amending directive 2003/96/EC as regards the possibility for certain Member States to apply, in respect of energy products and electricity, temporary exemptions and reductions in the levels of taxation, an obligation to cover coal, natural gas and electricity with the excise tax was imposed on the Member States. Council Directive 2003/96/EC introduced minimum levels of excise tax rates, which apply, among other things, to coal and coke. In compliance with the 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 include electricity production, cogeneration of electricity and heat, other selected industries, as well as individual consumers of coal. Moreover, it is important to emphasise that due to its relatively low costs of hard coal extraction, the Group can respond to the changing market circumstances more flexibly as far as the introduction of excise tax (and new taxes: coal tax or other taxes related to the use of coal as fuel, including a possible tax on mineral deposits) is concerned.

Ambiguous interpretations of the new tax law are yet another factor influencing the tax 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.

8.1.5 Interest rate risk

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

8.1.6 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 sources of financing of the planned investments include both own funds and debt financing, currently in the aggregate amount of

PLN 441,000,000 (the amount of PLN 443,185,000 as disclosed in the balance sheet as at 30 June 2012, includes the principal amount of PLN 441,000,000 and the amount of interest due as at 30 June 2012, but paid on 2 July 2012).

At present, LW BOGDANKA sees no threat regarding the possibility of raising additional debt funding for the purpose of completing its own investments, although, given the level of the Company's debt which has been increasing through the recent years, combined with an uncertain situation on financial markets, it is estimated that possible costs of obtaining debt financing will be higher. The Group's current loan in the amount of PLN 441 million accounts for approx. 20.4% of the shareholders' equity, and approx. 13.0% of the balance-sheet total.**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),
- threat regarding the changing geological and mining conditions with respect to excavation works.

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 relatively low risk of a methane explosion (category 1 methane threat on a four-grade scale). Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on LW BOGDANKA 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 European Commission declares reduction of the CO2 emissions by 2020 in line with the Europe 2020 strategy and the "3 x 20" rule – assuming a 20% reduction of greenhouse gas emissions, 20% of renewable energy, and 20% of energy efficiency, and, additionally, it proposes introducing a system of auctions for emission permits starting 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 LW BOGDANKA Group, 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 LW BOGDANKA Group 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 of the above measures, LW BOGDANKA S.A. became a private entity, 99.9% 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 in the process of implementing an investment programme (the Stefanów Field) designed to increase the Company's mining capacity to approx. 11.5 million tonnes of coal annually (starting from 2014) and, in consequence, to improve the Company's technical, economic and financial results and ratios. The prospects of such a growth, together with the concurrent 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 Risk associated with the launch of extraction of new deposits by LW BOGDANKA

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

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

8.2.2 Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various 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 LW BOGDANKA Group, 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 will be 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 LW BOGDANKA mine has a system of underground coal storage reservoirs, which has recently been expanded by three new reservoirs in Stefanów. Reservoirs of raw coal 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.

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

The technology of power coal extraction applied by LW BOGDANKA involves the use of highly specialised machines and equipment produced only by several producers in the world. As a result of the Company's investment plans described in section 8.4 of the Prospectus and referring to the Stefanów Field extension, it will be necessary to make investments in new specialised mining machines. Due to global concentration of producers of the aforementioned machines and equipment, there is a risk of unexpected increase in prices of specialised machines and equipment, which could have impact on the increase of investment expenditures which must be borne in connection with implementation of the Group's development strategy.

8.2.4 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. The Company implemented a "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." regulating organisational and technical measures for protection of the IT environment. This is to include organisation of data access, making security data back-ups and data storage, using the Internet traffic filters and firewall security systems, using application and hardware tools for the VPN secure connections, anti-virus systems for the purpose of protection servers and user workstations. 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 failover cluster system protecting ORACLE's major data bases and a central data backup. In 2011, key servers were migrated to the virtual environment, which was followed by the implementation of the failover cluster system to this environment. An integrated supporting Internet security system has also been implemented. In 2012 works were performed in LW BOGDANKA's main server room with a view to increasing the reliability level of the IT environment; they included installation of redundant power supply, dedicated air-conditioning for server racks, dedicated fire protection system in server racks, and a monitoring system was implemented for the purpose of monitoring of variable environmental factors. Works are also pending at LW BOGDANKA with a view to implementing a network domain environment in order to increase the Internet security level, streamline user account management and improve the protection of LW BOGDANKA S.A. Internet resources.

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.

8.2.5 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.

8.2.6 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 completion of the Mechanical Coal Processing Plant's extension, scheduled for the end of 2011, was not executed. 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. Construction and assembly works should be finished by the end of 2013, and full excavation of approx. 11.5 million tonnes should start 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. approved by the Polish Financial Supervision Authority on 21 December 2011 in section 8.6.7.1.

8.2.7 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 (at LW BOGDANKA there are four trade union organisations associating 63% of staff). 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 the hostile takeover of LW BOGDANKA and thus the whole Group.

In the Group's opinion, cooperation between the Management Boards of the Parent Undertaking and the Group's 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.

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

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

This goal has been largely achieved. 2012 will be the last year in which the Company, apart from filling positions left vacant through natural wastage, will increase employment for the reasons listed above. The planned increase in employment is estimated at 250 workers. In the subsequent years employment is expected to remain at a constant level, i.e. the recruitment process will focus mainly on filling vacancies.

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

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

The Company runs active human resources policy which aims to limit the human resources related risks. Since 2007, the Company has been gradually hiring young employees who will have gained the necessary mining experience and the required qualifications by 2011 (the planned completion of the Stefanów Field extension). To eliminate the potential generation and competence gap with respect to staff, the Company is cooperating with specialist universities, secondary and vocational schools educating persons with special qualifications for the mining, mechanic and electric sectors.

To satisfy the above mentioned needs, vocational education has been reactivated and extended. Since 2005, the Secondary Technical School, and since 2008, the Post-Secondary Mining School have been operating in Łęczna. Those schools provide graduates with proved professional qualifications required in the mining industry and make it possible to supplement and increase the qualifications of persons employed by the Company.

So far the Company has experienced no major difficulties in attracting young and well-qualified personnel. The reactivated vocational training schemes discussed above fully meet the Company's needs; therefore no risks have been identified in that area. Changes in the organisation of the vocational extramural training (training course system), which were discussed in 2011/2012, and have been implemented in the current school year, will not disturb educating and attracting new employees.

8.2.9 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.

8.2.10 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 factorsLiquidity risk

A major factor in evaluating insolvency risk is the level of operating cash flows, cash and liquidity ratios. As at 30 June 2012, the Group's cash amounted to PLN 329,847,000, current ratio equalled 1.51, and quick ratio was 1.27. 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 conducting similar operations. 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.

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

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). 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 that basis the Company received the consent (a decision) for operating the mining waste utilisation facility (dump) and therefore it has complied with the new requirements in the prescribed period, i.e. by 1 May 2012.

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

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. The changing laws may involve all kinds of risks. 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 2007 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. Additionally, in the first half of 2012, the Head of the Puchaczów Communes, initiated tax proceedings in order to calculate property tax for 2011. In their decisions issued for the period from 2003 to 2006, 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 Polish Building Law, but space created as a result of mining and, in consequence, may not be classified as structures within the meaning of the Polish Building Law. Therefore, underground workings are not subject to real property tax either separately (i.e. as workings in the physical sense), or in combination with the infrastructure located in them (i.e. as workings defined comprehensively).

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 facilities 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 facilities 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 facilities;

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. Following an initial analysis of types of the infrastructure located in underground mining excavations and having estimated their initial value, the Company estimated an amount of the provision as at 30 June 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 the shares of 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.

8.5.6 Relationships of risks within the Group - summary

The LW Bogdanka Group consists of a Parent Undertaking – LW Bogdanka S.A. and a subsidiary company – Łęczyńska Energetyka Sp. z o.o. The Parent Undertaking generates 99.68% share of Group's revenue and 98.66% of the net profit (according to data for the first half of 2012), therefore it was assumed that the key risks in Group's activities are in fact those of the Parent Undertaking. The only risk at the Group level associated with Łęczyńska Energetyka, which could influence the Group's activities to a considerable extent, is the process of implementing the planned investment, i.e. "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant". This investment involves a number of technical, technological, processing, and financial risks that are typical for this kind of projects.

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

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the first half of 2012, LW BOGDANKA S.A. was not a party to proceedings pending before court, arbitration body or administrative body, regarding:

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

10. RELATED PARTY TRANSACTIONS

In the first half of 2012, the Parent Undertaking and its subsidiaries did not conclude any significant transactions with associated entities which were individually or jointly significant and were concluded on terms other than on an arm's length basis. Information on transaction of LW BOGDANKA S.A. with related entities is presented in section 20 of the Abridged Interim Financial Statements of LW BOGDANKA S.A. for the period of 6 months ended on 30 June 2012.

11. INFORMATION ON THE COMPANY OR ITS SUBSIDIARY GRANTING SURETIES FOR A CREDIT FACILITY OR LOAN OR GRANTING GUARANTEES

In the period from 1 January 2012 to 30 June 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.

12. OTHER INFORMATION WHICH, IN THE OPINION OF THE COMPANY'S 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

12.1 Resolution of the Annual General Shareholders Meeting of 27 April 2012 regarding distribution of net profit for 2011, establishing 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 this information in Current Report No. 23/2012 of 27 April 2012.

In compliance with the adopted resolution, the Company left an amount for dividend payments at the disposal of the Polish National Depository for Securities, and distributed dividends for owners of registered shares by postal order.

12.2 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.

12.3 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 powers 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.

On 28 June 2012 the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. adopted Resolution No. 3 concerning amendments to the Company's Articles of Association. The scope of the changes, just as previously, covers the powers of the Supervisory Board. As a result 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 changed.

The existing provisions of the Articles of Association of LW BOGDANKA S.A. and the amendments introduced were presented in Current Report No. 37/2012 of 29 June 2012.

12.4 Free of charge shares for eligible employees

On 28 December 2011, in current report No. 33/2011, the Company announced information regarding 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 shall be subject to the application for admission and introduction to trading on the regulated market of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.); the number of the above shares is 3,208,111.

On the same day, the application was filed with the Warsaw Stock Exchange for initiation of trading in those shares. 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 floating shares after the application-covered shares were initiated amounted to 33,978,701. It was proposed that 4 January 2012 be the date of registration and initiation.

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 Company's shares were registered with the National Depository of Securities. The remaining shares intended for the entitled employees for free-of-charge acquisition, as well as the ones held by the Management Board, as at the date of submitting on this Report, remain registered shares.

12.5 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 the years

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 of constant monitoring of all the yardsticks of the activities undertaken, and to report the company's social engagement, for instance in sports and culture sponsorship, environmental protection, or improvement of the employees' security and self-development.

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 aim of the foundation will consist in providing financial support and aid to the Company employees who have been injured in acts of God, who are ill or in a difficult financial situation, as well as to their families; supporting cultural, health, ecological and other events of big local and regional importance, as well as helping victims of catastrophes, accidents and natural disasters.

12.6 Conclusion of significant agreements

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

In Current Report No. 3/2012 of 23 January 2012, the Company announced that the Management Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded on 23 January 2012 a new Long-Term Agreement No. UW/LW/01/2012, which supplements the existing one, on the supply of power coal (the "Agreement") with Elektrownia Kozienice S.A. with registered office in Świerże Górne, Kozienice, 26-900 Kozienice 1 (the "Buyer"), for the purpose of Elektrownia Kozienice S.A.'s power unit currently under development.

The Agreement was concluded for a term from the conclusion thereof until 31 December 2036, with the actual power coal supplies to commence in the first calendar quarter of 2017. The Agreement provides for 20 calendar years of power coal supplies to satisfy the needs of Elektrownia Kozienice S.A.'s new power unit currently under development.

The estimated net value of the Agreement according to supply prices in the current year amounts to PLN 11.248 billion, disregarding the quantitative volume tolerance of +/- 5% as provided for in the Agreement.

The terms of the Agreement are as follows:

1. Power coal prices shall be set for a given calendar year of actual supplies by way of negotiation, taking into account the dynamics of price movements with respect to power coal supplies in Poland;
2. Annual agreements shall be concluded to specify: volume, supply schedule, supply prices, declared quality parameters and 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 beginning on 1 January of the following year;
4. Additionally, the Buyer has the right to terminate the Agreement upon a six-months' notice if all the following conditions are not fulfilled jointly by 31 December 2012:
   a) an agreement for the construction of the power unit is concluded,
   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 the failure to collect or supply the volume of coal resulting from the supply schedule, the liquidated damages shall 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 may seek supplementary damages on general terms if the liquidated damages are insufficient to cover the value of the loss incurred.

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

Furthermore, on 23 January 2012 the Company concluded with Elektrownia Kozienice S.A. with registered office in Świerże Górne, Kozienice, 26-900 Kozienice 1, Annex 1 to the existing Long-Term Agreement No. UW/LW/01/2010 for the supply of power coal, referred to in 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, which remains in force and effect until 31 December 2025.

Under 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: power coal prices will be set for a given calendar year of supplies by way of negotiation, taking into account the dynamics of price movements with respect to power coal supplies in Poland.

As a consequence 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 at current prices as at the day the Annex was concluded stood at approximately PLN 22.772 billion.

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

In Current Report No. 13/2012 of 23 April 2012, the Company announced that the Management Board of Lubelski Wegiel Bogdanka S.A. with registered office in Bogdanka (the "Company", the "Seller") concluded on 23 April 2012 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 PLN 1,062,180,000 net without 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 volume of coal in the settlement periods shall pay the other Party liquidated damages to the amount of 10% of the value of the coal that has not been supplied or collected.

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 its 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 of the Agreement 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.

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

In Current Report No. 29/2012 of 29 May 2012, the Company announced that the Management Board of Lubelski Wegiel Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded on 29 May 2012 Annex No. 3 to *Long-Term Agreement on the Sale of Power Coal No. 1456/W/2010* (the "Agreement") with ENERGA Elektrownie Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5. The agreement was the subject of Current Reports Nos. 43/2010 of 14 December 2010 and 32/2011 of 28 December 2011.

Annex No. 3 provides for an increase in the number of supplies of power coal to Elektrownia Ostrołęka's power units in 2013 and 2014. Other terms and conditions of the Agreement remain unchanged. In connection with the above and after considering the actual accomplishment in 2011, the value of the Agreement is hereby increased, from 1 January 2011 to 31 December 2015, and it will amount to PLN 980 million net, i.e. approximately 12.5% more than the value indicated in Current Report No. 32/2011.

The Agreement provides for the following liquidated damages:

The Party to the Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay the other Party liquidated damages in the amount of 10% of the value of coal which has not been collected or supplied.

The Agreement provides for the following terms of its termination:

The Parties to the Agreement are entitled to terminate this Agreement upon a twelve-months' notice.

Other terms and conditions of the Agreement 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.

12.6.4 Conclusion of an Annex to the Significant Agreement with Energa Elektrownie Ostrołęka S.A. (annex concluded with the Agreement assignee – Elektrownia Ostrołęka S.A.)

In Current Report No. 38/2012 of 29 June 2012, the Company announced that the Management Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded on

29 June 2012 with Elektrownia Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5, the assignee of the said Agreement and the entity appointed to perform the construction of the power unit, an Annex to the Long-Term Agreement on the sale of power coal No. 1/LW/D/2010 (the "Agreement"), concluded earlier by and between the Company and Energa Elektrownie Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5 (the Agreement assignor), as presented in Current Report No. 40/2010.

The Agreement concerns the supply of power coal for the purposes of a new power unit built in Ostrołęka – Unit C with the power of approx. 1000MW (the "Unit").

The Annex changes a condition of the Agreement termination. In view of the above, the Agreement can be terminated by the Company if by 31 December 2013 (formerly 30 June 2012) the following conditions are not fulfilled:

a) an Agreement on designing, ordering and carrying out the planned Block is concluded;

b) the financing process is completed.

Other terms of the Agreement remain unchanged.

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

12.6.5 Conclusion of a significant agreement with Elektrownia Połaniec S.A. – the GDF SUEZ ENERGIA POLSKA Group (GDF SUEZ Energia Polska S.A.)

In Current Report No. 41/2012 of 12 July 2012, the Company announced that the Management Board of LW Bogdanka S.A. with registered office in Bogdanka (the "Company", the "Seller") concluded on 12 July 2012 a new Agreement on the sale of power coal No. 3/W/2012 (the "Agreement") with Elektrownia Połaniec S.A. - Grupa GDF SUEZ ENERGIA POLSKA ("Elektrownia Połaniec", the "Buyer") with registered office in Połaniec, Zawada 26.
The Agreement is in effect from the date of conclusion thereof until 31 December 2018, and provides for actual supplies of power coal for the purposes of Elektrownia Połaniec in 2013-2018.

The Agreement between the Parties stipulates that the pricing formula is in effect until 31 December 2015.

The value of the Agreement amounts to approx. PLN 2.857 billion net, excluding possible increases or deviations provided for under the Agreement.

The Agreement provides for the following liquidated damages:

a) In the case of failure to supply or collect coal for reasons attributable to one of the Parties in the amount specified for a particular year, taking into account permissible deviations in settlement for a given year, the other Party is entitled to liquidated damages, accounting for 10% of the value of coal which has not been supplied or collected.

b) If the coal delivered to the Buyer under the Agreement is subject to excise tax, and the Seller will be obliged to pay it due to reasons attributable to the Buyer or its authorised carrier, including for failure to fulfil the obligations specified in the Agreement, the Seller will, on the basis of a decision issued by a relevant institution, charge the Buyer with damages on the basis of a note in the amount equivalent to the excise tax paid, as a result of imposing excise tax on the coal in question, together with statutory interest and other costs incurred.

c) Each Party has the right to claim supplementary damages on general terms, if the liquidated damages fail to cover the value of damage incurred by the Party, except for lost profit.

The Agreement sets out the following conditions precedent:

a) The Parties are entitled to terminate the Agreement with immediate effect if Force Majeure lasts longer than 180 days.
b) The Buyer is entitled to terminate the Agreement with immediate effect, if coal parameters fail to comply with border parameters specified in the Agreement for a period of two consecutive months during which coal is supplied.

The Agreement provides for the following conditions subsequent:

a) If: until 31 August 2013 the Parties fail to conclude an annex to the Agreement setting the price of coal supplies for 2016, or until 31 August 2014 the Parties fail to conclude an annex to the Agreement setting the price for coal supplies for 2017, or until 31 August 2015 the Parties fail to conclude an annex to the Agreement setting the price for coal supplies for 2018, the Agreement is terminated with effect at the end of a period, for which the Parties have set the price according to the provisions of the Agreement.
b) Termination of the Agreement in this manner deprives the Parties of mutual claims in connection with termination thereof, in particular, as regards the right to damages on that account, or seeking any other liability, including the right to require supplying/collecting coal in years, for which the Parties failed to set the price.

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

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

12.6.6 Conclusion of an annex to the significant agreement with PH-U Energokrak Sp. z o.o. with registered office in Krakow

In Current Report No. 42/2012 of 1 August 2012, the Company announced that the Management Board of LW Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded on 1 August 2012 an annex (the "Annex") to *Long-Term Agreement* on the Sale of Power Coal (the "Agreement") of 19 July 2011 with Przedsiębiorstwo Handlowo-Usługowe Energokrak Sp. z o.o., ul. Ciepłownicza 1, 31-587 Krakow (the "Customer"), which entirely changes the contents of the said Agreement. The Agreement was described in Current Report No. 21/2011 of 19 July 2011. Under the Annex the coal deliveries may be made to the Customers from the EDF Group. Moreover, the volumes of deliveries for the purposes of the Customers will be increased.

According to the Annex, the Agreement is in effect from 19 July 2011 until 31 December 2015. The Parties have also agreed upon the possibility to renew the Agreement for successive years.

The price of coal for each subsequent year during the term of the Agreement shall be agreed upon by the Parties by way of negotiation. Pursuant to the Annex, the coal delivery prices for 2013 have been set, and, if the Parties fail to negotiate the price in the successive years, a formula for the delivery prices has been determined.

According to the Annex, the net value of the Agreement, excluding any additional options, possible increases, deviations and tolerance, has increased from PLN 393 million net to an estimated value of PLN 621 million net, at current prices.

The Annex to the Agreement also introduces the following provisions (without limitation):

- charging liquidated damages from a Party which, due to reasons attributable to them, fails to deliver or to collect the amount of coal determined by the Parties for a particular calendar year of the Agreement being in force, in the amount representing an equivalent of 20% of the net value of the unperformed coal delivery amount predicted for a particular year,
- possibility of termination of the Agreement by any Party at the end of a particular calendar year in the event that by the deadlines specified in the previous year, the Parties fail to determine the coal delivery prices for all quarters of a particular calendar year.

In compliance with the provisions of the Annex, it is in effect from 1 August 2012.

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

The criterion for deeming the Agreement, as a result of the Annex conclusion, significant is that it exceeds 10% of the value of the Company's shareholders' equity.

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

In Current Report No. 4/2012 of 2 February 2012, the Company announced that on 2 February 2012, in connection with a judgement of the Constitutional Tribunal with regard to imposing real property tax on the value of underground workings announced on 13 September 2011, it adopted a resolution on partial release of the provisions for real 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 plus interest). In connection with overall risk associated with pending disputes with communes and 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 plus interest).

- Amounts due from communes and 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 aggregate 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.

12.8 Appointment of a chartered auditor

On 27 June 2012, the Supervisory Board adopted a resolution on appointing Deloitte Audyt Sp. z o.o. with registered office in Warsaw, al. Jana Pawła II 19, as an entity authorised to:

- review the Group's financial statements and consolidated financial statements for the first halves of 2012, 2013 and 2014,
- conducting an audit of the Company's Financial Statements and the Consolidated Financial Statements of the Group for 2012, 2013 and 2014.

The agreement will be concluded for a period enabling the subject matter of the agreement to be performed.

The Company has not used the services of Deloitte Audyt Sp. z o.o. to date.

Deloitte Audit Sp. z o.o. has been entered since 7 February 1995 in the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 73.

The Company's Supervisory Board appointed the chartered auditor pursuant to Article 32.1.4 of the Company's Articles of Association. The appointment complied with the binding provisions and professional standards.

12.9 Employment

Employment at the Company as at 30 June 2011 and 2012 and as at 31 March 2012 is presented in the table below:

Tabela 22 Employment at the Company as at 30 June 2011 and 30 June 2012, 31 March 2012

Employment	H1 2011	Q1 2012	H1 2012	Dynamics H1 2012/ H1 2011 [%]	Dynamics H1 2012/ Q1 2012 [%]
Total workers	3,458	3,769	3,857	111.54%	102.33%
Underground workers	2,568	2,835	2,901	112.97%	102.33%
Surface workers	890	934	956	107.42%	102.36%
Full-time employees underground	310	317	324	104.52%	102.21%
Full-time employees on the surface	276	286	289	104.71%	101.05%
Total underground	2,878	3,152	3,225	112.06%	102.32%
Total staff	4,045	4,372	4,470	110.51%	102.24%

Employment in the second quarter of 2012 increased by 98 persons, i.e. by 2.24 % in relation to the employment at the end of the first quarter of 2012. Employment in the first half of 2012 increased by 425 persons, i.e. by 10.51% in relation to the employment level at the end of the first half of 2011.

In the first quarter of 2012, 210 persons were employed at LW BOGDANKA S.A., in the second quarter – 155 persons, in total 365 employees; including 329 persons employed from outside the mining industry, 24 mining school graduates, 11 graduates of other schools, 1 person from another mining company.

At the same time, in the first quarter of 2012, 22 employees left the Company, and in the second quarter – 57 employees. In total 79 employees left the Company in the first half of 2012:

- 67 persons retired (pensions or disability pensions);
- 2 person deceased,
- 10 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 half of 2012, is 0.077, 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.

13. LIST OF TABLES

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

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	

Bogdanka, 28 August 2012