DIRECTORS' REPORT ON OPERATIONS OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the third quarter of 2012 ended on 30 September 2012

BOGDANKA, NOVEMBER 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 7 November 2012, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", the "Lubelski Węgiel BOGDANKA Group", or the "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. (hereinafter referred to as "Lubelski Węgiel BOGDANKA S.A.", "LW BOGDANKA S.A.", "LWB S.A.") as the parent undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka", "subsidiary undertaking") as the subsidiary undertaking.

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

As at the date of submitting this Report (hereinafter referred to as the "Report"), i.e. 7 November 2012, LW BOGDANKA S.A. also held 24.41% of the shares in 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 abridged consolidated quarterly financial statements of the LW BOGDANKA Group for the third quarter of 2012 (hereinafter referred to as the "condensed quarterly consolidated financial statements") by the full consolidation method.

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

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

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

Business activities:

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

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

a) agriculture, forestry, hunting and fishery (Section A),
b) mining and production (Section B),
c) industrial processing (section C);
d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D),
e) water supply; liquid and solid waste management; activities related to reclamation (Section E),
f) construction (Section F),
g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G),
h) transport and warehouse management (Section H),

i) activities related to lodging and catering (Section I),

j) information and communications (Section J),

k) financial and insurance (section K);

l) real estate activities (Section L),

m) professional, scientific and technical activities (Section M),

n) administration and support activities (Section N),

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 in the process of utilising Carboniferous rock waste stone in the EkoKLINKIER Construction Ceramics Plant. In September 2007, 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 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.

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

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

1.2.2 Information on the subsidiary and associated undertakings

Direct subsidiary undertaking:

Łęczyńska Energetyka sp. z o.o.

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

Industry Identification Number (REGON):	004164490
tax registration number (NIP):	713-020-71-92

Share capital (as at 30 September 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

The liquidation procedure of Ekspert Sp. z o.o. is still in progress. 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 LW BOGDANKA S.A., including as a result of merging business units, the take over or sale of units of the LW BOGDANKA Group, long-term investments, and the division, restructuring and discontinuation of activities

In the third quarter of 2012 there were no changes in the structure of LW BOGDANKA Group or in the Group's organisational and capital associations with other entities. In that period there were also no changes in the structure of the LW BOGDANKA Group due to the merger of business units, the takeover or sale of units of the Group, long-term investments or the division, restructuring or discontinuation of activities.

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

2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN THE THIRD QUARTER 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 quarterly 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 the date of submitting the report for the third quarter of 2012, and the interim report (29 Aug. 2012)

Shareholder	29 August 2012		7 November 2012	
	Number of shares/ Number of votes at the GSM	Share in share capital (%)	Number of shares/ Number of votes at the GSM	Share in share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,014,644	14.74	5,014,644	14.74
Otwarty Fundusz Emerytalny PZU "Złota Jesień" **	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny***	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10
Other	20,668,422	60.77	20,668,422	60.77
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

* According to the notification received on 25 March 2010, described in Current Report No. 11/2010.

** According to the notification received on 18 March 2010, described in Current Report No. 10/2010.

*** According to the notification received on 11 August 2010, described in Current Report No. 35/2010.

**** According to the notification received on 12 May 2010, described in Current Report No. 17/2010.

2.2 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 quarterly report and indication of the changes in shareholdings in the period from submitting the previous periodic report, separately for each person

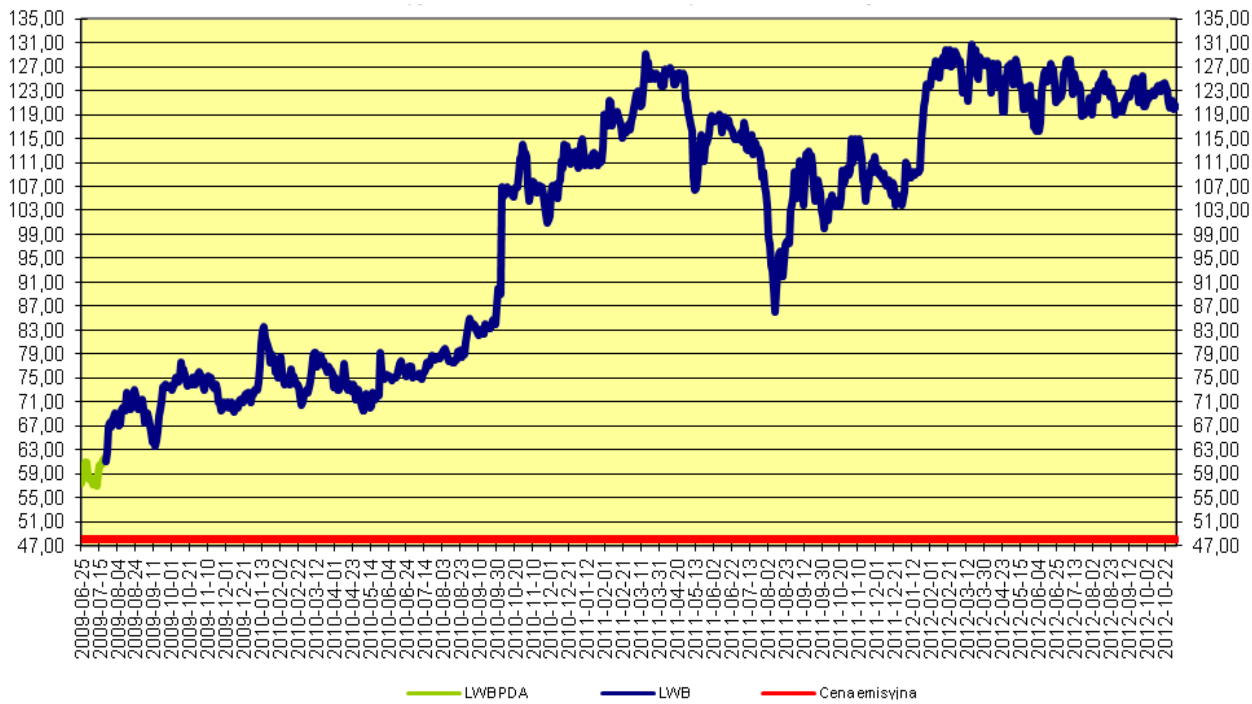
Table 2 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the quarterly report and indication of the changes in shareholdings in the period from submitting the previous periodic report, separately for each person

	Number of shares as at the date of submitting the Report for H1 2012 (29 August 2012)	Number of shares as at the date of submitting the Report for Q3 2012 (7 November 2012)
The Management Board		
Mirosław Taras	2,737	not applicable*
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

*The dismissal of Mirosław Taras from the position of the President of the Management Board of Lubelski Węgiel BOGDANKA S.A. is described in Section 11.6 hereof.

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

Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 5 November 2012



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

The condensed quarterly consolidated financial statements were prepared in compliance with the International Accounting Standards and International Financial Reporting Standards as well as the Regulation of the Minister of Finance on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State of 19 February 2009 (Dz. U. of 28 February 2009 No. 33, item 259, as amended).

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

The condensed quarterly consolidated financial statements were prepared in accordance with IAS 34 – Interim Financial Reporting and with relevant accounting standards applicable to the interim financial reporting endorsed by the European Union, published and applicable as at 30 September 2012.

4. ANALYSIS OF AND INFORMATION ON THE BASIC ECONOMIC AND FINANCIAL VALUES DISCLOSED IN THE CONDENSED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THREE QUARTERS OF 2012, I.E. FROM 1 JANUARY 2012 TO 30 SEPTEMBER 2012

This section presents selected ratios characterising the Group's financial position for the period from 1 January 2012 to 30 September 2012, calculated on the basis of the financial data included in the LW BOGDANKA Group's quarterly consolidated financial statements, prepared in compliance with the International Financial Reporting Standards endorsed by the European Union.

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

4.1 Selected financial information

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

Item	Q3 2012	Q3 2011	Change 2012/2011	3 Qs 2012	3 Qs 2011	Change 2012/2011
Revenue on sales	485,702	283,680	71.21%	1,392,240	865,761	60.81%
Gross profit	127,787	61,264	108.58%	429,232	182,880	134.71%
EBITDA	202,133	75,477	167.81%	567,476	220,662	157.17%
EBIT (Operating profit)	125,663	31,282	301.71%	338,478	101,691	232.85%
Profit before taxation	127,787	32,070	298.46%	341,145	109,099	212.69%
Net profit	103,690	25,880	300.66%	276,937	88,043	214.55%
Operating cash flow	182,784	70,037	160.98%	540,248	237,989	127.01%
Investing cash flow	-164,302	-180,361	-8.90%	-394,739	-553,143	-28.64%
Financing cash flow	-136,050	-50,619	168.77%	-36,050	-56,619	-36.33%

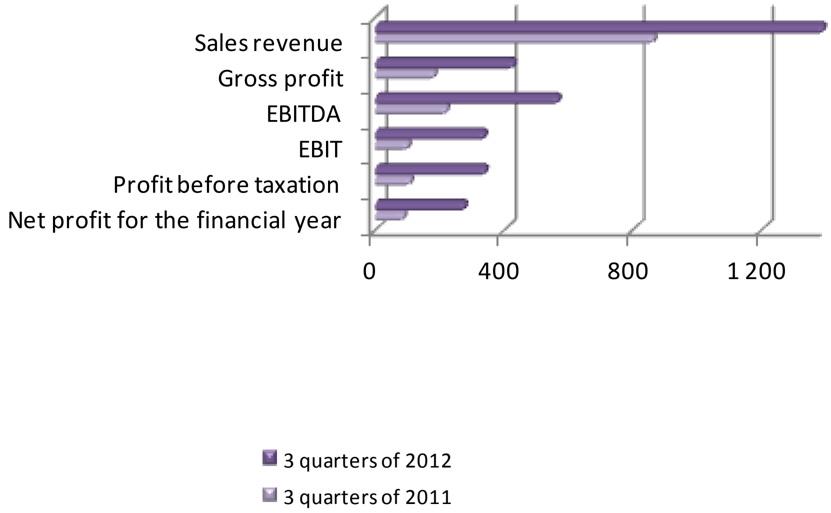
Table 4 Selected financial information of the LW BOGDANKA Group – cont. [PLN '000]

Item	30 Sep. 2012	Structure of the balance sheet	31 Dec. 2011	Structure of the balance sheet	Change 2012/2011
Total assets	3,394,709	100.00%	3,076,228	100.00%	10.35%
Fixed assets	2,840,487	83.67%	2,674,216	86.93%	6.22%
Current assets	554,222	16.33%	402,012	13.07%	37.86%
Shareholders' equity	2,283,529	67.27%	2,142,646	69.65%	6.58%
Provisions and liabilities	1,111,180	32.73%	933,582	30.35%	19.02%

The financial statements prepared for the period from 1 January 2012 to 30 September 2012 show that the Lubelski Węgiel BOGDANKA Group's revenue on sales amounts to PLN 1,392,240,000, which represents an increase by 60.81%, or by PLN 526,479,000, compared to the same period of the previous year. In the third quarter of 2012, the Group's revenue on sales amounted to PLN 485,702,000, compared to PLN 283,680,000 in the analogous period of 2011 (increase by 71.21%, i.e. PLN 202,022,000).

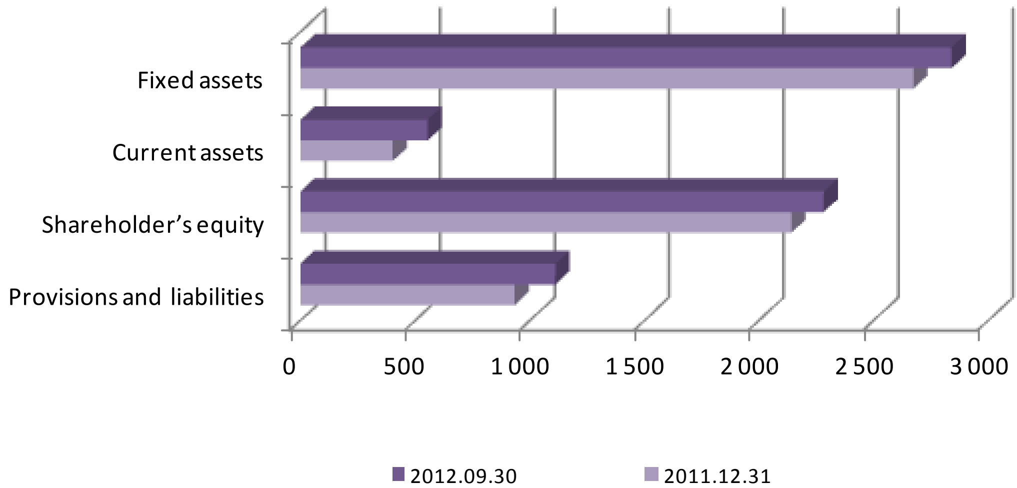
The Group's operating profit grew from PLN 101,691,000 (for 3Qs 2011) to PLN 338,478,000 (for 3Qs 2012), with the year-to-year change of PLN +236,787,000, i.e. 232.85%. The value of EBITDA (operating profit before depreciation/amortisation) for the period from 1 January to 30 September 2012 amounted to PLN 567,476,000 compared to PLN 220,662,000 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 third quarter itself saw an increase in the operating profit from PLN 31,282,000 (Q3 2011) to PLN 125,663,000 (Q3 2012).

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



The net profit for the three quarters of 2012 was PLN 276,937,000, compared to PLN 88,043,000 for the same period of 2011, which represents an increase by 214.55%, or by PLN 188,894,000. In the third quarter of 2012 itself, the LW BOGDANKA Group generated net profit in the amount of PLN 103,690,000, as compared to PLN 25,880,000 in the third quarter of 2011 (an increase by 300.66%).

Analysis of the statement of financial position (PLN million)



The Group's consolidated statement of financial position prepared as of 30 September 2012 shows an increase in the balance-sheet total to PLN 3,394,709,000, or by PLN 318,481,000, 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 2,840,487,000 (30 September 2012). This increase (+6.22%) is primarily a 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 554,222,000 (PLN +152,210,000 or +37.86%), 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 83.67% (as at 30 September 2012), while the share of current assets increased from 13.07% (as at 31 December 2011) to 16.33% (as at 30 September 2012).

On the side of equity & liabilities, shareholders' equity increased to PLN 2,142,646,000 (i.e. by 6.58%). This is a consequence of adding the net result for three quarters of 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 177,598,000, as a result of:

- an increase in long-term liabilities by PLN 104,601,000 (to PLN 731,167,000);
- an increase in short-term liabilities by PLN 72,997,000 (to PLN 380,013,000).

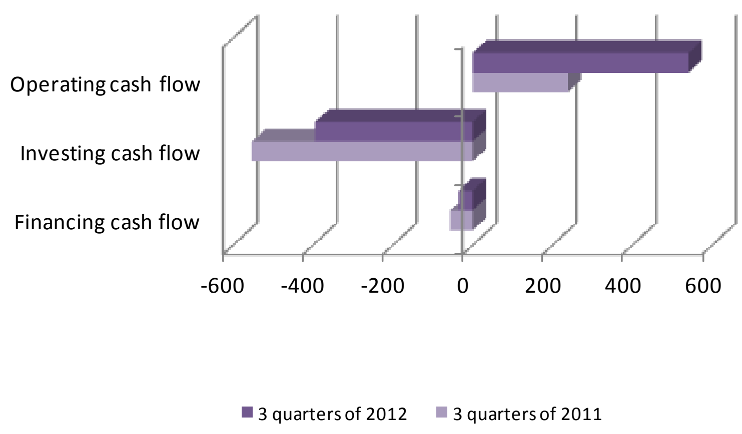
In the long-term liabilities, credits and loans increased by PLN 85,000,000 – during 9 months of 2012 the Parent Undertaking used PLN 100,000,000 of the working loan at PEKAO S.A. (as per the schedule); and, at the same time, PLN 15,000,000 from a loan at PKO BP became a short-term loan (to be repaid within the next 12 months). Moreover, in the group of long-term liabilities under discussion, there a subsidy which the Company has been granted for the construction of a mining lift of shaft 2.1 in the Stefanów Field is settled. The carrying value of the subsidy, as at 30 September 2012, amounts to PLN 18,370,000.

In the group of short-term liabilities, there has been an increase by PLN 45,515,000 (to the amount of PLN 279,690,000) in "Trade creditors and other liabilities". The dominant liabilities within this position are trade debtors. Short-term credits and loans increased by PLN 17,961,000. 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. 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 September 2012.

The share of equity in the total value of equity & liabilities as of 30 September 2012 and 31 December 2011 amounted to 67.27% and 69.65%, respectively.

During three quarters 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 237,989,000 (for 3Qs 2011) to PLN 540,248,000 (for 3Qs 2012), primarily due to a growth in the volume of the sales of coal.

Analysis of the statement of cash flows (PLN million)



Net investing cash flow in the period from 1 January to 30 September 2012 amounted to PLN -394,739,000 and was higher from that of the analogous period of 2011 by PLN 158,404,000. The Parent Undertaking continues to pursue the investment.

In the period from January to September 2012, the Group generated negative net financing cash flow of PLN 36,050,000 (the last two available tranches from a mid-term working loan at PEKAO S.A. were used and dividend was paid), while a year earlier, the Group generated negative net financing cash flow of PLN 56,619,000 (repayment of a portion of the loan at PKO BP S.A. and dividend payment).

As at 30 September 2012, the value of cash at hand and in banks amounted to PLN 212,279,000 and was higher by PLN 111,951,000 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 9 months of 2012, the revenue on sales generated by the LW BOGDANKA Group resulted from coal supply orders under agreements signed by the Parent Undertaking.

Table 5 Production capacity of the LW BOGDANKA Group for three quarters of 2012 and three quarters of 2011 (in ‘000 tonnes)

3 Qs 2012	3 Qs 2011	Change 2012/2011
6,067.61	3,833.21	58.29%

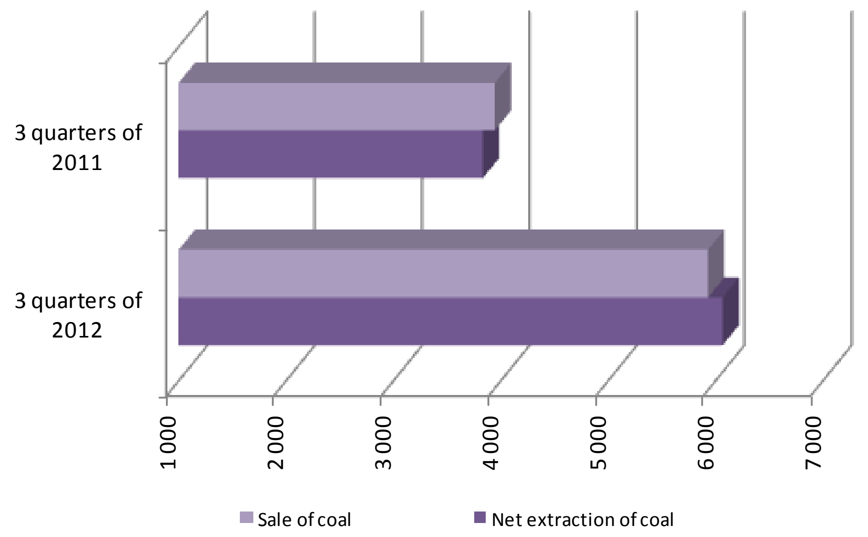
From 1 January to 30 September 2012, as compared to the analogous period of 2011, the extraction of commercial coal increased by 58.29% and amounted to 6,067,610 tonnes, (3,833,210 tonnes in the previous year). The increase in the extraction of the commercial coal by nearly 60% occurred together with an increase by almost 43% of gross extraction, which means that during 3Qs 2012, the Parent Undertaking recorded a higher output ratio than in the analogous period of the previous year.

Table 6 Sale of coal of the LW BOGDANKA Group for 3Qs 2012 and 3Qs 2011 (‘000 tonnes)

3Qs 2012	3Qs 2011	Change 2012/2011
5,929.31	3,945.19	50.29%

From 1 January to 30 September 2012, 50.29% (1,984,120 tonnes) more coal was sold as compared to the analogous period of the previous year. During 9 months of 2012, the sale of commercial coal was similar to the primary plans of the Parent Undertaking.

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



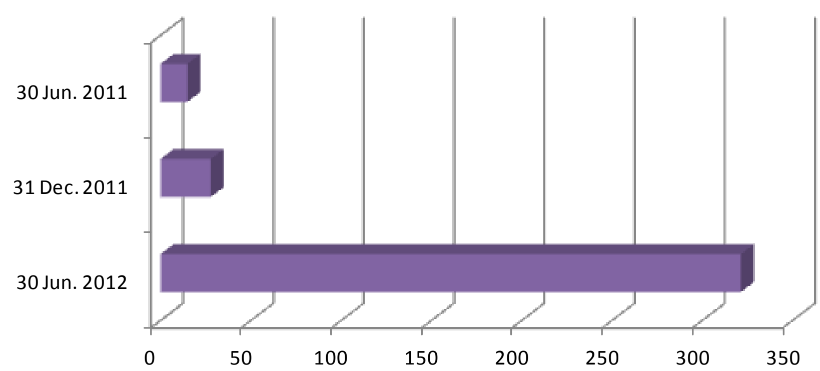
4.2.2 Stock

As at 30 September 2012 stock of commercial coal of the Parent Undertaking amounted to 166,060.48 tonnes, which means that the level of stock increased by 138,209.64 tonnes (+496.25%) as compared to the level of 31 December 2011 and by 141,309.73 tonnes (+570.93%) compared to the level of 30 September 2011. The current stock level amounts to less than a seven-day extraction of commercial coal.

Table 7 Stock of coal (tonnes)

Item	30 Sep. 2012	31 Dec. 2011	30 Sep. 2011	Change (30 Sep. 2012/31 Dec. 2011)	Change (30 Sep. 2012/30 Sep. 2011)
Stock of coal	166,060.48	27,850.84	24,750.75	496.25%	570.93%

Stocks of coal ('000 tonnes)



4.2.3 Revenue on sales

During three quarters of 2012, the LW BOGDANKA Group generated sales revenue at a level of PLN 1,392,240,000, up by PLN 526,479,000 compared to the sales revenue figure for the analogous period of 2011.

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

The main source of sales revenue for the LW BOGDANKA Group during the three quarters of 2012 (as well as during the three quarters of 2011) was production and sale of power coal. From 1 January to 30 September 2012, sales of power coal generated 96.84% of the Group's sales revenue (93.03% 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 (+50.29%), with a higher sale unit 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. Considering the above, the value indicated in the consolidated profit and loss account for the period from 1 January to 30 September 2012 was adjusted by PLN 60,163,000 while in the same period of the previous year – by PLN 73,629,000 (during three quarters of 2012, less galleries (by 10.2%) were performed than in the same period of 2011, which resulted in a lower adjustment value).

Almost 75% of coal sales (in terms of value) realised in the period from 1 January to 30 September 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 9 months of 2011 the above power plants generated more than 85% of the LW BOGDANKA Group’s revenue) 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 2.11% of the total revenue in the period from 1 January to 30 September 2012, compared to 3.76% 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 and the revenue of a subsidiary.

The revenue on sale of goods and materials decreased in the period under analysis by 53.89%, i.e. by PLN 11,202,000. 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 0.81% to 0.36% of the Group's total revenue.

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

Item	3Qs 2012	3Qs 2011	Change (2012/2011)
Sales of coal	1,348,281	805,380	67.41%
Sales of ceramics	5,007	7,043	-28.91%
Other activities	29,368	32,552	-9.78%
Sales of goods and materials	9,584	20,786	-53.89%
Total revenue on sales	**1,392,240**	**865,761**	**60.81%**

Table 9 Revenue on sales of the LW BOGDANKA Group - structure by product types [PLN ‘000]

Item	3 Qs 2012	share	3 Qs 2011	share
Sales of coal	1,348,281	96.84%	805,380	93.03%
Sales of ceramics	5,007	0.36%	7,043	0.81%
Other activities	29,368	2.11%	32,552	3.76%

Sales of goods and materials	9,584	0.69%	20,786	2.40%
Total revenue on sales	**1,392,240**	**100.00%**	**865,761**	**100.00%**

The activities of the LW BOGDANKA Group are primarily concentrated in Poland. During the three quarters of 2012 (as well as during three quarters of 2011), the value of export sales was marginal in the generated revenues and concerned sales of ceramics. The share of export sales in total revenue on sales amounted to 0.05%.

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

Item	3Qs 2012	Structure	3Qs 2011	Structure
Domestic sales	1,391,498	99.95%	865,308	99.95%
Foreign sales	742	0.05%	453	0.05%
Total revenue on sales	**1,392,240**	**100.00%**	**865,761**	**100.00%**

4.2.4 Statement of comprehensive income of the Group

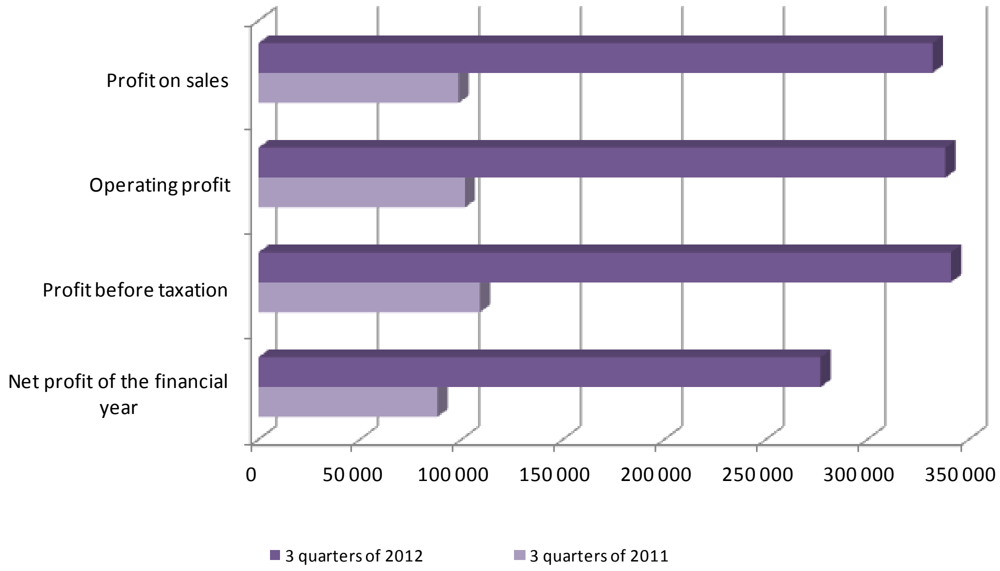
From 1 January to 30 September 2012, revenue on sales of the LW BOGDANKA Group, as compared to the same period of the previous year, increased by 60.81% (to a level of PLN 1,392,240,000). In the same period, the Group's costs (costs of products, goods and materials sold along with cost of sales and administrative expenses) increased by 38.20% up to a level of PLN 1,060,174,000. Such dynamics in costs and revenue led to the profit on sales increasing by 236.63%, i.e. PLN 332,066,000 for 9 months of 2012 as compared to PLN 98,643,000 for the same period of 2011.

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

[PLN '000]

Item	3Qs 2012	3Qs 2011	Change % (2012/2011)
Revenue on sales	1,392,240	865,761	60.81%
Cost of products, goods and materials sold, cost of sales, administrative expenses	1,060,174	767,118	38.20%
Profit on sales	**332,066**	**98,643**	**236.63%**
Other income	31,525	8,056	291.32%
Other expenses	680	1,187	-42.71%
Other net profit/loss	-24,433	-3,821	539.44%
Operating profit	**338,478**	**101,691**	**232.85%**
Financial income	10,243	12,563	-18.47%
Financial expenses	7,576	5,137	47.48%
Share in (losses)/profits of associated undertakings		-18	-100.00%
Profit before taxation	**341,145**	**109,099**	**212.69%**
Income tax	64,208	21,056	204.94%
Net profit	**276,937**	**88,043**	**214.55%**
- attributable to shareholders of the Parent Undertaking	276,747	87,852	215.02%

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



<u>Other income</u>

For 9 months of 2012, other operating income amounted to PLN 31,525,000 compared to PLN 8,056,000 for the same period of the previous year – this means an increase of 291.32%. In Q3 2012, a special purpose provision was released; the provision was made for claims for future liabilities regarding the settlement of additional and replacement works performed by Mostostal Warszawa S.A. in the Parent Undertaking's facilities, i.e. the Mechanical Coal Processing Plant in Bogdanka. The value of that contingent liability is PLN 25.0 million.

<u>Other expenses and other net profit/loss</u>

Other expenses for three quarters of 2012 were PLN 680,000, compared to PLN 1,187,000 for the same period of 2011, which means a decrease in their value by 42.71%. In the analysed period of 2012, other net profit/loss amounted to PLN -24,433,000 compared to PLN -3,821,000 in the analogous period of 2011. In Q1 2012, a provision was made for claims regarding future liabilities Mostostal Warszawa S.A., which (as given above) was released in Q3 2012. Moreover, in the analysed periods, the levels of special purpose provisions created were different.

The profit on sales adjusted for other revenue, expenses and other net profit/loss, gives the operating profit (EBIT) for 3Qs 2012 at a level of PLN 338,478,000, up by 232.85%, i.e. PLN 236,787,000 as compared to the result a year earlier.

<u>Financial income</u>

Financial income for 9 months of 2012 amounted to PLN 10,243,000 compared to PLN 12,563,000 a year ago (drop by 18.47%). The decrease in financial income is a result mainly of a lower average amount of cash in the Group for three quarters of 2012 as compared to the same period of 2011. The Group conducts an unchanged policy of keeping cash in bank deposits.

<u>Financial expenses</u>

Financial expenses in the analysed period of 2012 amounted to PLN 7,576,000, compared to PLN 5,137,000 a year earlier (an increase by PLN 2.439,000, i.e. 47.48%). That increase is a result of a higher average balance of interest-bearing debt and different level of interest accrued on the loans, increasing the value of outlays for tangible fixed assets in construction (of the Parent Undertaking), and not included in the tax-deductible costs of the given period.

The pre-tax earnings for 9 months of 2012 were higher by 212.69% than in the previous year - the pre-tax profit for three quarters of 2012 amounted to PLN 341,145,000 as compared to PLN 109,099,000 for three quarters 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 September 2012 amounting to PLN 276,937,000, compared to PLN 88,043,000 for the same period of 2011 - up by 214.55% on a year-to-year basis.

4.2.5 The Group's profitability

Table 12 Profitability ratios of the LW BOGDANKA Group

Item	3Qs 2012	3Qs 2011	Change [p.p.] 2012-2011	Change (2012/2011)
Gross margin on sales	30.83%	21.12%	9.71	45.98%
EBITDA	40.76%	25.49%	15.27	59.91%
EBIT	24.31%	11.75%	12.56	106.89%
Gross margin	24.50%	12.60%	11.90	94.44%
Net margin	19.89%	10.17%	9.72	95.58%
Return on Assets	8.56%	3.09%	5.47	177.02%
Return on Equity	12.51%	4.43%	8.08	182.39%

During three quarters 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 21.12% (for 3Qs 2011) to 30.83% (for 3Qs 2012). The change in value of that ratio, was a result of a lower (in nominal terms) increase in the generated revenue in relation to the incurred costs of products, goods and materials – this also translated into an increased gross profit.

In the analysed period, EBIT (operating profit) was 24.31%, which represents an increase by 12.56 p.p. in comparison to the same 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.

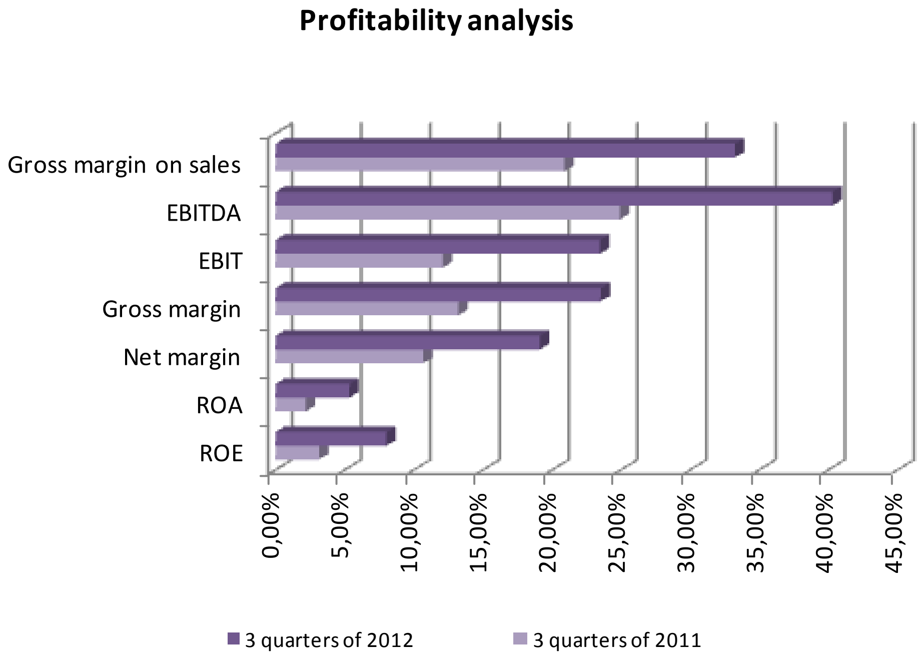
EBITDA went up from 25.49% (3Qs 2011) to 40.76% (3Qs 2012). The change in value of the ratio results from – except for the increasing operating profit – the value of amortisation/depreciation increasing from PLN 118,971,000 (3Qs 2011) to PLN 228,998,000 (3Qs 2012).

The gross profitability for three quarters of 2012 amounted to 24.50% and was 11.90 p.p. higher than the gross profitability for three quarters of 2011.

Net margin on the Lubelski Węgiel Bogdanka Group's operations amounted to 19.89% for 3Qs 2012, given 10.17% for 3Qs 2011 (nearly 100% increase in profitability year on year).

The increase in ROA (from 3.09% for 3Qs 2011 to 8.56% for 3Qs 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 4.43% to 12.51%) was caused by a higher net profit (by 214.55%); in nominal terms, the net profit increased by PLN 188,894,000, and the shareholders' equity by PLN 140,883,000.



4.2.6 Indebtedness and financing structure of the LW BOGDANKA Group

Table 13 Debt ratios of the LW BOGDANKA Group

Item	30 Sep. 2012	31 Dec. 2011	Change (2012/2011)
Overall debt ratio	32.73%	30.35%	7.84%
Debt to equity ratio	48.66%	43.57%	11.68%
Fixed capital to fixed assets ratio	103.40%	100.68%	2.70%
Short-term debt ratio	11.19%	9.98%	12.12%
Long-term debt ratio	21.54%	20.37%	5.74%

As at 30 September 2012, the percentage of the activities of the LW BOGDANKA Group that were financed with debt was, as measured by the debt ratio, 32.73% (30.35% as at 31 December 2011). In the period under analysis, long-term liabilities increased by PLN 104,601,000 (the last two tranches of a credit facility provided by PEKAO S.A. were disbursed; trade liabilities arising from the purchase of intangible assets for the Parent Undertaking; new provisions for long-term employee benefits were created as a result of higher staff numbers at the Group). Short-term liabilities increased by PLN 72,997,000. In the group of short-term liabilities, there has been an increase by PLN 45,515,000 (to the amount of PLN 279,690,000) in "Trade creditors and other liabilities". The dominant liabilities within this position are trade debtors. Short-term credits and loans increased by PLN 17,961,000. 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. In the period covered with the consolidated financial statements for three quarters of 2012, the LW BOGDANKA Group's debts did not constitute a threat 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 48.66% (as at 30 September 2012) – which is a result of an increase by PLN 140,883,000 in equity with a simultaneous increase in the Group's total liabilities by PLN 177,598,000.

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%.

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

Item	30 Sep. 2012	31 Dec. 2011	Change (2012/2011)
Current liquidity ratio	1.67	1.49	12.08%
Quick liquidity ratio	1.44	1.33	8.27%

In the period covered by the consolidated quarterly financial statements, the liquidity ratios of the LW BOGDANKA Group remained at a safe level, and the Group is not showing any difficulties in settling its liabilities. The level of liquidity ratios (both as at 30 September 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.

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

No.	Item	30 Sep. 2012	31 Dec. 2011	Change (2012/2011)
1.	Stock turnover	17.1	20.8	-17.79%
2.	Trade debtors collection rate*	51.3	53.6	-4.29%
3.	Trade creditors payment rate**	73.1	94.5	-22.65%
4.	Operating cycle (1+2)	68.4	74.4	-8.06%
5.	Cash conversion cycle (4-3)	-4.7	-20.1	-76.62%

*Trade debtors and other receivables

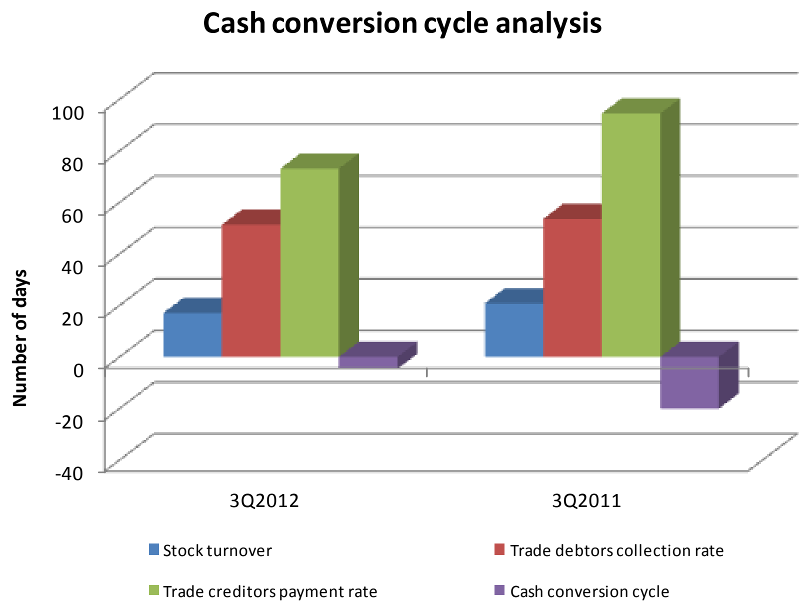
**Trade creditors and other liabilities

The stock turnover rate was down compared to its level as of 31 December 2011, i.e. 20.8 days against 17.1 days (for 3Qs 2012) – the nominal increase in the average stock value (as compared to 31 December 2011) was lower than the nominal increase in 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 51.3 days (as at 30 September 2012) and 53.6 days (as at 31 December 2011). The lower value of the ratio results from a higher dynamics of sales revenue compared to the dynamics of the trade debtors.

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) in the analysed period was at 68.4 days, as compared to 74.4 days as at 31 December 2011 – which indicates that current assets are transferred into cash on average 6 days faster.

The trade creditors payment rate (measured on the basis of the "trade creditors and other liabilities" item) decreased in the period covered by financial information from 94.5 days (as at 31 December 2011) to 73.1 days (as at 30 September 2012). As at the end of the third quarter, the average level of short-term liabilities is higher than for all of 2011; at the same time, the financial statements show a definitely higher cost of the products, goods and materials sold.



As a result of the trends described above, a cash conversion cycle of -4.7 days was achieved as at 30 September 2012 compared to -20.1 as at 31 December 2011. The negative value of the cash conversion means that the 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 September 2012 was PLN 273,394,000, including:

- PLN 61,115,000 disclosed in fixed assets,
- PLN 212,279,000 disclosed in current assets,

The amount of PLN 61,115,000 covers assets accumulated by the Parent Undertaking in the Mine Closure Fund, to be allocated for the coverage of costs of a mine closure (these resources are held in a long-term bank deposit). Other cash is held in short-term bank deposits (including *overnight* deposits) – the level of deposits depends on internal forecasts regarding inflows and outflows.

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

In the third quarter of 2012, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiary granted sureties for a credit facility or loan and they did not grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's shareholders' equity.

4.5 Information on financial instruments

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

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 Parent Undertaking 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.

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

This section presents costs of LW BOGDANKA S.A. by type and function. The recording of prime costs by type covers all expenditure related to the factors and means of production used by the Company in its operating activities. The costs incurred, in accordance with the formula presented, reflect the use of a given means or factor of production (e.g. materials, energy or labour costs) regardless of whether these will be charged to the costs of a given period as related to the product excavated and sold (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.

4.6.1 Costs by type

In the first nine months of 2012, LW BOGDANKA S.A.'s incurred costs with respect to type in the amount of PLN 1,243,813,000 compared to PLN 974,269,000 incurred in the analogous period of 2011, which means that the costs increased by 27.67% (PLN 269,544,000). The above nominal increase in costs was largely the result of a dynamic increase in depreciation/amortisation costs, increase in outsourced services, benefits to employees, as well as in taxes and fees. After the adjustment of costs by type by change in products and accruals and deferrals, the cost of own work, and having taken into account the costs of goods and materials sold, the cost of sales is obtained, which for the nine months of 2012 amounted to PLN 1,056,571,000 as compared to PLN 757,066,000 incurred in the analogous period of 2011 (an increase by 39.56%, i.e. by PLN 299,505,000).

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

Item	9 months of 2012	9 months of 2011	Change (%)	Change (PLN '000)
Amortisation/depreciation	228,214	118,053	93.31%	110,161
Materials and energy used	326,637	293,855	11.16%	32,782
Outsourced services	313,770	249,358	25.83%	64,412
Employee benefits	323,764	272,275	18.91%	51,489
Entertainment and advertising expenses	7,345	8,277	-11.26%	-932
Taxes and charges	24,238	16,283	48.85%	7,955
Other expenses	19,845	16,168	22.74%	3,677
TOTAL COSTS BY TYPE	**1,243,813**	**974,269**	**27.67%**	**269,544**
Change in products and accruals and deferrals, including:	3,136	53,890	-94.18%	-50,754
*change in products**	*-25,434*	*17,560*	*-244.84%*	*-42,994*
*change in deferrals and accrued income***	*-15,336*	*-5,254*	*191.89%*	*-10,082*
*change in accrued expenses****	*43,906*	*41,584*	*5.58%*	*2,322*
Operating expenses	**1,246,949**	**1,028,159**	**21.28%**	**218,790**
Activities for own needs	199,788	290,097	-31.13%	-90,309
Cost of goods and materials sold	9,410	19,004	-50.48%	-9,594
Cost of sales	**1,056,571**	**757,066**	**39.56%**	**299,505**

** - 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 93%) 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 58% 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, the recorded increase in the discussed costs by type was significantly 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 outsourced services results primarily from the costs of drilling, mining and similar works. 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 transport and equipment-related services in connection thereto.

The increase in employee benefits is a consequence of both a higher number of staff from 4,094 at the end of September 2011 to 4,563 at the end of September 2012 (increase by more than 11%), 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 22.75%, 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 as well as costs related to the coal allowance paid to former employees (pensioners and retirees).

In the analysis of the increase in costs of materials and energy consumption by 11.16% it should be pointed that the recorded growth is an effect of a nearly 24% rise in the energy costs, with an almost 8% increase in costs of materials used. In the third quarter of 2012, three panels were permanently excavated, while a year ago only two panels, which resulted in a nearly 37% rise in the extraction of coal as compared with the analogous period of 2011.

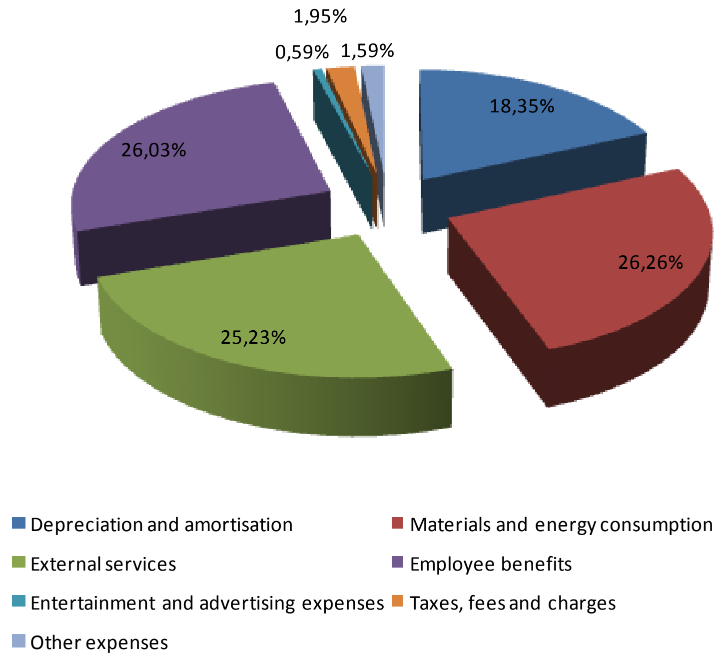
The changes presented in the group of costs by type had impact on the change in the structure thereof. In the analysed period, as was the case a year earlier, the most significant item were the costs of materials and energy used, however their share fell from the level of 30.16% during nine months of 2011 to 26.26% in 9 months of 2012, i.e. by 3.90 p.p. The share of employee benefits costs fell by 1.92 p.p. and it currently makes 26.03% of the total costs by type. The share of outsourced services costs was also slightly down, and their share at the end of September 2012 was 25.23%.

In the periods under analysis, the share of amortisation/ depreciation costs increased significantly from the level of 12.12% in 3Qs 2011 to 18.35% in 3Qs 2012, i.e. by 6.23 p.p.

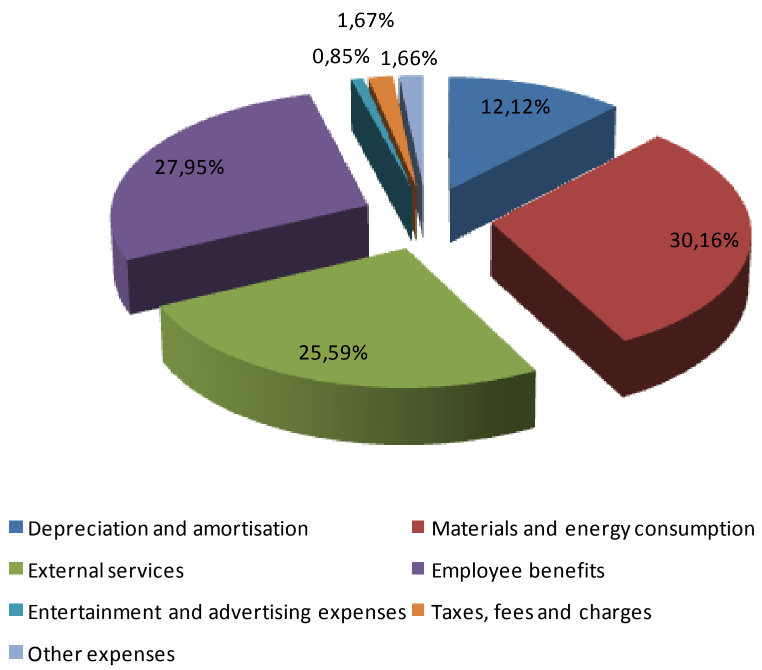
Table 2 Structure of costs by type at LW BOGDANKA S.A.

Item	9 months of 2012	9 months of 2011	Change (%)
Amortisation/depreciation	18.35%	12.12%	51.4%
Materials and energy used	26.26%	30.16%	-12.9%
Outsourced services	25.23%	25.59%	-1.4%
Employee benefits	26.03%	27.95%	-6.9%
Entertainment and advertising expenses	0.59%	0.85%	-30.6%
Taxes and charges	1.95%	1.67%	16.8%
Other expenses	1.59%	1.66%	-4.2%
TOTAL	**100.00%**	**100.00%**	

Costs by type for 9 months of 2012



Costs by type for 9 months of 2011



4.6.2 Costs by function

In the period from 1 January to 30 September 2012 Lubelski Węgiel Bogdanka S.A.'s cost of products sold amounted to PLN 1,056,571,000, which means an increase by PLN 299,505,000, or 39.56%, compared to the analogous period in 2011. An analysis of individual components of the own cost of sales shows that its increase is largely attributable to an increase in the cost of products, goods and materials sold (+42.48%, i.e. PLN +286,802,000), which is a result of an increase in the volume of the commercial coal sold – by 50.3% - recorded in the analysed period as well as of the changes in the groups of costs by type, as described above.

An increase in administrative costs (+18.49%) 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 10.33%.

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

Item	9 months of 2012	9 months of 2011	Change (%)	Change (PLN '000)
Costs of products, goods and materials sold	961,874	675,072	42,48%	286,802
Selling costs	33,253	30,139	10,33%	3,114
Administrative costs	61,444	51,855	18,49%	9,589
Cost of sales	**1,056,571**	**757,066**	**39,56%**	**299,505**

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

The share of products, goods and materials sold increased from 89.17% during 9 months of 2011 to 91.04% in the same period of 2012. The share of selling costs in the periods under analysis dropped from 3.98% to 3.15%, and administrative expenses – from 6.85% to 5.82%.

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

Item	9 months of 2012	9 months of 2011	Change [%]
Costs of products, goods and materials sold	91.04%	89.17%	2.10%
Selling costs	3.15%	3.98%	-20.85%
Administrative costs	5.82%	6.85%	-15.04%
Cost of sales	**100.00%**	**100.00%**	**x**

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

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

The Management Board does not rule out further increasing of the share of debt financing of the planned investments. As at the date of providing this Report, LW BOGDANKA S.A. sees no threat as to the possibility to acquire additional financing in the form of debt, however according to its estimates the costs of acquiring the debt as well as the servicing thereof may be higher than currently.

As at 30 September 2012 the Parent Undertaking's current loan in the amount of PLN 441 million accounted for approx. 19.4% 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 third quarter of 2012

In the third quarter 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 third quarter of 2012 is presented in the table below.

Table 20 Key investment expenses incurred in the 9 months of 2012 and 9 months of 2011 [PLN '000]

Item	01 Jan. 2012 – 30 Sep. 2012	01 Jan. 2011 – 30 Sep. 2011
Investment outlays on acquisition of tangible fixed assets	382,626	554,371
Interest paid regarding investing activity	11,428	7,184
Investment outlays on acquisition of intangible fixed assets	2,233	393

Capital expenditure (payments as per the dates under the relevant agreement) includes liabilities due to investments executed in the previous year and the part of outlays incurred in the third quarter of 2012.

In the third quarter of 2012, due to investment execution the outlays on tangible fixed assets in construction amounted to PLN 379,205,000. These outlays concern the following investment groups:

Table 21 Key material investments of the LW BOGDANKA Group in the 9 months of 2012 and the 9 months of 2011 [PLN '000]

Key material investments	Outlays incurred from 1 Jan. 2012 to 30 Sep. 2012	Outlays incurred from 1 Jan. 2011 to 30 Sep. 2011
Construction and assembly works	238,641	402,792
Order picking and purchases of finished goods	139,271	140,761
Other	1,289	1,745
Prepayments for fixed assets under construction	4	40
Total	**379,205**	**545,338**

5.2 Material investments of the Company in the third quarter of 2012

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

Gr. 1 Investments in development

A. Investments in technical infrastructure

Construction of building facilities of the Stefanów Field - the yard at the overhead crane and the road were made, the land was reclaimed. Construction of fencing was completed. Execution of the storage yard for palletized materials was started.

Extension of the Mechanical Coal Processing Plant:

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

   a/ Currently the working plans and specifications stage is coming to an end. The control algorithm is still to be made.

   b/ Dry line facilities - the following facilities were handed over for operation: 14.1; 14.2; 16.1; 16.2; 16.3; 16.4; 16.5; 110.1; 111.1. machines and devices are being assembled, finishing works in other facilities are in progress.

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

d/ Facility 47.1 Complex facility - redevelopment of ceilings is pending, strengthening of the steel structure was completed, installations are being assembled.

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

f/ Roads and yards - works 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 the extension of the existing coal yard has been settled (Building permit design and Working plans and specifications), an agreement with the contractor of the projects has been concluded.

B. Making coal seams available in the Stefanów Field

Workings making available 385/2 field VII and VIII – Stefanów - the longwall heading 6/VII/385 and longwall heading 1/VIII/385 are being made.

Gr. 2 Other investments in development

Central air-conditioning system of the Bogdanka Field

The central underground air conditioning system - Bogdanka Field - documentation is being prepared.

Gr. 3 Replacement investments

A. Modernizations and overhauls of machines and devices – in the 3rd quarter one AM-75 heading machine**,** one S-200 diesel locomotive were modernized, as well as belt conveyors and three pump pressure aggregates.

B. Construction and modernization of structures and installations – exhibition rooms in the Management's building were completed in the third quarter. Incorporation of the gantry crane and making of the yard pavement at the Nadrybie Field were in progress, as well as wagon's sprinkling station at Bogdanka. Development of the parking lot at Nadrybie was completed, KSGR building was modernized and rescue services rooms were provided. IT system meant to control coal parameters was developed and the mine operational network system was updated. Bidders to execute modernizations and thermal insulations at MW in Albertów and development of the parking lot at Bogdanka were selected.

Gr. 4 Environmental protection - The mine waste dump at Bogdanka - development - in progress, buyout of lands for construction of the "Szczecin" reservoir is being continued.

Gr. 5 Execution and modernization of headings at the Bogdanka, Nadrybie and Stefanów Fields - in the third quarter of 2012 opening-out headings and cutting headings for seams 382 and 385/2 of total length 1951.9 rm were driven.

Gr. 6 Purchase of machines and devices

Purchase and installation of panel complexes

1. Plough system - 2 – at the end of October this year one completed delivery of the second plough system for 2/VI/385 longwall, in accordance with the contract dated 31 May 2011. Along with the said delivery the longwall as being reinforced and the test run began at the end of October 2012.

Purchase of fixed assets – purchase of assets in the 3rd quarter was in accordance with the schedule. The most important are: portable transformer stations and sets of end fields – 5 pcs., belt conveyors –5 pcs., medium transportation trucks -80 pcs., hydraulic aggregates - 20 pcs. and a fan for ventilating long headings - 2 pcs.

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

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

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

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

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

7. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP

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

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

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

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

The main strategic development objectives defined by the Company are:

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

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

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

d) environmental protection measures.

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

1) Doubling the level of extraction of hard coal:

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

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

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

- extension of the mining area;
- extension of the Mechanical Coal Processing Plant;

b) Increase in employment and human resource management;

c) Marketing operations.

2) Improving the efficiency of hard coal extraction:

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

b) Improving the efficiency of hard coal production;

c) Restructuring and management of non-productive assets;

d) Management of by-products.

3) Developing electricity production activities

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

4) Environmental protection measures.

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

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

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

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

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

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

- "Strategy for hard coal mining sector in Poland for 2007-2015" adopted by the Council of Ministers in July 2007;
- "Poland's energy policy until 2025" adopted by the Council of Ministers in December 2004, which includes the consolidation plans for the fuel-energy sector, updated by the "Poland's energy policy until 2030" adopted by the Council of Ministers on 10 November 2009;
- "Privatisation Plan for 2012-2013", adopted by the Council of Ministers in March 2012.

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

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

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by the LW BOGDANKA Group. The current difficult situation on global financial markets, crisis and recession in the Euro zone, crisis in the Middle East (Iran, Syria), impairment of economic growth in China, impairment of economic growth in Poland and increase in stocks of unsold coal with the world and national producers in connection with a decreased demand for coal may bring changes in the demand for fuel, and consequently, changes in global and national market prices of coal and energy, which may affect the Group’s financial result. LW BOGDANKA mitigates the risk associated with prices of raw materials for energy production by undertaking measures aimed at lowering the internal costs of mining, and thereby increasing its competitiveness. Another measure consists in signing long-term commercial contracts with key customers purchasing 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 lapse of the transitional period referred to above, i.e. from 1 January 2012 on, may result in higher prices of coal for heating purposes for end users, a greater number of burdensome formal requirements as regards documenting the sale of excise tax-exempt coal, and a diminished coal competitiveness with respect to other energy carriers, which in turn may have an adverse effect on future financial results of all entities operating in the hard coal mining industry in Poland, including the LW BOGDANKA Group. The risk to the Group’s operations is, however, limited, owing to the fact that LW Bogdanka S.A. sells most of its coal volumes for electrical power generation purposes and the new domestic excise tax regulations provide for an extensive range of excise tax exemptions, including both electrical power generation, co-generated electrical power and heat and other selected industry sectors, as well as individual coal buyers. Moreover, it is important to emphasise that thanks to its relatively low costs of hard coal extraction, the Group can more flexibly respond to the changing market circumstances as far as the introduction of excise tax is concerned (and new taxes: coal tax or other taxes related to the use of coal as fuel, including a possible tax on mineral deposits).

Ambiguous interpretations of the new tax law are yet another factor influencing the risk associated with the excise tax. This brings a possibility of formal errors which may exclude the Group from exemptions from the excise tax on sales. The Group manages 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 planned investments are to be financed both with own funds and debt financing, totalling PLN 441,000,000 (the amount of PLN 443,961,000 disclosed in the balance sheet as at 30 September 2012 covers the capital in the amount of PLN 441,000,000 and the amount of interest due as at 30 September 2012 and paid on 1 October 2012).

At present, LW BOGDANKA sees no threat as to the possibility to acquire additional financing in the form of debt for implementation of its investments, however due to the Company’s indebtedness which has been increasing over last years, as well as due to the unsteady situation on financial markets, it is estimated that the possible costs of its acquisition will be higher than those currently incurred. The Group's current loan in the amount of PLN 441 million accounts for approx. 19.3% of the shareholders' equity, and approx. 13.0% of the balance-sheet total.

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

The operating activities of the LW BOGDANKA Group 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),
- risk related to changes in the geological and mining conditions at the exploitation fronts.

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 limiting the CO2 emissions by 20% until 2020, in compliance with the so called "Europe 2020" strategy and the "3 times 20" rule – decrease in the emission of greenhouse gases by 20%, acquisition of 20% of the energy from renewable sources and increase in energetic effectiveness by 20%. Moreover, it suggests introducing a system of auctions for emission permits from 2013. The system will mean that instead of receiving free emission rights (as in the period 2008-2012), the companies will be forced to purchase emission permits in open tenders. In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. Limitation of the CO2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties as regards competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the 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. The LW BOGDANKA Group has long-term contracts which secure it against the risk of a change over the successive years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained. LW BOGDANKA is taking measures in order to further secure its supplies of coal for commercial power production in the long-term perspective, relating to existing and prospective power units within the area of its operations. The Company is also undertaking activities together with other entities to explore the possibilities to expand the application of hard coal in Poland, which are aimed at establishing a coal gasification installation in the future.

8.1.10 Risk of hostile takeover of the Group

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

The Management Board undertakes actions aimed at increasing the value of the Company, through improvement of the structure and efficiency of mining and cost optimisation. It is also important to show to investors the real value of shares, both in relation to the currently achieved results as well as to our resource potential and growth perspectives.

8.2 Risk directly associated with the Group's operations

8.2.1 Risk associated with the launch of extraction of new LW BOGDANKA deposits

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 Group (LW BOGDANKA), and therefore on the financial results achieved by the Group in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA uses the longwall system and currently extracts coal from three mining faces which operate simultaneously. At the target production capacity, however, coal is obtained from four mining faces operating simultaneously. If a periodic stoppage occurs at one of the faces, the technical and technological mining conditions make it possible to maintain the planned level of extraction by intensifying work at the other face. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.1 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down. Irrespective of the factors described above, the Bogdanka mine has a system of underground coal storage reservoirs, which has been recently extended with three new reservoirs in Stefanów. Raw coal reservoirs are also located on the surface. It should also be pointed out that the Group uses advanced mining equipment and machines in its mining operations and conducts intensive research and development works aimed at increasing the productivity of its operations by means of introducing solutions with a high degree of technical and technological reliability and increasing the safety of the work environment. These measures will significantly reduce the Group's technical and technological risk.

8.2.3 Risks associated with the dismissal of the President of the Management Board

Following the Company's Supervisory Board's decision of 27 September 2012 to dismiss Mr Mirosław Taras from the position of the President of the Management Board, certain events occurred which led to the emergence of new potential risks for the Company. These risks may involve the risk of the Company's image and reputation deteriorating.

The emergence of these risks is linked with the public statements to the media made by the former President of the Company's Management Board, the fact that he has submitted a report of a suspected crime to the public prosecution authorities, and the fact that he has taken legal action against the Company requesting an court order declaring the Company's Supervisory Board's resolution to dismiss him as the President of the Company's Management Board null and void.

However, the above situation has not caused any disruption to the Company's operations in its core business areas, i.e. the production and sale of coal, or to the Company's investment process. The risk levels in these areas have not changed and do not exceed the level acceptable to the Company.

8.2.4 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.

The longwall coal ploughing technology that the Company has been implementing for a few years allows high-capacity mining in thin coal deposits of as little as 1.2 metres (in 2010, the first longwall using this technology was put in operation) and is based on specialist equipment manufactured by only company in the world. In 2012, LW Bogdanka purchased another longwall ploughing complex and plans to purchase a third one. In addition to the high costs of purchasing such equipment, there is a risk of high costs of purchasing spare parts to ensure the operating continuity of the equipment, which may affect the costs of coal mining.

8.2.5 Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of LW BOGDANKA's computer systems could adversely affect the ongoing operations of the LW BOGDANKA Group, and therefore, affect the future financial results of the Group. However, the Group stresses that LW BOGDANKA is systematically taking action aimed at minimising the risk associated with the possibility of IT systems malfunctioning. The "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." has been implemented, which regulates organisational and technical measures for IT environment protection. This refers to such measures as the organisation of access to data, making safety copies and their storage, using network traffic filters and network protection such as firewalls, implementation of application and hardware tools operating safe VPN connections, anti-virus systems securing servers and employees' workstations. The procedures for maintaining the continuity of key IT 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 integrated with an alert system based on text messages and e-mails. In order to increase the level of network security and to improve the management of user accounts and workstations, the implementation of a domain name system is under way, which is expected to enable further standardisation and integration of the environment with the existing and newly implemented IT tools. 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.

8.2.6 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.

8.2.7 Risk of delays in the planned investments

The LW Bogdanka Group is carrying out activities aimed at increasing production capacities by extension of the Stefanów Field, the processing plant and the track system. Contracts for performance of these tasks were awarded through public procurements. In September 2011, lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were launched. The extension of the Mechanical Coal Processing Plant, scheduled for the end of 2011, was not executed. 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, in accordance with an arrangement, should be completed by the end of 2013, so that full extraction of approx. 11 million tonnes could commence in 2014. This will facilitate full coal beneficiation as of 2014 when the extension of the mine is scheduled for completion. Before the investment in question is formally completed, the Company will continue to exploit coal deposits from the individual extraction fields (Bogdanka, Stefanów) in such a way so as to fully correlate the quality of the excavated output with the deadline for achieving full coal processing capacity by the Mechanical Coal Processing Plant. These actions are of great significance in terms of guaranteeing that the Company will meet its production and sales targets, as well as the quality parameters expected by the buyers and specified in the one-year and long-term contracts concluded with key energy sector customers. The agreement with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A., the subject matter of which is the extension of the Mechanical Coal Processing Plant, and which covers detailed designs, facility construction, delivery of machines and equipment, on-site assembly, launch and start-up of machines and equipment, and obtaining permits for use, was described in the Issue Prospectus of LW Bogdanka S.A. of 21 December 2011 in section 8.6.7.1, and the annex to the agreement – in Current Report No. 45/2012 of 6 September 2012.

8.2.8 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 date of submitting this Report, six trade union organisations operate in the Group, associating approx. 64% of the Group's employees (there are 4 trade union organisations operating in LW Bogdanka, associating 63% of the employees, but we have no knowledge of other entities). The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results generated mainly by LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Group could affect the operating activities conducted by LW BOGDANKA. It concerns also possible protests connected with a risk of a hostile takeover of LW BOGDANKA, and thus a takeover of the whole Group.

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

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

In the next years, the Company intends to significantly increase the employment level. The Company's demand for human resources results from its development strategy which involves increasing the extraction capacity in connection with the extension of the Stefanów Field, as well as the age structure of the Company's staff and the effective retirement laws under which until 2015 approx. 30% of the Company's employees, including mostly the employees working underground, will acquire pension rights. The employment increase in 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 in this year is estimated at 250 workers. In the following 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 consequently also on the Company's financial result.

The Company runs an active human resources policy which aims at limiting human resources related risks. Since 2007, the Company had gradually been hiring young employees, and by the end of 2011 (completion of the Stefanów Field extension) they gained the necessary mining experience and the qualifications required. To eliminate a potential generation and competence gap with respect to staff, the Company cooperates 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, there is no reason for concern of risks in this area. Changes concerning the organisation of non-stationary vocational schooling (a system of courses), which were developed at the turn of 2011 and 2012, and will be introduced in the next school year, will not exert any influence on education, and thus, on the recruitment of new personnel.

A difficulty of an objective nature (i.e. beyond the Company's control) in filling vacancies is the statutory provision that sets the requirement of the age of 21 for any person to be employed to work in hazardous conditions. The majority of school leavers fail to meet this requirement – they are usually a few months younger than the age limit, which means they have to wait and cannot work until they reach the required age. If the case of an increased requirement for personnel, disruptions to or, more precisely, delays in vacancy filling may occur.

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

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

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

8.2.11 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. This also applies to specialised providers of mining services, because due to a limited number of such providers on the Polish market, the Company may become dependent upon these entities.

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.

8.2.12 Risk of unfavourable/inappropriate contractual terms being concluded

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

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

8.3 Financial risk factors

A major factor in evaluating insolvency risk is the level of operating cash flows, cash and liquidity ratios. As far as the Group is concerned, cash at hand as at 30 September 2012 amounted to PLN 212,279,000, while current ratio equalled 1.67, and quick ratio was 1.44. During the first nine months of 2012, net operating cash flow generated by the Group was approx. 127% higher as 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.

8.3.1 Insurance risk

The LW BOGDANKA Group insures its business. As is the case of other mining enterprises in the world, most significant threats 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 enterprises conducting similar activities. 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 impact of mining operations is minimised on an ongoing basis by, among other things, undertaking regular hydrotechnical water removal activities and preventive measures at facilities within the areas of the impact of the operations.

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), as well as a permit to operate a mining waste utilisation facility. 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 this basis, the Company received a permit to operate the mining waste utilisation facility from the Marshal Office of the Lublin Province. Therefore, the Company's operations in this respect were as at 1 May 2012 adjusted to the new legal requirements.

In order to minimise the risk related to changes in environment protection legislation, the Company monitors, on an ongoing basis, the applicable laws and regulations and, if necessary, adapts its operations to new laws and regulations within the statutory 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. Volatility of legal regulations may pose a range of different 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 a 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 Group 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 strategy of Lubelski Węgiel BOGDANKA S.A., 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. This year, the Head of the Puchaczów Commune has additionally instigated proceedings to determine the amount of property tax for 2011. As regards the decisions relating to the period between 2003 and 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 reserved 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 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 specified by the Constitutional Tribunal for such structures and building equipment to be subject to property tax. On preliminary examination of types of infrastructure items located in underground workings, and a preliminary valuation, the Company estimated the amount of provision as at 30 September 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

Given the fact that 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 those 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. 09.185.1439, unified text). 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 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 99.3% share of Group's revenue and 98.80% of net profit (according to data for 2010). Therefore, it was assumed that the key risks in Group's activities are in fact the key risks of the Parent Undertaking. The only risk at the Group's level which could influence the Group's activities to a considerable extent, and is associated with Łęczyńska Energetyka, is the process of implementing the planned investment, i.e. "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant". This investment involves a number of technical, technological, processing, and financial risks that are typical for this kind of projects.

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

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the third quarter of 2012, neither LW BOGDANKA S.A. nor its subsidiary were parties to proceedings pending before court, arbitration body or administrative body, regarding:

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

10. RELATED PARTY TRANSACTIONS

In the third quarter of 2012 the Company and its subsidiary concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on terms other than market terms.

Information on the transactions of the LW BOGDANKA Group with related companies is set out in Section 10 of the Condensed Quarterly Consolidated Financial Statements of the LW BOGDANKA Group for the third quarter of 2012.

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

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

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

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

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

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

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

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

In accordance with the Resolution adopted, the Company placed the amount of dividend at the disposal of the National Depository for Securities, and distributed the dividend to owners of registered shares by postal transfer.

11.2 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.

11.3 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 amendments cover the obligations 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 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 Extraordinary General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. adopted Resolution No. 3 concerning amendments to the Company's Articles of Association. The amendments, as in the previous case, cover 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.

11.4 Free of charge shares for eligible employees

On 28 December 2011, in Current Report No. 33/2011, the Company published the information regarding the final number of series B shares which, pursuant to the 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 will 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 these shares is 3,208,111.

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

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

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

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

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

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

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

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

11.6 Dismissal of the President of the Management Board of LW Bogdanka S.A. by the Supervisory Board and appointment of an Acting President

On 27 September 2012, the Supervisory Board, acting under Article 25.1 of the Company's Articles of Association, adopted a resolution on dismissal of Mr Mirosław Taras from the position of the President and the Member of the Management Board.

Supervisory Board's Statement of Reasons:

The Supervisory Board of LW Bogdanka S.A. has commissioned two consulting companies Ernst & Young Business Advisory sp. z o.o. i Wspólnicy sp.k. and SRK CONSULTING (UK) Limited to conduct an audit of purchasing procedures, in particular as regards mining operations, with special consideration of the conflict of interest. On 27 September 2012 the Supervisory Board discussed the results of the audit with the Management Board. The discussion revealed that the President of the Management Board does not share the Supervisory Board's vision with respect to the necessity to implement the recommendations resulting from the audit and the ways of carrying out this implementation. Under the circumstances, the Supervisory Board decided to dismiss Mr Mirosław Taras from the position of the President of the Management Board.

Moreover, the Supervisory Board, acting on the basis of Article 25.1 of the Company's Articles of Association, adopted a resolution on appointing Mr Zbigniew Stopa as an Acting President.

The Company published relevant information in Current Report No. 47/2012 of 28 September 2012.

11.7 Conclusion of significant agreements

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

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 "Purchaser"), for the purpose of Elektrownia Kozienice S.A.'s power unit currently under development.

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

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

The Agreement sets out the following conditions:

1. The prices of the power coal will be set for a given calendar year of physical supplies by way of negotiations, taking into account the dynamics of price movements with respect to power coal supplies in Poland;
2. Annual agreements 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 two years' notice which starts on 1 January of the following year;
4. Additionally, the Purchaser has the right to terminate the Agreement, upon six months' notice, if all of the following conditions do not occur jointly by 31 December 2012:
   a) an agreement for the construction of the power unit is 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 a failure to collect or supply the volume of coal resulting from the supply schedule, the liquidated damages account for 20% of the value of coal which has not been collected or supplied;
2. if the coal supplied by the Seller has quality parameters worse than border parameters specified in the Agreement - the liquidated damages account for 1%-5% of the net value of the given supply of power coal;
3. each of the Parties to the Agreement has the right to claim supplementary damages on general terms, if the liquidated damages are insufficient to cover the value of damage incurred.

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

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

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

As a 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, and as at the date of the Annex, amounted to approximately PLN 22.772 billion.

11.7.2 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 Węgiel 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 to be 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 until 31 December 2015.

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

The Agreement provides for the following liquidated damages or compensation:

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

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

c) If the coal delivered to the Buyer under the 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, the Buyer, on the basis of a decision of a relevant institution, will charge the Seller with compensation on the basis of a note, equivalent of the excise tax paid, as a result of imposing excise tax on the coal in question, together with statutory interest.

d) If the coal delivered to the Buyer under the 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, the Seller, on the basis of a decision of a relevant institution, will charge the Buyer with compensation on the basis of a note, equivalent of the excise tax paid, as a result of imposing excise tax on the coal in question, together 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 do not cover the value of the inflicted damage.

The Agreement provides for the following terms of termination:

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

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

The Agreement sets out the following conditions precedent:

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

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

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

The criterion for deeming the concluded Agreement 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 SA, 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 SA, amounts to approx. PLN 1,315,910,000 net without regard to permissible deviations and tolerance specified in the agreements. 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 which 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.

11.7.3 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 on 29 May 2012 the Management Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded 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 was increased for a period between 1 January 2011 and 31 December 2015 to the amount of PLN 980 million net, i.e. to approximately 12.5% more than the value specified 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 pays 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 termination:

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

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

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

11.7.4 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 on 29 June 2012 the Management Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded an Annex to Long-Term Agreement on the sale of power coal No. 1/LW/D/2010 (the "Agreement") 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, which was previously concluded by and between the Company and Energa Elektrownie Ostrołęka S.A., with registered office in Ostrołęka at ul. Elektryczna 5 (the "Agreement assignor"), presented in Current Report No. 40/2010.

The Agreement provides for 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 conditions for terminating the Agreement. In view of the above, the Agreement may be terminated by the Company, if the following conditions are not fulfilled jointly by 31 December 2013 (formerly 30 June 2012):

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

b) the financing process is completed.

Other terms of the Agreement remain unchanged.

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

On 31 October 2012, in Current Report No. 49/2012, the Company announced that on 30 October 2012 it was informed by Elektrownia Ostrołęka S.A., with registered office in Ostrołęka at ul. Elektryczna 5 (the "Power Plant"), about termination of Long-Term Agreement No. 1/LW/D/2010 (the "Agreement") concluded on 19 October 2010, the scope of which covered future power coal supplies to a power unit in Ostrołęka currently under construction, i.e. Unit C with power of approx. 1,000 MW (the "Unit"). Under the Agreement, the supply of coal and operation of Unit C were expected to commence in 2016. The Agreement was described in Current Report No. 40/2010 of 19 October 2010 and Current Report No. 38/2012 of 29 June 2012 (the "Annex to the Agreement").

The Power Plant stated that the reason for terminating the Agreement was a change in market variables as regards project financing, as well as the fact that the Energa Group adopted a Long-Term Investment Plan. As a result, the project concerning the construction of Unit C was suspended, and consequently, the operation of the Unit will not commence in 2016 as scheduled in the Agreement.

Termination of the Agreement does not bring financial consequences which would affect the Company's current position, because the Agreement covers future supplies with regard to which the Company took account of a high risk of the project failure, as the Agreement provided for the obligation to obtain financing for the investment in Unit C.

In its termination notice, the Power Plant refers to Article 11.3 of the Agreement which reads as follows:

"Each Party may terminate the Agreement upon a 3-year notice, which shall commence on 1 January of the year following the year in which the termination was effected (subject to Article 11.2)."

At the same time, the Power Plant requested the Company to hold negotiations aimed at terminating the Agreement by mutual agreement before the lapse of the termination period. The Company is now considering the issue, and will inform you of a potential agreement in a current report.

11.7.5 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 on 12 July 2012 the Management Board of LW Bogdanka S.A. with registered office in Bogdanka (the "Company", the "Seller") concluded 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 until 31 December 2018, and provides for actual supplies of power coal for the purposes of Elektrownia Połaniec between the years 2013-2018.

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

The value of the entire 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 provides for the following terms of termination:

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.

11.7.6 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 on 1 August 2012 the Management Board of LW Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded 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, it is possible to make coal supplies to Customers which form part of the EDF Group. Moreover, the quantitative volumes of deliveries to the Customer will be increased.

As a result of concluding the Annex, the Agreement is in effect from 19 July 2011 until 31 December 2015. The Parties also agreed that the Agreement may be renewed for consecutive years.

The price of coal for each consecutive year during the term of the Agreement shall be agreed upon by the Parties by way of negotiation. The Annex determines the coal prices for 2013 and their formula, if the Parties fail to negotiate the price in consecutive years.

As a result of concluding 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, in accordance with the current prices.

As a result of concluding the Annex, the following provisions, among others, were introduced:

- possibility of charging with liquidated damages 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 planned 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 the Parties fail to set coal delivery prices for all quarters of a particular calendar year by the deadlines specified in the previous year.

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

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

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

11.7.7 Annex to the agreement with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A.

6 September 2012 was an effective date of an annex to an agreement (the "Agreement") concluded on 29 June 2010 between the Issuer and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. (the "Contractors"), as notified by the Company in Current Report No. 33/2010.

Under the Annex, the scope of works commissioned to the Contractor by the Company was changed by the Parties: substitute works (in lieu of discontinued works, i.e. those initially covered by the Agreement), and additional works (not covered by the Agreement) were commissioned.

Due to commissioning the additional works to the Contractor (i.e. placing additional orders with the Contractor) with the net value exceeding 5% of the fee set forth in the Agreement, the time limit for the performance of the Agreement was extended until 31 August 2014. Due to commissioning substitute works to the Contractor, the value of the Agreement has changed and currently amounts to PLN 188,155,513.17 net.

This was announced by the Company in Current Report No. 45/2012 of 6 September 2012.

11.7.8 Conclusion of a significant agreement with PGE Obrót S.A. Lublin branch, and volumes of trading with the PGE Polska Grupa Energetyczna Group per value of the significant agreement

In Current Report No. 46/2012 of 14 September 2009, the Company announced that the value of trading and agreements concluded between the Company and the entities of the PGE Polska Grupa Energetyczna Group in the last 12 months (to the publication date of this Report) amounts to approx. PLN 346 million net.

Agreement of the highest value was concluded on 14 September 2012 by and between the Company and PGE Obrót S.A. Lublin branch, ul. Tomasza Zana 32 A, 20-601 Lublin It was the agreement on the sale of electrical energy and ensuring the provision of its distribution (the "Agreement").

The estimated value of the new agreement amounts to PLN 220,600,000 net.

Effective term of the Agreement: from 1 January 2013 to 31 December 2014. The Agreement provides for price negotiation for 2014 in December 2013.

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

The criterion for deeming concluded agreements significant is that they exceed 10% of the value of the Company shareholders' equity.

11.8 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 the judgement of the Constitutional Tribunal with regard to imposing property tax on the value of underground workings announced on 13 September 2011, the Management Board adopted a resolution on partial release of the provisions for property tax on the value of underground workings (the "Property Tax"), and established the following balance of provisions and amounts due from municipalities on account of property tax as at 31 December 2011:

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

11.9 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 into 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.

11.10 Employment

Employment at the Company as at 30 September 2011 and 2012 is presented in the table below:

Table 22 Employment at the Company as at 30 September 2011 and 2012

Employment	Q3 of 2011	Q3 of 2012	Dynamics Q3 of 2012/ Q3 of 2011 [%]
Total workers	3,521	3,959	112.44%
Underground workers	2,620	3,004	114.66%
Surface workers	901	955	105.99%
Full-time employees underground	311	327	105.14%
Full-time employees on the surface	277	287	103.61%
Total underground	2,931	3,331	113.65%
Total staff	4,109	4,573	111.29%

Employment level in the third quarter of 2012 increased by 464 persons, i.e. by 11.29% as compared to the employment at the end of the third quarter of 2011.

During the three quarters of 2012, 529 persons were employed at LW BOGDANKA S.A.; including 489 persons employed from outside the mining industry, 38 mining school graduates, 20 graduates of other schools, 1 person from another mining company, 1 person returned to employment in compliance with the Labour Code.

At the same time, in the period of three quarters of 2012 there were 140 employees who left the Company:

- 98 persons retired (pensions or disability pensions);
- 3 person deceased;
- 39 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 third quarter of 2012, is 0.085, 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. However, in light of doubling the output, the Company pursues a policy of human resources acquisition with an aim of achieving an optimal level of employment necessary for a conduct works safely and in accordance with mandatory regulations of mining and geological law.

The positive value of the employee turnover rate shows that the Company benefits from its investments connected with acquiring human resources. Employment stability improves the employees' morale. What is more, the Company can make full use of its personnel's innovative ideas. Knowledge of the Company's organisational structure helps to improve its internal processes.

11.11 Taking measures to obtain a new licence

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

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS:

Name and surname	**Position**	**Date**	**Signature**
Zbigniew Stopa	Vice-President of the Board for Technical Affairs	6 November 2012	
Krystyna Borkowska	Vice-President of the Board or Economic and Financial Affairs, Chief Accountant	6 November 2012	
Waldemar Bernaciak	Vice-President of the Board for Trade and Logistics	6 November 2012	
Lech Tor	Member of the Board elected by the employees	6 November 2012	