

**LUBELSKI WĘGIEL BOGDANKA GROUP
BOGDANKA, 21-013 PUCHACZÓW**

**CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR OF 2012**

**WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

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CONSOLIDATED FINANCIAL STATEMENTS OF THE LUBELSKI WĘGIEL BOGDANKA GROUP FOR THE FINANCIAL YEAR OF 2012

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DIRECTORS' REPORT ON OPERATIONS OF THE LUBELSKI WĘGIEL BOGDANKA GROUP FOR THE FINANCIAL YEAR OF 2012

INDEPENDENT AUDITOR'S OPINION

To the Shareholders and the Supervisory Board of Lubelski Węgiel Bogdanka S.A.

We have audited the accompanying consolidated financial statements of the Lubelski Węgiel Bogdanka Group for which Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka, 21-013 Puchaczów, Poland, is the Parent Undertaking, comprising the consolidated statement of financial position developed as at 31 December 2012, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated cash flow statement for the period from 1 January 2012 to 31 December 2012 and notes detailing for the adopted accounting policy as well as additional information.

The responsibility for preparing the consolidated financial statements and report on the Group's operations compliant with the applicable regulations rests with the Management Board of the Parent Undertaking.

The Management Board of the Parent Undertaking and the members of the Supervisory Board are obliged to ensure that the consolidated financial statements and report on the Group's operations comply with the requirements provided for in the Accounting Act of 29 September 1994 (Dz.U. of 2009, No. 152, item 1223, as amended), hereinafter the "Accounting Act."

Our responsibility was to express an opinion based on our audit whether the consolidated financial statements are in compliance with the accounting principles (policies) adopted by the Group, whether they present (in all material aspects) a true and fair view of the property and financial standing and the financial profit/loss of the Group.

We planned and carried out the audit in accordance with the provisions of:

- Chapter 7 of the Accounting Act,
- Polish Standards on Auditing issued by the National Council of Certified Auditors in Poland.

We planned and carried out the audit so as to obtain reasonable assurance enabling us to give our opinion on the consolidated financial statements. In particular, the audit included examining the correctness of accounting principles (policies) applied by the Parent Undertaking and its subsidiaries and verifying, largely on a test basis, the grounds for amounts and disclosures in the consolidated financial statements well as evaluating the overall presentation of the consolidated financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements, in all material aspects:

- present fairly and clearly all information material for the assessment of the property and financial standing of the Group as at 31 December 2012 and the financial profit/loss on its operations for the financial year from 1 January 2012 to 31 December 2012,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published in the form of Regulations of the European Commission, and to the extent not regulated in those standards, as required by the Accounting Act and executive regulations issued pursuant thereto,
- are in conformity with the provisions of law binding on the Group, affecting the contents of the consolidated financial statements.

Director's report on operations of the Group for the financial year of 2012 is complete within the meaning of Article 49.2 of the Accounting Act and the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information provided by issuers of securities and conditions for treatment of the information required by law of the state other than the Member State as equivalent, and includes the information which is consistent with the information disclosed in the audited consolidated financial statements.

[signature]

Joanna Sklarz-Snopek
Key Certified Auditor
conducting the audit
No. 10781

For Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – entity authorised to audit financial statements, entered on the list of authorised entities kept by the National Council of Certified Auditors in Poland under the number 73:

[signature]

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
- general partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k

Warsaw, 14 March 2013

**AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
OF THE LUBELSKI WĘGIEL BOGDANKA GROUP
FOR THE FINANCIAL YEAR OF 2012**

I. GENERAL INFORMATION

1. Data on the audited Parent Undertaking

The Group's Parent Undertaking operates under the business name of Lubelski Węgiel Bogdanka S.A. Its registered office is Bogdanka, 21-013 Puchaczów.

The Company operates as a joint stock company, established on 1 March 1993 under a notarial deed before the Notary Jacek Wojdyło in Katowice (Repertory A No. 855/1993) under the business name of Kopalnia Węgla Kamiennego Bogdanka S.A. The Company was created as a result of transformation of the state-owned enterprise into a single shareholder company owned by the State Treasury.

On 12 February 2001, the Extraordinary General Shareholders Meeting adopted a resolution changing the business name into Lubelski Węgiel Bogdanka S.A.

The Company was entered to the commercial register kept by the District Court, VIII Commercial and Registration Division, in section B under the number RHB 2993, by virtue of a decision of 30 April 1993. Currently, the Company is entered to the register of entrepreneurs kept by the District Court in Lublin, XI Commercial and Registration Division, under the number KRS 0000004549.

The Company holds a tax identification number NIP: 713-000-57-84 assigned by the Second Tax Office in Lublin on 21 June 1993.

The Statistical Office assigned a business industry number REGON: 430309210 to the Company.

The Company operates on the basis of the provisions of the Commercial Companies Code.

The Company's Articles of Association provide for the following business activity:

- agriculture, forestry, hunting and fishery,
- mining and production,
- industrial processing,
- production and supply of electricity, gas, steam, hot water and air for air-conditioning installations,
- water delivery, solid and liquid waste management and reclamation activity,
- construction,
- wholesale, retail sale and repair of motor vehicles, including motorcycles,
- transport and warehouse management,

- activities related to lodging and catering,
- information and communications,
- financial and insurance,
- real estate activities,
- other professional, scientific and technical activities,
- administration and support activities,
- education.

In the audited period, the Company conducted activities related to mining and agglomeration of hard coal.

As at 31 December 2012, the registered share capital of the Company amounted to PLN 170,068,000 and was divided into 34,013,590 ordinary shares with a nominal value of PLN 5.00 each share.

As at 31 December 2012, the shareholders of the Company included:

- Otwarty Fundusz Emerytalny AVIVA BZ WBK S.A. – 14.74% of the shares,
- Otwarty Fundusz Emerytalny PZU Złota Jesień – 9.76% of the shares,
- ING Otwarty Fundusz Emerytalny – 9.63% of the shares,
- AMPLICO Otwarty Fundusz Emerytalny – 5.10% of the shares,
- Other shareholders – 60.77% of the shares.

As at 31 December 2012, the shareholders' equity of the Company amounted to PLN 2,280,211,000.

The financial year of the Group is the same as the calendar year.

As at the date of the Opinion, the composition of the Company's Management Board was as follows:

- Zbigniew Stopa President of the Management Board
- Waldemar Bernaciak Vice-President of the Management Board
- Krystyna Borkowska Vice-President of the Management Board
- Roger de Bazelaire Vice-President of the Management Board
- Krzysztof Szlaga Member of the Management Board
- Lech Tor Member of the Management Board

In the audited period and by the date of issuance of the opinion, there were the following changes in the composition of the Company's Management Board:

- By way of a resolution no. 21/VIII/2012 of 27 September 2012, the Supervisory Board removed Mr Mirosław Taras from his position as President of the Management Board,

- By way of a resolution no. 25/VIII/2012 of 27 September 2012, the Supervisory Board entrusted Mr Zbigniew Stopa with a function of acting President of the Management Board,
- By way of a resolution no. 33/VIII/2012 of 23 November 2012, the Supervisory Board entrusted Mr Zbigniew Stopa with a function of President of the Management Board,
- By way of a resolution no. 42/VIII/2013 of 25 January 2013, the Supervisory Board appointed Mr Zbigniew Stopa as President of the Management Board for the eighth term of office of three years, commencing on the date on which the General Shareholders Meeting approving the financial statements for the year of 2012 is held,
- By way of a resolution no. 43/VIII/2013 of 25 January 2013, the Supervisory Board appointed Mr Waldemar Bernaciak as Vice-President of the Management Board for the eighth term of office of three years, commencing on the date on which the General Shareholders Meeting approving the financial statements for the year of 2012 is held,
- By way of a resolution no. 44/VIII/2013 of 25 January 2013, the Supervisory Board entrusted Ms Krystyna Borkowska with a function of Vice-President of the Management Board - Chief Accountant, effective as of 4 March 2013 until the end of the seventh term of office, ending on the date on which the General Shareholders Meeting approving the financial statements for the year of 2012 is held,
- By way of a resolution no. 45/VIII/2013 of 25 January 2013, the Supervisory Board appointed Mr Roger de Bazelaire as Vice-President of the Management Board, effective as of 4 March 2013 until the end of the seventh term of office and for the eighth term of office of three years, commencing on the date on which the General Shareholders Meeting approving the financial statements for the year of 2012 is held,
- By way of a resolution no. 46/VIII/2013 of 25 January 2013, the Supervisory Board appointed Mr Krzysztof Szlaga as Member of the Management Board, effective as of 11 March 2013 until the end of the seventh term of office and for the eighth term of office, commencing on the date on which the General Shareholders Meeting approving the financial statements for the year of 2012 is held, and lasting three years.

The above changes were notified and entered to the competent court register, except for changes implemented by way of the resolutions of 25 January 2013.

As at 31 December 2012, the Lubelski Węgiel Bogdanka Group has the following members:

- Parent Undertaking - Lubelski Węgiel Bogdanka S.A., and
- subsidiary - Łęczyńska Energetyka Sp. z o.o.

The consolidated financial statements as at 31 December 2012 cover the following companies:

- a) Parent Undertaking - Lubelski Węgiel Bogdanka S.A.

We have audited the financial statements of the Parent Undertaking, Lubelski Węgiel Bogdanka S.A., for the period from 1 January 2012 to 31 December 2012. Following our

audit, on 14 March 2013 we issued an unqualified opinion on those financial statements.

b) Companies covered by full consolidation:

Company name and registered office	Share in capital (in %)	Entity auditing the financial statements and type of opinion issued	Balance sheet date of the consolidated undertaking	Date of the opinion
Łęczyńska Energetyka Sp. z o.o. Bogdanka, 21-013 Puchaczów	88.70%	PTE - Profit Sp. z o.o., By the date of signing the present report, no opinion on the audited financial statements has been issued	31 December 2012	-

c) Companies consolidated with the equity method – none.

The Parent Undertaking drawing up the consolidated financial statements did not apply any material simplifications of or departures from the adopted consolidation principles with respect to the controlled undertakings.

In the financial year the composition of the audited Group and the consolidated undertaking, for which the Parent Undertaking drew up the audited consolidated financial statements, did not change.

2. Information on the consolidated financial statements for the prior financial year

The Group closed operations in 2011 with a net profit of PLN 221,246,000. The Group's consolidated financial statements for the financial year of 2011 were audited by a certified auditor. The audit was conducted by an authorised entity PricewaterhouseCoopers Sp. z o.o. On 19 March 2012, the certified auditor issued an unqualified opinion on the financial statements.

The General Shareholders Meeting approving the consolidated financial statements for the financial year of 2011 was held on 27 April 2012.

The consolidated financial statements for the financial year of 2011 were filed with the National Court Register on 25 May 2012 and submitted for publication in the official gazette *Monitor Polski B* on 14 May 2012. The financial statements were published in *Monitor Polski B* no. 1608 on 2 August 2012.

3. Data on the authorised entity and the key certified auditor conducting the audit on its behalf

The consolidated financial statements were audited pursuant to an agreement of 17 July 2012, entered into between Lubelski Węgiel Bogdanka S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) with registered office in Warsaw at al. Jana Pawła II 19, entered on the list of entities authorised to audit financial statements, kept by the National Chamber of Certified Auditors in Poland, under the number 73. On behalf of the authorised entity, the audit was conducted under

supervision of a key certified auditor Joanna Sklarz-Snopek (No. 10781), in the registered office of the Parent Undertaking between 18 and 25 February 2013, and outside the registered office of the Company by the date of issuance hereof.

The authorised entity was selected by the Supervisory Board in a resolution of 27 June 2012, based on the authorisation included in Article 32 of the Articles of Association of the Parent Undertaking.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) and the key certified auditor Joanna Sklarz-Snopek confirm that they are authorised to audit financial statements and that they satisfy the conditions set forth in Article 56 of the Act on Certified Auditors and their Professional Self-Government, Entities Authorised to Audit Financial Statements and Public Supervision (Dz. U. of 2009 No. 77, item 649, as amended) for the purpose of expressing an impartial and independent opinion on the consolidated financial statements of the Lubelski Węgiel Bogdanka Group.

4. Availability of data and statements of the Company's management

The scope of our audit was not restricted in any way.

During the audit the authorised entity and the key certified auditor were provided with all required documents and data as well as received extensive information and explanations, which was confirmed, among others, in a written statement made by the Parent Undertakings's Management Board on 14 March 2013.

II. PROPERTY AND FINANCIAL STANDING OF THE GROUP

Below are presented the basic figures from the consolidated profit and loss account, and financial ratios describing the Group's financial profit/loss, property and financial standing as compared to the same figures for the prior year.

<u>Key figures from the profit and loss account (in PLN '000)</u>	<u>2012</u>	<u>2011*</u>
Revenue on sales	1,835,801	1,301,349
Costs of operating activities	-1,472,270	-1,035,717
Other operating income	4,065	5,597
Other operating expenses	-10,248	-5,490
Financial income	11,833	12,535
Financial expenses	-10,856	-6,293
Income tax	-68,543	-50,735
Net profit (loss)	289,782	221,246
Total income	289,782	221,246
<u>Return ratios</u>	<u>2012</u>	<u>2011</u>
- return on sales	19%	20%

- net return on sales	16%	17%
- return on equity	14%	12%

Turnover ratios

- assets turnover ratio	0.53	0.42
- receivables turnover ratio (in days)	41	44
- liabilities turnover ratio (in days)	22	25
- stocks turnover ratio (in days)	12	18

Liquidity/Net working capital

- debt ratio	34%	30%
- asset to equity ratio	66%	70%
- net working capital (in PLN '000)	5,829	94,996
- liquidity ratio	0.88	1.31
- quick ratio	0.79	1.17

*Financial data for the year of 2011 is taken from the approved financial statements which were not audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.)

The analysis of the above figures and ratios shows the following trends in 2012:

- decrease in return on sales and net return on sales,
- increase in return on equity,
- shorter assets turnover,
- shorter receivables, liabilities and stock turnover,
- increase in debt ratio with simultaneous decrease in asset to equity ratio,
- decrease in net working capital,
- decrease in liquidity ratios.

III. DETAILED INFORMATION

1. Information on the audited consolidated financial statements

The audited consolidated financial statements were drawn up as at 31 December 2012 and include:

- the consolidated statement of financial position as at 31 December 2012, with balance sheet totals, both on the assets and liabilities side, amounting to PLN 3,485,156,000,

- the consolidated statement of comprehensive income for the period from 1 January 2012 to 31 December 2012, with a net profit amounting to PLN 289,782,000 and a positive total comprehensive income amounting to PLN 289,782,000,
- the statement of changes in consolidated shareholders' equity for the period from 1 January 2012 to 31 December 2012, with an increase in shareholders' equity of PLN 153,728,000,
- the consolidated cash flow statement for the period from 1 January 2012 to 31 December 2012, with an increase in cash and cash equivalents of PLN 17,731,000,
- additional information, consisting of information on the adopted accounting policies and other explanatory information.

The structure of assets and shareholders' equity & liabilities as well as items affecting the financial profit/loss has been presented in the consolidated financial statements.

The audit covered the period from 1 January 2012 to 31 December 2012, and consisted mainly in:

- the examination whether the consolidated financial statements drawn up by the Management Board of the Parent Undertaking are correct and reliable,
- the examination of the consolidation documentation,
- the assessment whether consolidation methods and procedures applied during consolidation are correct,
- the review of opinions and reports prepared by other certified auditors following their audits of financial statements of subsidiary and associated undertakings covered by consolidation.

2. Consolidation documentation

The Parent Undertaking presented the consolidation documentation which included:

- 1) the financial statements of the undertaking covered by the consolidated financial statements,
- 2) the financial statements of the subsidiary undertaking adjusted to the accounting principles (policies) applied during consolidation,
- 3) all adjustments and eliminations made for the purpose of consolidation and necessary for drawing up the consolidated financial statements,
- 4) calculations of minority capitals.

Basis of drawing up the consolidated financial statements

The Group consolidated financial statements for the financial year of 2012 were drawn up in accordance with IFRS.

Identification of Group member undertakings

LUBELSKI WĘGIEL BOGDANKA GROUP

When specifying the scope and methods of consolidation as well as the relation of dependence, the criteria set forth in IFRS were applied.

Financial year

The consolidated financial statements were drawn up as at the same balance sheet date and for the same financial year as the financial statements of the Parent Undertaking, Lubelski Węgiel Bogdanka S.A. The consolidated subsidiary drew up its financial statements as at the same balance sheet date as the Parent Undertaking. The financial year of the consolidated subsidiary ended on 31 December 2012.

Consolidation method

Consolidation of the financial statements of the Group, in relation to the subsidiary, was made using the full method by summing up full amounts of all corresponding items in the financial statements of the Parent Undertaking and the consolidated subsidiary.

After the amounts were summed up, consolidation adjustments and eliminations were made, which concerned:

- the cost of acquisition of the shares held by the Parent Undertaking in the subsidiary and a part of the subsidiary's net assets corresponding to the Parent Undertaking's share in the ownership of the subsidiary,
- mutual accounts receivable and liabilities of the consolidated undertakings,
- material revenues and costs of the transactions effected between the consolidated undertakings.

There were no associated undertakings with respect to which the equity method was applied.

4. Complete and correct additional information and explanations and director's report on operations of the Group

The Parent Undertaking confirmed that application of the going concern principle in drawing up the financial statements was reasonable. Description of the principles regarding measurement of assets, shareholders' equity & liabilities, determination of financial profit/loss, and manner of drawing up the consolidated financial statements presented in the additional notes and explanatory information to the consolidated financial statements is correct and complete.

The Parent Undertaking prepared additional information and explanation as notes (in the form of tables) to individual items of the consolidated statement of financial position and statement of comprehensive income and as descriptions, in accordance with the principles set forth in IFRS.

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Explanatory information to the items of tangible fixed assets, intangible fixed assets, investments and provisions presents correctly their additions and disposals and reasons of such movements during the financial year.

Liquidity of particular assets disclosed in the consolidated statement of financial position was presented in view of collaterals established in favour of creditors.

The Parent Undertaking presented correctly the individual items of assets and shareholders' equity & liabilities as well as of revenues and costs in the consolidated financial statements.

The consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement together with additional information and explanations, making an integral part thereof, include all items the disclosure of which in the consolidated financial statements is required by IRFS.

The Management Board prepared directors' report on operations of the Group in the financial year of 2012 and attached it to the consolidated financial statements. The director's report on operations includes information required by Article 49.2 of the Accounting Act and the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information provided by issuers of securities and conditions for treatment of the information required by law of the state other than the Member State as equivalent. We checked that report as regards the information disclosed therein originating directly from the audited consolidated financial statements.

IV. CONCLUSION

Statement of the Management Board

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) and the key certified auditor received from the Management Board of the Parent Undertaking a written statement to the effect that the Group had observed the provisions of law.

[signature]

Joanna Sklarz-Snopek

Key Certified Auditor

conducting the audit

No. 10781

For Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – entity authorised to audit financial statements, entered on the list of authorised entities kept by the National Council of Certified Auditors in Poland under the number 73:

Deloitte Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (dawniej: Deloitte Audyt Sp. z o.o.)

LUBELSKI WĘGIEL „BOGDANKA” S.A.

[signature]

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
- general partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k

Warsaw, 14 March 2013