

**LUBELSKI WĘGIEL "BOGDANKA" S.A.
BOGDANKA, 21-013 PUCHACZÓW**

**FINANCIAL STATEMENTS
FOR THE 2014 FINANCIAL YEAR**

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

TABLE OF CONTENTS

AUDITOR’S OPINION	3
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF LUBELSKI WĘGIEL “BOGDANKA” S.A. FOR THE 2014 FINANCIAL YEAR.....	5
I. GENERAL INFORMATION	5
1. Details of the audited Company	5
2. Information on the financial statements for the previous financial year	5
3. Details of the authorized entity and the key certified auditor acting on its behalf.....	6
4. Availability of data and management’s representations.....	6
II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY	7
III. DETAILED INFORMATION	8
1. Evaluation of the accounting system.....	8
2. Information identifying the audited financial statements.....	8
3. Information about selected material items of the financial statements	8
4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Company.....	9
IV. FINAL NOTES	10

**FINANCIAL STATEMENTS OF LUBELSKI WĘGIEL “BOGDANKA” S.A.
FOR THE 2014 FINANCIAL YEAR**

1. Statement of Financial Position
2. Statement of Profit or Loss
3. Consolidated Statement of Comprehensive Income
4. Statement of Changes in Equity
5. Statement of Cash Flows
6. Notes comprising a summary of significant accounting policies and other explanatory information

**REPORT ON THE ACTIVITIES OF LUBELSKI WĘGIEL “BOGDANKA” S.A.
FOR THE 2014 FINANCIAL YEAR**

AUDITOR'S OPINION

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

We have audited the attached financial statements of Lubelski Węgiel "Bogdanka" S.A. with its registered office in Bogdanka, 21-013 Puchaczów (hereinafter: the "Company"), including statement of financial position prepared as of 31 December 2014, statement of profit or loss, statement of comprehensive income, statement of changes in equity, cash flow statement for the financial year from 1 January 2014 to 31 December 2014 and notes comprising a summary of significant accounting policies and other explanatory information as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations.

Preparation of financial statements and a report on the activities in line with the law is the responsibility of the Management Board of the Company.

The Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities of the Company meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013 item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the financial statements with the accounting principles (policy) adopted by the Company and whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Company and an opinion on the correctness of the underlying accounting records.

Our audit was planned and performed in accordance with:

- section 7 of the Accounting Act;
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) and material estimates applied by the Company, verification – largely on a test basis – of the accounting evidence and records supporting the amounts and disclosures in the financial statements, as well as overall evaluation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

- give a true and fair view of the information material to evaluation of the economic and financial position of the Company as of 31 December 2014 as well as its financial performance in the financial year from 1 January 2014 to 31 December 2014;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and its executive provisions and based on properly kept accounting records;
- comply with the provisions of law and the by-laws of the Company, which affect the contents of the financial statements.

The report on the activities of the Company for the 2014 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133) and consistent with underlying information disclosed in the audited financial statements.

Joanna Sklarz-Snopek
Key certified auditor
conducting the audit
No. 10781

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 11 March, 2015

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
OF LUBELSKI WĘGIEL "BOGDANKA" S.A.
FOR THE 2014 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Company

The Company operates under the business name Lubelski Węgiel "Bogdanka" S.A. (hereinafter: the "Company"). The Company's registered office is located in Bogdanka, 21-013 Puchaczów.

The Company operates as a joint stock company.

At present the Company is recorded in the Register of Entrepreneurs kept by the District Court for Lublin XI Business Division of the National Court Register, under number 0000004549.

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

As of 31 December 2014, the Company's share capital equalled PLN 170,068 thousand and was divided into 34,013,590 ordinary shares with a face value of PLN 5.00 each. The Company's share capital has been adjusted for the amount of PLN 131.090 thousand in connection to hyperinflationary corrections in previous years.

In the audited period, the Company conducted activities mainly in the area of mining and concentration of hard bituminous coal.

Composition of the Management Board as of the date of the opinion:

- | | |
|----------------------|--|
| – Zbigniew Stopa | – Chairman of the Management Board; |
| – Waldemar Bernaciak | – Vice-Chairman of the Management Board; |
| – Roger de Bazelaire | – Vice-Chairman of the Management Board; |
| – Krzysztof Szlaga | – Vice-Chairman of the Management Board. |

During the audited period and until the date of the opinion no changes in the Company's Management Board took place.

2. Information on the financial statements for the previous financial year

The activities of the Company in 2013 resulted in a net profit of PLN 326,530 thousand. The financial statements of the Company for 2013 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. On 18 March 2014 the certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the financial statements for the 2013 financial year was held on 12 June 2014. The General Shareholders' Meeting decided to distribute the net profit for 2013 in the following manner:

- | | |
|---------------------------------|-------------------------|
| – dividends for shareholders | – PLN 197,279 thousand; |
| – allocation to reserve capital | – PLN 129,251 thousand. |

The separate financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 3 July 2014.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board of 27 June 2012 based on authorization included in Article 32 of the Company's By-laws.

The audit of the financial statements was performed based on the agreement of 17 July 2012 concluded between the Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Joanna Sklarz-Snopek, key certified auditor, (No. 10781), in the registered office of the Company from 24 to 28 November 2014, from 16 to 20 February 2015 and outside its premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting the audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009 No. 77, item 649 as amended) to express an unbiased and independent opinion on the financial statements of Lubelski Węgiel “Bogdanka” S.A.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Company's Management Board of 11 March 2015.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

Presented below are the main items from the statement of profit or loss, statement of financial position as well as financial ratios describing the financial performance of the Company and its economic and financial position compared to the prior year.

<u>Main financial data from statement of profit or loss (PLN '000)</u>	<u>2014</u>	<u>2013</u>
Sales revenue	2 010 499	1 894 108
Operating expenses	(1 640 508)	(1 440 620)
Operating profit (loss)	358 639	422 091
Net profit (loss)	272 942	326 530

Main financial data from statement of financial position (PLN '000)

Inventory	130 848	110 361
Trade receivables	254 221	183 309
Current assets	605 152	541 397
Total assets	4 322 983	3 815 467
Equity	2 505 468	2 436 170
Short-term liabilities (including short-term provisions and accruals)	662 161	801 655
Trade liabilities	124 028	99 386
Total liabilities and provisions	1 817 515	1 379 297

<u>Profitability and efficiency ratios</u>	<u>2014</u>	<u>2013</u>
– return on sales	18%	22%
– net return on equity	12%	15%
– assets turnover ratio	0.47	0.50
– receivables turnover in days	39	35
– liabilities turnover in days	25	25
– inventory turnover in days	26	21

Liquidity/Net working capital

– debt ratio	42%	36%
– equity to fixed assets ratio	58%	64%
– net working capital (PLN '000)	(57 009)	(260 258)
– current ratio	0.91	0.68
– quick ratio	0.72	0.54

An analysis of the above figures and ratios indicated the following trends in 2014:

- a decrease in return on sales and net return on equity;
- a decrease in assets turnover ratio;
- an increase in the receivables and inventory turnover in days;
- an increase in the debt ratio and a decrease in equity to fixed assets ratio;
- a decrease in negative net working capital;
- an increase in the Company's liquidity.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation describing the adopted accounting principles, complying in all material respects with Article 10 of the Accounting Act. The principles have been applied consistently and did not change compared to the principles applied in the prior year. The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

Based on tests performed during the audit procedures, we have verified the adopted accounting system and found no misstatements that would affect the financial statements. Our audit did not include, though, the entire accounting system used by the Company. The accounting system adopted by the Company wasn't a subject of our audit as a whole.

The Company performed a physical count of assets and liabilities within the scope necessary to confirm the existence of the presented assets and liabilities.

2. Information identifying the audited financial statements

The audited financial statements were prepared as of 31 December 2014 and include:

- statement of financial position prepared as of 31 December 2014, with total assets and liabilities plus equity of PLN 4,322,983 thousand;
- statement of profit or loss for the period from 1 January 2014 to 31 December 2014 disclosing a net profit of PLN 272,942 thousand;
- statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 with a total comprehensive income of PLN 261,189 thousand;
- statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 69,298 thousand;
- cash flow statement for the period from 1 January 2014 to 31 December 2014, showing a cash outflow of PLN 5,635 thousand;
- notes to the financial statements comprising a summary of significant accounting policies and other explanatory information.

3. Information about selected material items of the financial statements

The structure of assets and liabilities as well as items affecting the financial result have been presented in the financial statements.

Property, plant and equipment

The property, plant and equipment include:

- technical equipment and machines of PLN 1,242,579 thousand;
- excavation site of PLN 1,135,744 thousand;
- other fixed assets of PLN 746,755 thousand;
- fixed assets under construction of PLN 404,468 thousand.

The notes correctly describe changes in fixed assets and fixed assets under construction and disclose any impairment losses on such assets.

Long-term investments

The Company's long-term investments include value of shares in related parties of PLN 75,601 thousand.

The notes correctly describe changes in investments during the financial year.

Inventory

The structure of inventory and related impairment losses has been correctly presented in the relevant explanatory note to the statement of financial position.

Receivables

Ageing of trade receivables has been correctly presented in the respective explanatory note to the statement of financial position, together with related impairment losses.

The Company's key receivables are trade receivables of PLN 254,221 thousand.

Liabilities

Key liabilities include:

- credit facilities and loans of PLN 99,008 thousand;
- liabilities due to issuance of bonds of PLN 700,106 thousand;
- trade liabilities of PLN 124,028 thousand;
- investment liabilities of PLN 187,062 thousand.

The nature of contracted loans and bonds, security and maturity has been presented in the notes to the financial statements.

Ageing and structure of liabilities have been correctly presented in the relevant explanatory note to the statement of financial position.

Prepayments, accruals and provisions for liabilities

The structure of prepayments, accruals and provisions for liabilities has been correctly presented in the relevant explanatory notes. Material items of deferred expenses and income have been correctly classified with respect to the audited financial year. Provisions for liabilities have been determined in reliably estimated amounts. The items have been recognized completely and correctly in all material respects in relation to the financial statements as a whole.

4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Company

The Company confirmed the validity of the going concern basis in preparation of the financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, liabilities, financial result and principles of preparation of the financial statements.

The notes to the financial statements give a correct and complete description of the reporting items and clearly present other information required under IFRS.

The financial statements have been supplemented with the Management Board's report on the activities of the Company in the 2014 financial year. The report contains information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133). We have audited the report with respect to the disclosed information derived directly from the audited financial statements.

IV. FINAL NOTES

Management Board’s Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Company’s Management Board, in which the Board stated that the Company complied with the laws in force.

Joanna Sklarz-Snopek
Key certified auditor
conducting the audit
No. 10781

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 11 March 2015