

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

**FINANCIAL STATEMENTS
FOR THE 2016 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 2016 FINANCIAL YEAR.....	6
I. GENERAL INFORMATION.....	6
1. Details of the audited Company	6
2. Information on the financial statements for the previous financial year	6
3. Details of the authorized entity and the key certified auditor acting on its behalf	7
4. Availability of data and management's representations.....	7
II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY	8
III. DETAILED INFORMATION.....	9
1. Evaluation of the accounting system	9
2. Information identifying the audited financial statements	9
3. Information about selected material items of the financial statements	9
4. Completeness and correctness of notes and explanations and the report on the activities of the Company	10
IV. FINAL NOTES.....	11

FINANCIAL STATEMENTS FOR THE 2016 FINANCIAL YEAR

1. Statement of Financial Position
2. Statement of Profit or Loss
3. 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 THE COMPANY FOR THE 2016 FINANCIAL YEAR

AUDITOR'S OPINION

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

Auditor's report

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 at 31 December 2016, statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows for the financial year from 1 January 2016 to 31 December 2016 and notes comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the Company's manager and those charged with governance for the financial statements

The Management Board of the Company is responsible for the preparation of the financial statements, based on properly kept accounting records, and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws. It is also responsible for such internal control as Management Board of the Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as the "Accounting Act" the Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit works.

We conducted our audit in accordance with Section 7 of the Accounting Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Company, evaluating if accounting books based on which financial statements are prepared, are properly kept, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities.

It is the responsibility of the Management Board of the Company to prepare the report on the activities in accordance with the Accounting Act and other applicable laws. Moreover, the Management Board of the Company and members of the Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act.

When auditing the financial statements we were obliged to examine the report on the activities and indicate whether the information contained therein complies with Article 49 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 as amended) and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities based on our knowledge of the Company and its business environment obtained in the course of the audit.

In our view, the information contained in the report on the activities complies with Article 49 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 as amended) and is consistent with underlying information disclosed in the attached financial statements. Moreover, based on our knowledge of the Company and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities.

Statement of compliance with corporate governance principles

In relation to our audit of the financial statements, it was our responsibility to examine the Company's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities. In our view, the Company's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the financial statements.

Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

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, 29 March 2017

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 2016 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. The Company is recorded in the Register of Entrepreneurs kept by the District Court for Lublin-Wschód in Lublin with its registered seat in Świdnik, VI Business Division of National Court Register under KRS number 0000004549.

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

As of 31 December 2016, the Company's share capital equaled PLN 170.068 thousand and was divided into 34,013,590 ordinary shares with a face value of PLN 5.00 each.

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:

- | | |
|------------------------|------------------------------------------|
| - Krzysztof Szlaga | - Chairman of the Management Board, |
| - Stanisław Misterek | - Vice-Chairman of the Management Board, |
| - Adam Partyka | - Vice-Chairman of the Management Board, |
| - Marcin Kaptowski | - Vice-Chairman of the Management Board, |
| - Sławomir Karlikowski | - Vice-Chairman of the Management Board. |

Changes in the composition of the Management Board during the audited period and until the date of the opinion:

- on 24 March 2016 the Supervisory Board dismissed the Management Board of the 9th term of office composed Zbigniew Stopa, Waldemar Bernaciak, Piotr Janicki and Jakub Stęchły effective from 31 March 2016. At the same time the Supervisory Board appointed the Management Board for the 10th term of office composed of Krzysztof Szalega, Stanisław Misterek and Adam Partyka,
- on 13 May 2016 the Supervisory Board appointed Mr. Marcin Kapkowski and Mr. Sławomir Karlikowski to Management Board effective from 23 May 2016.

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

The activities of the Company in 2015 resulted in a net loss of PLN 278,029 thousand. The financial statements of the Company for the 2015 financial year were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the financial statements for the 2015 financial year was held on 22 June 2016. The General Shareholders' Meeting decided to coverage of the net loss for 2015 from the reserve capital of the Company.

The financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 4 July 2016.

The consolidated financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 4 July 2016.

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 Supervisory Board. The audit of the financial statements was performed based on the agreement of 13 August 2015 concluded between the Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 22, 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 Artur Maziarka, key certified auditor, (No.90108), in the registered office of the Company from 21 November to 25 November 2016, 16 January to 20 January 2017 and outside the Company's premises until the opinion date.

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 certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016 item 1000 as amended) to express an unbiased and independent opinion on the financial statements of the Company.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, 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 Management Board of 29 March 2017.

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.

Main items from the statement of profit or loss 2016 2015
(PLN '000)

Sales revenue	1.781.776	1.883.118
Operating expenses	(1.561.155)	(2.207.220)
Operating profit (loss)	225.809	(328.502)
Net profit (loss)	175.896	278.029

Main items from the statement of financial position
(PLN '000)

Inventory	70 037	101 452
Trade receivables	196 652	201 161
Current assets	839 970	616 156
Total assets	3 748 429	3 594 729
Equity	2 269 666	2 105 890
Short-term liabilities (including short-term provisions and accruals)	441 234	392 465
Trade liabilities	118 042	84 028
Total liabilities and provisions	1 478 763	1 488 839

Profitability and efficiency ratios 2016 2015

- return on sales	13%	-17%
- net return on equity	8%	15%
- assets turnover ratio	0.48	0.52
- receivables turnover in days	40	44
- liabilities turnover in days	23	17
- inventory turnover in days	20	19

Liquidity/Net working capital

- debt ratio	39%	41%
- equity to fixed assets ratio	61%	59%
- net working capital (PLN '000)	398 736	223 691
- current ratio	1.90	1.57
- quick ratio	1.74	1.31

An analysis of the above figures and ratios indicated the following trends in 2016:

- an increase of return on sales,
- a decrease of net return on equity;
- a decrease of assets turnover ratio;
- a decrease of receivables turnover ratio;
- an increase of liabilities and inventory turnover ratios;
- a decrease of debt ratio and an increase in equity to fixed assets ratio.

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

2. Information identifying the audited financial statements

The audited financial statements were prepared as of 31 December 2016 and include:

- statement of financial position prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 3,748,429 thousand,
- statement of profit or loss for the period from 1 January 2016 to 31 December 2016, with a net profit of PLN 175,896 thousand,
- statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 with a total comprehensive income of PLN 169,689 thousand,
- statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing an increase in equity of PLN 163,776 thousand,
- statement of cash flows for the period from 1 January 2016 to 31 December 2016, showing a cash inflow of PLN 273,421 thousand,
- notes, 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, equity 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 mainly:

- technical equipment and machines of PLN 1,012,258 thousand;
- excavation sites of PLN 971,287 thousand;
- other buildings and structures of PLN 472,731 thousand;
- fixed assets under construction of PLN 157,623 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 in the amount of PLN 196,652 thousand.

Liabilities

Key liabilities include:

- liabilities due to issuance of bonds of PLN 600,080 thousand;
- trade liabilities of PLN 118,942 thousand.

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

Ageing and structure of liabilities by type and maturity 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 notes and explanations and the report on the activities of the Company

The Company confirmed the validity of the going concern principle in the preparation of the financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, equity, 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 2016 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 as amended). 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.

Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

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, 29 March 2017