

**LUBELSKI WĘGIEL „BOGDANKA” S.A.  
CAPITAL GROUP  
BOGDANKA, 21-013 PUCHACZÓW**

**CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR 2017**

**WITH  
AUDITOR'S REPORT**

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### **REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP FOR THE FINANCIAL YEAR 2017**

## AUDITOR'S REPORT

**To the General Shareholders' Meeting and Supervisory Board of LUBELSKI WĘGIEL „BOGDANKA” S.A.**

### **Auditor's report**

We have audited the attached annual consolidated financial statements of the Lubelski Węgiel „Bogdanka” S.A. Capital Group (hereinafter: the “Capital Group”), for which Lubelski Węgiel „Bogdanka” S.A. (hereinafter: the “Parent”) with its registered office in Bogdanka, at 21-013 Puchaczów is the Parent Company, comprising: a consolidated statement of financial position prepared as at 31 December 2017, consolidated statement of result, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows prepared for the financial year from 1 January 2017 to 31 December 2017 and notes comprising a summary of significant accounting policies and other explanatory information (hereinafter: “consolidated financial statements”).

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

The Management Board of the Parent Company is obliged to prepare the consolidated financial statements and to present them fairly in line with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and other applicable laws as well as the entity's articles of association. The Management Board of the Parent Company is also responsible for ensuring internal control necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2018, item 395, as amended), hereinafter referred to as the “Accounting Act”.

*Auditor's responsibility*

Our responsibility was to express an opinion whether the consolidated financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group in line with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies).

Our audit of the consolidated financial statements has been performed in accordance with:

- 1) the Act on statutory auditors, auditing companies and public oversight of 11 May 2017 (Journal of Laws of 2017, item 1089, as amended) (“*Act on statutory auditors*”);
- 2) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and OJ EU L 170, 11 June 2014, p. 66) (“*Regulation 537/2014*”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the consolidated financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company's preparation and fair presentation of the consolidated 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 Management Board of the Parent Company, as well as evaluating the overall presentation of the consolidated financial statements.

The scope of the audit does not include an assurance regarding the future profitability of the audited Capital Group or the effectiveness of the Parent Company's Management Board in managing the Capital Group's affairs at present and in future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit opinion is consistent with the additional report to the Audit Committee issued as of the date of this auditor's report.

#### *Independence*

During the audit the key certified auditor and the audit firm remained independent of the audited members of the Capital Group in accordance with the provisions of the Act on statutory auditors, Regulation 537/2014 and the ethical requirements set out in resolution of the National Council of Statutory Auditors.

We certify that, to the best of our knowledge and belief, we have not provided non-audit services, which are prohibited under Article 136 of the Act on statutory auditors and Article 5.1 of Regulation 537/2014, to the entities that belong to the Capital Group.

#### *Choice of audit firm*

We were appointed to audit the consolidated financial statements of the Capital Group by resolution of the Supervisory Board adopted on 26 June, 2015. We have been auditing the consolidated financial statements of the Capital Group for an uninterrupted period beginning with the financial year ended 31 December 2012, i.e. for 6 consecutive financial years.

*Most significant risks*

During the audit we identified the following, most significant risks of material misstatement, also resulting from fraud, and we designed audit procedures responsive to those risks. Where deemed appropriate for the understanding of the identified risks and the audit procedures performed by the auditor, we also included the most important findings related to those risks.

<p align="center"><b>Description of the risks of material misstatement</b></p>	<p align="center"><b>Procedures carried out by the auditor in response to identified risks and where applicable key observations arising with respect to those risks</b></p>
<p><b>The risk of incorrect reversal of impairment of non-financial non-current assets</b></p> <p>Before the end of the financial year, the Capital Group has performed assessment of indicators for reversing the impairment loss on non-current assets created in 2015. Due to the identification of relevant indicators, the Capital Group has estimated the recoverable amount of assets.</p> <p>As a result of the test, the The Management Board of the Parent Company decided to reverse the impairment loss in the amount of kPLN 601.062.</p> <p>In note 4.3, the Capital Group has disclosed information's regarding the estimated recoverable amount, including the adopted basic assumptions.</p> <p>The reversal of the recognized impairment loss on non-current assets was the subject of our analysis due to its significant impact on financial statements of the Capital Group and the complexity of the issue and the sensitivity of the results to the adopted assumptions.</p>	<p>As a part of the verification of the reversal of impairment the value of non-financial non-current assets, we conducted an analysis and understanding of the process of carrying out an impairment test and the assumptions underlying the calculation of recognized in the financial statements of reversal of impairment.</p> <p>In addition, we conducted:</p> <ul style="list-style-type: none"> <li>• Verification of the test methodology;</li> <li>• Verification of compliance of operational assumptions with the applicable models of reserves and resources as well as the life span of the mine and the Capital Group's Strategy;</li> <li>• Analysis of key assumptions, such as price paths, discount rate, tax rates;</li> <li>• Comparison of applied WACC to market levels.</li> </ul> <p>An internal specialist was involved in the verification of the models and assumptions.</p>
<p><b>Revenue recognition of sales in the correct reporting period</b></p> <p>Standard ISA 240 states that when recognizing and assessing the risk of material misstatement due to fraud, the auditor, based on the assumption that the risk of fraud is associated with revenue recognition, evaluates which types of revenue, transactions associated with revenue or assertions may give rise to such a risk.</p> <p>In note 2.20, the Capital Group has described the accounting policy applied to revenue recognition.</p>	<p>In response to the identified risk, our procedures included:</p> <ul style="list-style-type: none"> <li>• detailed understanding and analysis of policies regarding revenue recognition and related processes;</li> <li>• an overview of the most significant or newly signed contracts in force in the audited period and the correctness of the revenue recognition principles applied;</li> <li>• results of work on the assessment of design and implementation of control mechanisms regarding the moment of recognizing sales revenue;</li> </ul>

<p>The issue of revenue recognition of sales in the correct reporting period was the subject of our analysis due to the significance of the item in the financial statements of the Capital Group and vulnerability to the risk of intentional distortion.</p>	<ul style="list-style-type: none"> <li>• detailed tests on a sample for a period considered to be risky, based on our understanding of the process;</li> <li>• detailed tests of sales corrections issued in 2018.</li> </ul>
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*Opinion*

In our opinion, the attached annual consolidated financial statements:

- give a true and fair view of the economic and financial position of the Capital Group as at 31 December, 2017 and its financial performance during the financial year from 1 January, 2017 to 31 December, 2017, in accordance with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);
- comply, with respect to their form and content, with the applicable provisions of law, including the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) and the articles of association of the Parent Company.

**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 of the Capital Group.

It is the responsibility of the Management Board of the Parent Company to prepare the report on the activities of the Capital Group in accordance with the Accounting Act and other applicable laws. The Management Board of the Parent Company and members of the Supervisory Board are also obliged to ensure that the report on the activities of the Capital Group meets the requirements of the Accounting Act.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on the activities of the Capital Group complies with the provisions of law and is consistent with underlying information disclosed in the attached consolidated financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities of the Capital Group based on our knowledge of the Capital Group and its business environment obtained in the course of the audit and to explain the nature of each such material misstatement.

In our opinion, the report on the activities of the Capital Group has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached consolidated financial statements. Furthermore, based on our knowledge of the Capital Group and its business environment obtained in the course of the audit we believe that the report on the activities of the Capital Group is free from material misstatement.

*Opinion on the statement of compliance with corporate governance principles*

The Management Board and members of the Supervisory Board of the Parent Company are responsible for the preparation of the statement of compliance with corporate governance principles in line with the provisions of law. The Management Board of the Parent Company and members of the Supervisory Board are obliged to ensure that the statement of compliance with corporate governance principles meet the requirements of the provisions of law.

As the auditors of the financial statements we were obliged — under the act on statutory auditors — to issue an opinion as to whether the issuer, required to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities, included in such statement the legally required information and — with respect to specific information so required or required by other rules — a declaration whether it complies with applicable regulations and is consistent with the information included in the annual consolidated financial statements.

In our opinion, the statement of compliance with corporate governance principles includes information specified in Article 91.5.4 letters a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) (“*Ordinance*”). The information specified in Article 91.5.4 letters c-f, h and i of the Ordinance given in the statement of compliance with corporate governance principles is consistent with the applicable provisions of law and the information presented in the annual consolidated financial statements.

*Information about the non-financial statement*

In accordance with the requirements set out in the Act on statutory auditors, we would like to inform you that the Parent Company has prepared a non-financial statement referred to in Article 49b.1 of the Accounting Act which constitutes a separate part of the report on the activities of the Capital Group.

We have not performed any assurance works as regards the non-financial statement and we do not express any assurance regarding that statement.

On behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (until 18 march 2018 operating under the name Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k.) — entity entered under number 73 on the list of audit firms kept by the National Council of Statutory Auditors:

Adrian Karaś  
Key certified auditor  
No. 12194

Warsaw, 22 March 2018

***This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.***