Independent Registered Auditor's Report

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

Report from audit of the annual consolidated financial statements

Our Opinion

In our opinion, the attached annual consolidated financial statements of the capital group Lubelski Węgiel „Bogdanka" ("Group") in which the parent entity is Lubelski Węgiel „Bogdanka" S.A. ("Parent Entity"):

- give a true and fair view of the financial position of the Group as at 31 December 2018 as well as its consolidated financial and cash flow result for the financial year ended on the said date in accordance with the applicable International Financial Reporting Standards approved by the European Union and adopted accounting principles (policy);
- are compliant with the provisions of the law applicable to the Group as well as the Memorandum of Association of the Parent Entity as regards their form and content;

This opinion is compliant with our additional report for the Audit Committee that we issued on the day of this report.

Subject of Our Audit

We conducted the audit of the annual consolidated financial statements of the Group consisting of:

- consolidated statement of financial position (balance sheet) as at 31 December 2018;

and the following, drafted for the financial year from 1 January to 31 December 2018:

- consolidated statement of profit or loss and other comprehensive income;
- consolidated statement of comprehensive income;
- consolidated statement of changes in equity;
- consolidated cash flow statement with consolidated cash flows from operating activity and
- notes to the consolidated financial statements containing a description of the adopted accounting principles and other explanatory information.

Basis of the Opinion

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We conducted our audit pursuant to the International Standards on Auditing in the version adopted as the National Standards on Auditing by the National Board of Registered Auditors ("NSA") and pursuant to the provisions of the Act of 11 May 2017 on Registered Auditors, Auditing Companies and Public Supervision ("Act on Registered Auditors" - Journal of Laws of 2017, item 1089, as amended) as well as Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("EU Regulation" - O.J. EU L158). Our liability under NSA is described in the section *Registered Auditor's Liability for the Audit of the Consolidated Financial Statements*.

We believe that the audit evidence we obtained is sufficient and adequate to form a basis for

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k.,
(formerly: PricewaterhouseCoopers sp. z o.o.)
ul. Polna 11, 00-633 Warsaw, Poland
T: +48 (22) 746 4000, F: +48 (22) 742 4040, www.pwc.com

our opinion.

Independence and Ethics

We are independent from the Group pursuant to the Code of Ethics for Professional Accountants of the International Federation of Accountants ("*IFAC Code*") adopted under the resolutions of the National Board of Registered Auditors as well as other ethical requirements applicable to our audit of financial statements in Poland. We have fulfilled our other ethical obligations in compliance with the said requirements and the IFAC Code. In the course of the audit, the key registered auditor and the auditing company remained independent from the Group in compliance with the independence requirements provided for in the Act on Registered Auditors and EU Regulation.

Our Approach to the Audit

Summary

- The overall materiality applied for the purposes of our audit was determined at the level of PLN 14,839 thousand which is equivalent to 2.5% of the average consolidated EBITDA value in 2016-2018.

- We conducted the audit of the Parent Entity and four subsidiaries in Poland.
- The audit team visited the following subsidiaries: „Łęczyńska Energetyka" Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o., RG „Bogdanka" Sp. z o.o., MR Bogdanka Sp. z o.o.
- The scope of our audit covered 100% of the Group's revenues and 100% of the sum of assets of all consolidated companies from the Group prior to application of consolidation exclusions.

- Provisions for liabilities related to the mining activity
- Capital expenditures regarding construction of mining excavations

We designed our audit determining the materiality and assessing the risk of material misstatement of the consolidated financial statements. In particular, we considered where the Parent Entity's Management Board used their subjective judgement; in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also referred to the risk of overriding the internal control by the Management Board of the Parent Entity, including - but not limited to - consideration if there was any evidence of bias of the Management Board of the Parent Entity that would pose a risk of material misstatement resulting from a fraud.

We adjusted the scope of our audit for the purpose of performance of sufficient work allowing us to issue an opinion on the consolidated financial statements as a whole, taking into account the Group structure, accounting processes and control as well as the industry in which the Group operates.

Materiality

The adopted materiality threshold had an effect on the scope of our audit. The audit was designed to obtain reasonable certainty if the consolidated financial statements as a whole do not contain any material misstatements. Misstatements can result from a fraud or error. Misstatements are considered material if it can be reasonably expected that they, individually or in aggregate, could affect the economic decisions of the users made on the basis of the consolidated financial statements.

On the basis of our professional judgement, we established quantitative thresholds for materiality, including overall materiality in relation to the consolidated financial statements as a whole, as presented below. The said thresholds, together with qualitative factors, allowed us to determine the scope of our audit and the type, time and scope of audit procedures as well as the assessment of effect of misstatements, both individually or in aggregate, on the consolidated financial statements as a whole.

The concept of materiality is applied by the registered auditor both in planning and conducting the audit as well as in assessment of the effect of misstatements identified during the audit and not adjusted, if any, on the financial statements as well as in formulation of the registered auditor's opinion. In connection with the aforementioned, all opinions, declarations and statements included in the registered auditor's report from the audit are expressed taking into consideration the qualitative and value-based level of materiality established in compliance with the standards on auditing and professional judgement of the registered auditor.

Overall Materiality for the Group	PLN 14,839 thousand
Basis for Determination	2.5% of the average EBITDA value in 2016 - 2018. Consolidated EBITDA is an alternative indicator for result measurement and was defined in the Consolidated Annual Report of the Company and Group in the section "Glossary". The Management Board of the Parent Entity is responsible for definition and determination of this indicator and the method of its calculation can be different for different entities. In 2018, consolidated EBITDA of the Group declined due to singular events of geological and hydrogeological nature which resulted in lower commercial coal production, thus a decision was made to adopt the average EBITDA value for years 2016-2018 as the basis. The purpose of EBITDA averaging was to determine a standardised measure that could be a basis for determination of the materiality threshold.
Justification of the adopted basis	For the Group, EBITDA is the main indicator analysed by, inter alia, shareholders. We adopted materiality at the level of 2.5% as, on the basis of our professional judgement, it falls within the range of acceptable quantitative thresholds applied for the purposes of audit of financial statements of public interest entities.

We agreed with the Audit Committee of the Parent Entity that we would inform about the misstatements of the consolidated financial statements identified during the audit if they exceed PLN 1,484 thousand as well as about misstatements below this amount if, in our opinion, it would be justified bearing in mind the qualitative factors.

Key Audit Matters

Key audit matters are those matters which, according to our professional judgement, were the most significant during our audit of the consolidated financial statements for the current period. These include the most significant assessed types of risk of material misstatement, including the assessed types of risk of material misstatement caused by fraud. We referred to these matters in the context of our audit of the consolidated financial statements as whole and in formulation of our opinion and we summarised our reaction to these types of risk, and in the cases we found reasonable, we presented the most important observations related to these types of risk. We do not issue a separate opinion regarding these matters.

Key Audit Matter	***How Our Audit Refers to this Matter***
Provisions for liabilities related to the mining activity In connection with the type of conducted activity, the Parent Entity is obliged to create provisions specific for the mining business. These include, inter alia: provision for mining plant decommissioning costs and provision for costs of reclamation of lands occupied to conduct the business activity which amounted to the total of PLN 124,207 thousand as at 31 December 2018. The value of provisions is a key matter of the audit due to the complexity of assumptions made for the purpose of the calculations as well as the significant value of the balance which is material from the point of view of the consolidated financial statements. The Management Board creates provisions using the report prepared by a third-party expert. The amount of the provision is subject to discounting and the corresponding assets are depreciated over the time corresponding to the expected service life of the mine. The accounting policy, details regarding adopted assumptions and calculation of significant estimates as well as other significant information in the scope of provisions for liabilities are included in note 2.18 and 19 of the Group's consolidated financial statements. Furthermore, the effect of the change of the estimate to the value of assets is shown in note 2.1.1.	In order to address the identified risk, we gained detailed knowledge regarding the processes related to estimation of provisions for liabilities, adopted assumptions as well as accounting policies applied in this scope. We assessed the assumptions made by the Parent Entity for the purposes of calculation of provisions, correctness of input data applied in the calculation (including completeness of components of fixed assets that will be subject to decommissioning or reclamation) as well as correctness and completeness of disclosures in the scope of provisions related to the mining activity. We also verified the mathematical correctness of the calculation of provisions as well as correctness of depreciation of assets related to the future costs of mining plant decommissioning as well as discount settlement. We also assessed the competences of the expert, in particular, considering whether he has the relevant knowledge, experience and database to estimate in a reliable manner the amount of future costs of mining plant decommissioning and land reclamation. On the basis of the conducted procedures, we did not identify any need for material adjustments or supplementation to the consolidated financial statements.

Capital expenditures regarding construction of mining excavations

For the purposes of coal deposit mining, thus, for the purpose of conducting its primary operating activity, the Group incurs significant capital expenditures related to construction and modernisation of excavations. In the financial year ended on 31 December 2018, the total capital expenditures for construction and modernisation of excavations amounted to PLN 300,174 thousand.

The capital expenditures regarding construction of mining excavations are a key issue for the audit due to the long-term nature of the implemented investments, significant share of the payroll costs and mark-ups thereon in the excavations value, complex process of allocation of costs to the particular tangible assets under construction as well as the amount of capital expenditures which is material from the point of view of the financial statements.

The accounting policy and other significant information in the scope of capital expenditures are presented in note 2.4 and 4.1. of the consolidated financial statements of the Group.

Within the framework of verification of the capital expenditures activated by the Parent Entity, we gained understanding of the excavations construction process, particular stages of investment implementation as well as accounting principles in this scope.

The process included, inter alia, tests of controls regarding acceptance of the capital expenditures according to the procedure effective at the Parent Entity and correctness of allocation of payroll costs to the investments under implementation.

We carried out detailed tests in order to verify the value of investments implemented in the audited year as well as assessment of correctness of settlement of the costs related to the investment.

For the investment tasks completed in the audited year, we verified correctness of the depreciation commencement period and considered the correctness of depreciation methods and assumptions.

We also considered the risk of value impairment for the excavations under construction.

We carried out an analytical review regarding dependencies between the expenditures made for construction of excavations and the total length of new and modernised excavations.

We carried out our procedure based on the sample of selected transactions concluded in the audited year.

As a result of conducted audit procedures, we did not identify any need for material adjustments to the consolidated financial statements.

Responsibility of the Management Board and Supervisory Board for the Consolidated Financial Statements

The Parent Entity's Management Board is responsible for preparation of the annual consolidated financial statements which present in a fair and clear manner the economic and financial situation as well as financial result of the Group pursuant to the International Financial Reporting Standards approved by the European Union, adopted accounting principles (policy) as well as provisions of the law and memorandum of association of the Parent Entity applicable to the Group, and for internal control the Management Board considers necessary to allow for preparation of the financial statements without any material misstatements caused by a fraud or error.

Drafting the consolidated financial statements, the Parent Entity's Management Board is responsible for assessment of the Group's capability of continuing its operation, disclosure, if applicable, of any matters related to continuation of operation as well as adoption of the going concern principle as the basis of accounting, except for situations when the Parent Entity's Management Board intends to liquidate the Group or discontinue the operator or there is no real alternative for liquidation or discontinuation of operation.

The Management Board of the Parent Entity as well as members of its Supervisory Board are obliged to ensure compliance of the consolidated financial statements with the requirements of the Account Act of 29 September 1994 ("Accounting Act" - consolidated text: Journal of Laws of 2019, item 351, as amended). The Members of the Supervisory Board are responsible for supervision over the financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objective is obtaining reasonable certainty if the consolidated financial statements as a whole do not contain any material misstatement resulting from a fraud or error as well as issue of the report from audit containing our opinion. Reasonable certainty is a high level of certainty, but it does not guarantee that the audit conducted in compliance with NSA will always identify a material misstatement. Misstatements can result from a fraud or error and are considered material if it can be reasonably expected that they, individually or in aggregate, could affect the economic decisions of the users made on the basis of the consolidated financial statements.

The scope of the audit does not cover guaranteeing future profitability of the Group or effectiveness or efficiency of running the affairs by the Parent Entity's Management Board, both at present or in the future.

During the audit compliant with NSA, we apply professional judgement and professional scepticism, and:

- we identify and estimate the risk of material misstatement of the consolidated financial statements caused by a fraud or error, design and conduct audit procedures corresponding to such risks and obtain audit evidence that are sufficient and adequate to form a basis for our opinion. The risk of failure to identify a material misstatement resulting from fraud is higher than in case of a misstatement resulting from an error as fraud can be related to collusion, forgery, intentional omissions, misleading actions or internal control override;
- we obtain an understanding of the internal control applied for the audit to design audit procedures adequate for the given circumstances, but not to express an opinion regarding effectiveness of the Group's internal control;
- we assess adequacy of applied accounting principles (policy) as well as legitimacy of the accounting estimates and related disclosures made by the Parent Entity's Management Board;
- we draw a conclusion regarding the adequacy of application by the Parent Entity's Management Board of the going concern principle as the accounting basis and, on the basis of the obtained audit evidence, whether there is any material uncertainty related to events or conditions that could give rise to significant doubts regarding the Group's capability in terms of continuation of operation. Should we conclude that the said material uncertainty exists, we are required to emphasise in the registered auditor’s report the related disclosures in the consolidated financial statements or, if the disclosures are inadequate, we modify our opinion. Our conclusions are based on the audit evidence obtained up to the day of preparation of the registered auditor’s report, however future events or conditions could result in discontinuation of operation by the Group;
- we assess the general presentation, structure and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner ensuring reliable presentation.
- we obtain sufficient audit evidence regarding financial information of the entities or business activities inside the Group for the purpose of issue of an opinion on the consolidated financial

statements. We are responsible for directing, supervision and performance of the audit of the Group and we bear exclusive liability for our opinion from the audit.

We communicate with the Audit Committee in matters including, but not limited to, the planned scope and time of the audit as well as significant audit findings, including all significant weaknesses of the internal control identified by us during the audit.

We declare to the Audit Committee that we observed the relevant ethical requirements regarding independence, and we communicate all relations and other matters that could be reasonably considered a threat for our independence and, where applicable, we inform about the applied safeguarding measures.

Among the issues communicated to the Audit Committee, we selection those most important during the audit of the consolidated financial statements for the current period and, thus, we considered them the key audit matters. We describe these matters in our registered auditor's report, unless the provisions of the law or regulations prohibit public disclosure of information regarding them or if, in exceptional circumstances, we find that the given issue should not be communicated in our report as it can be reasonably expected that the negative consequences would exceed advantages of such a disclosure for the public interest.

Other Information, Including the Annual Report

Other Information

Other information includes Consolidated Annual Report of the Parent Entity and Group for the financial year ended on 31 December 2018 ("Consolidated Annual Report") with the corporate governance declaration and declaration on non-financial information referred to in Art. 49b section 1 and Art. 55 section 2b of the Accounting Act forming separate parts of the Consolidated Annual Report as well as consolidated statement of payments for public administration referred to as the consolidated statement of payments for public administration (collectively: "Other Information").

Responsibility of the Management Board and Supervisory Board

The Parent Entity's Management Board bears liability for preparation of Other Information in compliance with the law.

The Parent Entity's Management Board and members of the Supervisory Board are obliged to ensure that the Consolidated Annual Report of the Parent Entity and Group, together with separate parts, as well as the consolidated statement of payments for public administration meet the requirements of the Accounting Act.

Registered Auditor's Liability

Our opinion from the audit of the consolidated financial statements does not cover Other Information.

In connection with the audit of the consolidated financial statements and financial statements of the Parent Entity, we are obliged to familiarise ourselves with Other Information and consider if they are coherent with the consolidated financial statements and financial statements of the Parent Entity, compliant with our knowledge obtained in the course of the audit or if they seem materially misstated in any other manner. If, on the basis of performed work, we find material misstatement of the Consolidated Annual Report or consolidated statement of payments for public administration, we are obliged to include such an information in our report from the audit. Our obligation, under the requirements of the Act on Registered Auditors, is also to issue the opinion whether the Consolidated Annual Report was prepared in accordance with the provisions of the law and whether it is compatible with the information included in the annual consolidated financial statements and financial statements of the Parent Entity.

Furthermore, we are obliged to issue an opinion whether the Parent Entity and Group included the required information in the corporate governance declaration and to inform whether the Parent Entity and Group drafted the declaration on non-financial information.

Opinion on the Consolidated Annual Report

On the basis of work performed in the course of our audit, we conclude that the Consolidated Annual Report of the Parent Entity and Group:

- was drafted in compliance with the requirements of Art. 49 of the Accounting Act and para 70 and para 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information supplied by the issuers of securities and conditions of considering information required by the laws of a non-member state equivalent ("Regulation on Current Information" - Journal of Laws of 2018, item 757);
- is compliant with the information disclosed in the consolidated financial statements and financial statements of the Parent Entity.

Moreover, we declare that in the light of the knowledge about the Parent Entity and Group and their surroundings obtained in the course of our audit, we found no material misstatements in the Consolidated Annual Report of the Parent Entity and Group.

Opinion on the Corporate Governance Declaration

In our opinion, the Parent Entity and Group included the information specified in para. 70 section 6 point 5 of the Regulation on Current Information in the Corporate Governance Declaration. Furthermore, in our opinion, the information specified in para 70 section 6 point 5 letters c-f, h and i of the said Regulation included in the corporate governance declaration is compliant with the applicable laws and information presented in the consolidated financial statements and Parent Entity's financial statements.

Information on Non-financial Information

Pursuant to the requirements of the Act on Registered Auditors, we confirm that the Parent Entity and Group drafted the declaration on non-financial information referred to in Art. 49b section 1 and Art. 55 section 2b of the Accounting Act as a separate part of the Consolidated Annual Report.

We did not carry out any attestation works regarding the declaration on non-financial information and we do not issue and assurance concerning it.

Report on other requirements of the law and regulations

Statement on the provision of non-audit services

According to our best knowledge and belief, we declare that the services other than audit of financial statements that we provided to the Parent Entity and its subsidiaries are compliant with the law and regulations governing in Poland and we did not provide any services other than the audit that are prohibited under Art. 5 section 1 of the EU Regulation and Art. 136 of the Act on Registered Auditors.

The services other than audit of the financial statements that we provided to the Parent Entity and its subsidiaries in the audited period are specified in the Consolidated Annual Report of the Parent Entity and Group in note 2, page 46.

Selection of the Auditing Company

We were selected to audit the annual consolidated financial statements of the Group by way of the resolution of the Supervisory Board of 5 January 2018. Last time, we audited the consolidated financial statements of the Group for the year ended on 31 December 2011.

The key registered auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers sp. z o.o.), company entered in the list of auditing companies under number 114, resulting in preparation of this Independent Registered Auditor's Report is Mateusz Płonka.

Mateusz Płonka

Key Registered Auditor

Number in the Register 12326

Warsaw, 20 March 2019