

**The Lubelski Węgiel Bogdanka S.A. Group**  
**Audit Report on Consolidated Financial Statements**  
**for the financial year from 1 January 2010 to 31 December 2010**

**Audit Report on Consolidated Financial Statements for the General Shareholders Meeting and the Supervisory Board of Lubelski Węgiel Bogdanka S.A.**

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**I. General information about the Group**

- (a) Lubelski Węgiel S.A. (Parent Undertaking) was created following the restructuring of the state enterprise named Kopalnia Węgla Kamiennego Bogdanka. The deed of transformation into a company wholly owned by the State Treasury was prepared in the form of a notarial deed in the Notary's Office of Notary Jacek Wojdyło in Katowice on 1 March 1993 and recorded under Rep. No. 855/1993. On 26 March 2001 the District Court in Lublin, XI Division of the National Court Register, entered the Parent Undertaking to the Register of Entrepreneurs under entry No. KRS 0000004549.
- (b) In the audited financial year the Parent Undertaking conducted its operations pursuant to a licence for hard coal mining issued by the Minister for the Protection of the Environment, Natural Resources and Forestry on 27 August 1997.
- (c) For the purpose of tax settlements the Parent Undertaking was assigned the following tax identification number: NIP 713-000-57-84. For statistical purposes the Parent Undertaking holds the following industry identification number: REGON 430309210.
- (d) The registered share capital of the Parent Undertaking as at 31 December 2010 amounted to PLN 170,067,950 and was divided into 34,013,590 shares with a par value of PLN 5.00 per share.
- (e) In the audited period the Group was involved in the following operations:
- mining and agglomeration of hard coal;
  - manufacture of clay building materials;
  - generation of heat energy.
- (f) In the audited year the Management Board of the Company was comprised of the following members:
- |   |                    |  |
|---|--------------------|--|
| • | Mirosław Taras     | President of the Board                 |
| • | Krystyna Borkowska | Vice-President of the Board            |
| • | Waldemar Bernaciak | Vice-President of the Board            |
| • | Zbigniew Stopa     | Vice-President of the Board            |
| • | Janusz Chmielewski | Member of the Board up to 10 June 2010 |
- (g) The Parent Undertaking issues securities admitted to trading on the Warsaw Stock Exchange and following the requirements of the Accounting Act draws up consolidated financial statements according to the International Financial Reporting Standards (IFRS) as endorsed by the European Union.

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**General information about the Group (continued)**

(h) The following entities are members of the Lubelski Węgiel Bogdanka S.A. Group as at 31 December 2010:

<b>Name</b>	<b>Nature of capital relation (ownership percentage)</b>	<b>Consolidation method</b>	<b>Auditor of financial statements</b>	<b>Opinion</b>	<b>Financial statements balance sheet date</b>
Lubelski Węgiel Bogdanka S.A.	Parent	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Łęczyńska Energetyka Sp. z o.o.	Subsidiary (88.7%)	Full	Zespół Doradców Finansowo - Księgowych Spółka z o.o.	unqualified	31 December 2010

**II. Information about the conducted audit**

- (a) PricewaterhouseCoopers Sp. z o.o. was appointed as the Group's auditor in a resolution no. 76/VII/2010 adopted by the Supervisory Board of the Parent Undertaking of 28 September 2010 pursuant to Article 32.1.4) of the Articles of Association of the Parent Undertaking.
- (b) PricewaterhouseCoopers Sp. z o.o. and key certified auditor conducting the audit are independent of the Group's member entities within the meaning of Articles 56.2 to 56.4 of the Act on Certified Auditors and their Professional Self-Government, Entities Authorised to Audit Financial Statements and Public Supervision of 7 May 2009 (Dz. U. No. 77, item 649).
- (c) The audit was conducted pursuant to an agreement entered into on 19 October 2010 on the following dates:
- preliminary audit from 17 December 2010 to 23 December 2010;
  - final audit from 24 January 2011 to 18 March 2011.

### **III. Performance and financial standing of the Group**

The consolidated financial statements do not take into account the impact of inflation. In the audited year the consumer price index (December to December) was equal to 3.1% (2009: 3.5%).

Lubelski Węgiel Bogdanka S.A. is the Parent Undertaking in the Group, which comprises one subsidiary company subject to full consolidation (Łęczyńska Energetyka Sp. z o.o.), both in the current and previous year. Data relating to one associated company are disclosed in the consolidated financial statements using the equity method.

The comments below are presented based on knowledge that has been obtained during the audit of the consolidated financial statements.

- At the end of the financial year the Group's assets amounted to PLN 2,828,045,000. During the year the balance sheet total went up by PLN 358,231,000, i.e. by 14.5%. This growth resulted first of all from an increase in the value of tangible fixed assets by PLN 542,518,000 and was partly set off by a decrease of cash (presented in current assets) by PLN 209,558,000 as compared to the prior year. Those changes were brought about by continuation of the investment process commenced in previous years.
- The total sales revenue amounted to PLN 1,230,447,000 and went up by 10.0% as compared to the prior year. The basic operations of the Company in the current year entailed the excavation and sale of hard coal. The increase in revenue was caused mainly by the increased volume of coal sales in relation to the prior year.
- The largest item of operating costs comprised employee benefits, which amounted in the audited period to PLN 397,557,000 and accounted for 32.7% of costs by nature of expense. Those costs were at a level comparable to that in the prior year (PLN 404,724,000).
- The profitability in terms of profit after tax equalled 18,7% and was higher by 1.7 percentage points than that generated in the prior year. The change in the Company's profitability was brought about basically by increased output of trading coal in the total excavation.
- The liquidity ratios, and namely current ratio and quick ratio equalled 1.6 and 1.5, respectively, and as compared to the prior year went down from 3.4 and 3.2, respectively, which was caused mainly by the use of cash funds for carrying out investment activities in the Stefanów Field.

IV. Selected items of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010

	31 Dec. 2010 PLN '000	31 Dec. 2009 PLN '000	Change PLN '000	Change (%)	31 Dec. 2010 Structure (%)	31 Dec. 2009 Structure (%)
<b>ASSETS</b>						
<b>Fixed assets</b>						
Tangible fixed assets	2,101,245	1,558,727	542,518	34.8	74.3	63.1
Intangible fixed assets	10,955	12,199	(1,244)	(10.2)	0.4	0.5
Investments in associates	18	77	(59)	(76.6)	-	-
Trade debtors and other receivables	845	367	478	130.2	-	-
Cash and cash equivalents	50,909	46,158	4,751	10.3	1.8	1.9
	<b>2,163,972</b>	<b>1,617,528</b>	<b>546,444</b>	<b>33.8</b>	<b>76.5</b>	<b>65.5</b>
<b>Current assets</b>						
Stocks	60,810	50,382	10,428	20.7	2.2	2.0
Trade debtors and other receivables	126,858	117,491	9,367	7.9	4.4	4.8
Overpaid income tax	4,304	2,754	1,550	56.3	0.2	0.1
Cash and cash equivalents	472,101	681,659	(209,558)	(30.7)	16.7	27.6
	<b>664,073</b>	<b>852,286</b>	<b>(188,213)</b>	<b>(22.0)</b>	<b>23.5</b>	<b>34.5</b>
<b>Total assets</b>	<b>2,828,045</b>	<b>2,469,814</b>	<b>358,231</b>	<b>14.5</b>	<b>100.0</b>	<b>100.0</b>

IV. Selected items of the consolidated financial statements (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010 (continued)

	31 Dec. 2010 PLN '000	31 Dec. 2009 PLN '000	Change PLN '000	Change (%)	31 Dec. 2010 Structure (%)	31 Dec. 2009 Structure (%)
<b>SHAREHOLDERS' EQUITY</b>						
Ordinary shares	301,158	301,158	-	-	10.7	12.2
Other capitals	1,081,298	890,456	190,842	21.4	38.3	36.0
Retained profits	577,309	538,340	38,969	7.2	20.4	21.7
	<b>1,959,765</b>	<b>1,729,954</b>	<b>229,811</b>	<b>13.3</b>	<b>69.4</b>	<b>69.9</b>
<b>Non-controlling interest</b>	9,254	8,943	311	0.3	0.3	0.4
	<b>1,969,019</b>	<b>1,738,897</b>	<b>230,122</b>	<b>13.2</b>	<b>69.7</b>	<b>70.3</b>
<b>LIABILITIES</b>						
<b>Long-term liabilities</b>						
Loans and borrowings	200,000	250,000	(50,000)	(20.0)	7.1	10.1
Deferred income tax liabilities	54,732	58,278	(3,546)	(6.0)	1.9	2.4
Employee benefits liabilities	108,582	98,588	9,994	10.1	3.8	4.0
Provisions for other liabilities and charges	67,314	63,079	4,235	6.7	2.4	2.6
Grants	19,451	-	19,451	-	0.7	-
Trade creditors and other liabilities	5,808	7,834	(2,026)	(25.9)	0.2	0.3
	<b>455,887</b>	<b>477,779</b>	<b>(21,892)</b>	<b>(4.6)</b>	<b>16.1</b>	<b>19.4</b>
<b>Short-term liabilities</b>						
Loans and borrowings	50,000		50,000		1.8	
Employee benefits liabilities	29,709	26,338	3,371	12.8	1.0	1.1
Provisions for other liabilities and charges	82,689	63,596	19,093	30.0	2.9	2.6
Trade creditors and other liabilities	240,741	163,204	77,537	47.5	8.5	6.6
	<b>403,139</b>	<b>253,138</b>	<b>150,001</b>	<b>59.3</b>	<b>14.2</b>	<b>10.3</b>
<b>Total equity and liabilities</b>	<b>2,828,045</b>	<b>2,469,814</b>	<b>358,231</b>	<b>14.5</b>	<b>100.0</b>	<b>100.0</b>



IV. Selected items of the consolidated financial statements (continued)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
 For the financial year from 1 January to 31 December 2010

	2010 PLN '000	2009 PLN '000	Change PLN '000	Change %	2010 Structure	2009 Structure
Revenue on sales	1,230,447	1,118,393	112,054	10.0	100.0	100.0
Costs of products, goods and materials sold	(820,763)	(760,933)	(59,830)	7.9	(66.7)	(68.0)
<b>Gross profit</b>	<b>409,684</b>	<b>357,460</b>	<b>52,224</b>	<b>14.6</b>	<b>33.3</b>	<b>32.0</b>
Selling costs	(35,885)	(41,316)	5,431	(13.1)	(2.9)	(3.7)
Administrative costs	(70,217)	(66,617)	(3,600)	5.4	(5.7)	(6.0)
Other income	3,902	6,143	(2,241)	(36.5)	0.3	0.5
Other expenses	(3,343)	(2,140)	(1,203)	56.2	(0.3)	(0.2)
Other net losses	(27,669)	(26,820)	(849)	0.3	(2.2)	(2.4)
<b>Operating profit</b>	<b>276,472</b>	<b>226,710</b>	<b>49,762</b>	<b>21.9</b>	<b>22.5</b>	<b>20.2</b>
Financial income	25,362	18,112	7,250	40.0	2.0	1.6
Financial expenses	(13,546)	(7,076)	(6,470)	91.4	(1.1)	(0.6)
Net financial income	11,816	11,036	780	7.0	0.9	1.0
Share in (losses)/profits of associates	(59)	89	(148)	(166.3)	-	-
<b>Profit before taxation</b>	<b>288,229</b>	<b>237,835</b>	<b>50,394</b>	<b>21.2</b>	<b>23.4</b>	<b>21.2</b>
Income tax	(58,107)	(46,993)	(11,114)	23.7	(4.7)	(4.2)
<b>Net profit for the financial year</b>	<b>230,122</b>	<b>190,842</b>	<b>39,280</b>	<b>20.6</b>	<b>18.7</b>	<b>17.0</b>
Total income for the period	230,122	190,842	39,280	20.6	18.7	17.0
- attributable to shareholders of the Parent Undertaking	229,811	191,472	38,339	20.0		
- attributable to non-controlling interest	311	(630)	941	149.4		

IV. Selected items of the consolidated financial statements (continued)

Selected items characterising the economic and financial position as well as financial results of the Group

The following items characterise the Group's business activity, its financial results for the financial year as well as the economic and financial situation as at the balance-sheet date in comparison with previous periods:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Activity ratios			
- Receivables turnover rate	24 days	29 days	30 days
- Inventory turnover rate	24 days	20 days	19 days
Return ratios			
- Net profit margin	18.7%	17.0%	15.1%
- Gross margin on sales	24.7%	22.3%	20.6%
- Return on equity	12.4%	13.4%	15.0%
Debt ratios			
- Debt ratio	30.4%	29.6%	32.7%
- Liabilities turnover rate	23 days	24 days	21 days
	<b>31 Dec. 2010</b>	<b>31 Dec. 2009</b>	<b>31 Dec. 2008</b>
Liquidity ratios			
-Liquidity ratio I	1.6	3.4	0.9
-Liquidity ratio II	1.5	3.2	0.7

**V. Statements of the independent certified auditor**

- (a) In the course of our audit the Management Board of the Parent Undertaking provided the required information, explanations and declarations, and presented a statement regarding complete recognition of all accounting data in the consolidation documentation and disclosure of all contingent liabilities, as well as notified material subsequent events up to the date of the statement.
- (b) The scope of our audit was not restricted in any way.
- (c) The consolidation documentation was complete and correct, and the manner of its retention ensures that it is properly protected.
- (d) In all material respects, the accounting principles specified by the manager of the Parent Undertaking and the disclosures of data were in compliance with the International Financial Reporting Standards as endorsed by the European Union. The applied principles and methods were used on a consistent basis in relation to the prior period.
- (e) In all material respects, the capitals were consolidated and the non-controlling interests were determined correctly.
- (f) The elimination of mutual settlements (receivables and liabilities) and intra-group transactions (revenue and expenses) between the entities covered by consolidation was made, in all material respects, in accordance with IFRS as endorsed by the European Union.
- (g) The elimination of unrealised gains and losses of the entities covered by consolidation, included in the value of assets and on account of dividends, was made, in all material respects, in accordance with IFRS as endorsed by the European Union.
- (h) The supplementary information presents all material information set forth in IFRS as endorsed by the European Union.
- (i) The information included in the Group's Directors' report on operations for the year from 1 January 2010 to 31 December 2010 satisfies the requirements of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Dz.U. No. 33, item 259).
- (j) The consolidated financial statements for the prior year were audited by PricewaterhouseCoopers Sp. z o.o. The certified auditor issued an unqualified opinion.
- (k) The Group's consolidated financial statements for the financial year from 1 January 2009 to 31 December 2009 were approved by a resolution no. 7 adopted by the General Shareholders Meeting of the Parent Undertaking on 10 June 2010. They were filed with the National Court Register in Lublin on 18 June 2010 and published in the *Monitor Polski B* gazette no. 417/2340 on 22 February 2011.

**PricewaterhouseCoopers Sp. z o.o.**

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**VI. Final information and conclusions**

This report has been prepared in connection with audit of the consolidated financial statements of the Lubelski Węgiel Bogdanka S.A. Group drawn up by Lubelski Węgiel Bogdanka with registered office in Bogdanka, 21-013 Puchaczów. The audited consolidated financial statements included:

- (a) consolidated statement of financial position as at 31 December 2010, with the total assets as well as the total liabilities and equity amounting to PLN 2,828,045,000;
- (b) consolidated statement of comprehensive income for the period from 1 January 2010 to 31 December 2010, with the comprehensive income amounting to PLN 230,122,000,
- (c) consolidated statement of changes in equity for the period from 1 January 2010 to 31 December 2010, with an increase in equity by PLN 230,122,000;
- (d) consolidated statement of cash flows for the period from 1 January 2010 to 31 December 2010, with the net cash outflows amounting to PLN 209,558,000;
- (e) supplementary information about the adopted accounting principles and other explanatory notes.

The consolidated financial statements were signed by the Management Board of the Parent Undertaking on 18 March 2011. This report should be read together with the independent auditor's opinion for the General Shareholders Meeting and the Supervisory Board of Lubelski Węgiel Bogdanka S.A. dated 18 March 2011 regarding the above consolidated financial statements. The opinion on the consolidated financial statements presents a general conclusion from the conducted audit. Such conclusion does not represent the sum of assessments following from auditing individual items of the consolidated financial statements or issues, but assumes that a relevant weight (significance) is assigned to particular findings, taking into account the impact of determined facts on a true and fair picture and correctness of the consolidated financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., a company entered into a list of entities authorised to audit financial statements under entry 144:

Tomasz Reinfuss

Group's Certified Auditor, Key Certified Auditor

Register Number 90038

Katowice, 18 March 2011.