

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

**FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR OF 2013**

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

**CONTENTS**

|   |           |
|---|-----------|
| <b>INDEPENDENT AUDITOR'S OPINION.....</b>   | <b>3</b>  |
| <b>AUDIT REPORT ON THE FINANCIAL STATEMENTS OF LUBELSKI WĘGIEL BOGDANKA S.A. FOR THE FINANCIAL YEAR OF 2013 .....</b> | <b>5</b>  |
| <b>I. GENERAL INFORMATION .....</b>   | <b>5</b>  |
| 1. Data on the audited Company .....  | 5         |
| 2. Information on the financial statements for the prior financial year.....  | 7         |
| 3. Data on the authorised entity and the key certified auditor conducting the audit on its behalf .....               | 7         |
| 4. Availability of data and statements of the Company's management.....   | 8         |
| <b>II. PROPERTY AND FINANCIAL STANDING OF THE COMPANY .....</b>   | <b>8</b>  |
| <b>III. DETAILED INFORMATION .....</b>  | <b>9</b>  |
| 1. Assessment of the accounting system.....   | 9         |
| 2. Information on the audited financial statements .....  | 10        |
| 3. Information on selected material items in the financial statements .....   | 10        |
| 4. Complete and correct additional information and explanations and Directors' report on operations .....             | 11        |
| <b>IV. CONCLUSIONS .....</b>  | <b>12</b> |

**FINANCIAL STATEMENTS OF LUBELSKI WĘGIEL BOGDANKA S.A. FOR THE FINANCIAL YEAR OF 2013**

|  |  |
|--|--|
| 1. Statement of financial position   |  |
| 2. Income statement  |  |
| 3. Statement of comprehensive income   |  |
| 4. Statement of changes in equity  |  |
| 5. Statement of cash flows   |  |
| 6. Notes covering information on the adopted accounting policy and other explanatory information |  |

**DIRECTORS' REPORT ON OPERATIONS OF LUBELSKI WĘGIEL BOGDANKA S.A. FOR THE FINANCIAL YEAR OF 2013**

**INDEPENDENT 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 registered office in Bogdanka, 21-013 Puchaczów, Poland, comprising of the statement of financial position drawn as at 31 December 2013, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the period from 1 January 2013 to 31 December 2013 and notes detailing the adopted accounting policy as well as additional information.

The responsibility for preparing the financial statements and report on operations compliant with the applicable regulations rests with the Management Board of the Company.

The Company's Management Board and the members of the Supervisory Board are obliged to ensure that the financial statements and report on operations comply with the requirements provided for in the Accounting Act of 29 September 1994 (Dz. U. [Journal of Laws] of 2013, No. 330, item 1223, as amended), hereinafter the "Accounting Act."

Our responsibility was to express an opinion based on our audit whether the financial statements are in compliance with the accounting principles (policies) adopted by the Company, whether they present (in all material aspects) a true and fair view of the property and financial standing and the financial profit/loss of the Company, and whether the underlying accounting books are accurate.

We planned and carried out the audit in accordance with the provisions of:

- Chapter 7 of the Accounting Act,
- Polish Standards on Auditing issued by the National Council of Certified Auditors in Poland.

We planned and carried out the audit so as to obtain reasonable assurance enabling us to give our opinion on the financial statements. In particular, the audit included examining the correctness of accounting principles (policies) applied by the Company as well as material estimates, and verifying, largely on a test basis, the documents and book entries supporting the amounts and disclosures in the financial statements as well as evaluating the overall presentation of the financial statements. We believe our audit provides a reasonable basis for our opinion.

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

- present fairly and clearly all information material for the assessment of the property and financial standing of the Company as at 31 December 2013 and the financial profit/loss on its operations for the financial year from 1 January 2013 to 31 December 2013,

- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published in the form of Regulations of the European Commission, and to the extent not regulated in those standards, as required by the Accounting Act and executive regulations issued pursuant thereto, and on the basis of properly kept accounting books,
- are in conformity with the provisions of law and of the Articles of Association affecting the contents of the financial statements.

Director's report on operations of the Company for the financial year of 2013 is complete within the meaning of Article 49.2 of the Accounting Act and the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information provided by issuers of securities and conditions for treatment of the information required by law of the state other than the Member State (Dz. U. [Journal of Laws] of 2014, No. 133) as equivalent, and includes the information which is consistent with the information disclosed in the audited financial statements.

---

Joanna Sklarz-Snopek  
Key Certified Auditor  
conducting the audit  
No. 10781

For Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorised to audit financial statements, entered on the list of authorised entities kept by the National Council of Certified Auditors in Poland under the number 73:

---

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.  
- general partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k

Warsaw, 18 March 2014

**AUDIT REPORT ON THE FINANCIAL STATEMENTS  
OF LUBELSKI WĘGIEL BOGDANKA S.A.  
FOR THE FINANCIAL YEAR OF 2013**

**I. GENERAL INFORMATION**

**1. Data on the audited Company**

The Company operates under the business name of Lubelski Węgiel Bogdanka S.A. Its registered office is Bogdanka, 21-013 Puchaczów.

The Company operates as a joint stock company, established on 1 March 1993 under a notarial deed before the Notary Jacek Wojdyło in Katowice (Repertory A No. 855/1993) under the business name of Kopalnia Węgla Kamiennego Bogdanka S.A. The Company was created as a result of transformation of the state-owned enterprise into a single shareholder company owned by the State Treasury.

On 12 February 2001, the Extraordinary General Shareholders Meeting adopted a resolution changing the business name into Lubelski Węgiel Bogdanka S.A.

The Company was entered to the commercial register kept by the District Court, XI Commercial and Registration Division, in section B under the number RHB 2993, by virtue of a decision of 30 April 1993. Currently, the Company is entered to the register of entrepreneurs kept by the District Court Lublin-Wschód, VI Commercial Division of the National Court Register in in Lublin, under entry No. KRS 0000004549.

The Company holds a tax identification number NIP: 713-000-57-84 assigned by the Second Tax Office in Lublin on 21 June 1993.

The Statistical Office assigned a business industry number REGON: 430309210 to the Company.

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

The Company's Articles of Association provide for the following business activity:

- agriculture, forestry, hunting and fishery,
- mining and production,
- industrial processing,
- production and supply of electricity, gas, steam, hot water and air for air-conditioning installations,
- water delivery, solid and liquid waste management and reclamation activity,
- construction,
- wholesale, retail sale and repair of motor vehicles, including motorcycles,

- transport and warehouse management,
- activities related to lodging and catering,
- information and communications,
- financial and insurance,
- real estate activities,
- other professional, scientific and technical activities,
- administration and support activities,
- education.

In the audited period, the Company conducted activities related to mining and agglomeration of hard coal.

As at 31 December 2013, the registered share capital of the Company amounted to PLN 170,068,000 and was divided into 34,013,590 ordinary shares with a nominal value of PLN 5.00 each share.

As at the date of this decision the shareholders of the Company included:

- Otwarty Fundusz Emerytalny AVIVA BZ WBK S.A. – 14.88% of the shares,
- Otwarty Fundusz Emerytalny PZU Złota Jesień – 9.76% of the shares,
- ING Otwarty Fundusz Emerytalny – 9.63% of the shares,
- AMPLICO Otwarty Fundusz Emerytalny – 5.10% of the shares,
- Other shareholders – 60.63% of the shares.

In the financial year, the following changes were recorded in the Company's share capital:

- The Annual General Shareholders Meeting, in accordance with Resolution of 4 July 2013, has decided to carry out a conditional increase in the share capital by an amount not higher than PLN 6,802,700 by way of an issue of not more than 1,360,540 Series D ordinary bearer shares with a nominal value of PLN 5 per share. The shares will be issued solely in exchange for monetary contributions. The conditional increase in the share capital was effected in order for the subscription warrants holders to be given the right to acquire Series D shares to be issued by the Company by virtue of resolution of the Annual General Shareholders Meeting of 4 July 2013.

The above change was announced and recorded in a relevant court register.

As at 31 December 2013, the equity of the Company amounted to PLN 2,436,170,000.

The financial year of the Company is the same as the calendar year.

The Company has the following related entities:

- EkoTRANS Bogdanka Sp. z o.o. – subsidiary (100%),
- RG Bogdanka Sp. z o.o. – subsidiary (100%),

- Łęczyńska Energetyka Sp. z o.o. – subsidiary (88.70%).

As at the date of the Opinion, the composition of the Company's Management Board was as follows:

- Zbigniew Stopa            President of the Management Board
- Waldemar Bernaciak    Vice-President of the Management Board
- Roger de Bazelaire    Vice-President of the Management Board
- Krzysztof Szlaga        Member of the Management Board

In the audited period and by the date of issuance of the opinion, there were the following changes in the composition of the Company's Management Board:

- As at the day of the Annual General Shareholders Meeting approving the 2012 financial statements, i.e. on 27 June 2013, Lech Tor ended his term of office in the Management Board,
- By way of a resolution no. 42/VIII/2013 of 25 January 2013, the Supervisory Board appointed Mr Zbigniew Stopa as President of the Management Board for the 8<sup>th</sup> term of office of three years, commencing on the date on which the General Shareholders Meeting approving the 2012 financial statements is held, i.e. 27 June 2013,
- By way of a resolution no. 43/VIII/2013 of 25 January 2013, the Supervisory Board appointed Mr Waldemar Bernaciak as Vice-President of the Management Board for the 8<sup>th</sup> term of office of three years, commencing on the date on which the General Shareholders Meeting approving the 2012 financial statements is held, i.e. 27 June 2013,
- By way of a resolution no. 44/VIII/2013 of 25 January 2013, the Supervisory Board entrusted Ms Krystyna Borkowska with a function of Vice-President of the Management Board - Chief Accountant, effective as of 4 March 2013 until the end of the 7<sup>th</sup> term of office, ending on the date on which the General Shareholders Meeting approving the 2012 financial statements is held, i.e. 27 June 2013,
- By way of a resolution no. 45/VIII/2013 of 25 January 2013, the Supervisory Board appointed Mr Roger de Bazelaire as Vice-President of the Management Board, effective as of 4 March 2013 until the end of the seventh term of office and for the 8<sup>th</sup> term of office of three years, commencing on the date on which the General Shareholders Meeting approving the 2012 financial statements is held, i.e. 27 June 2013,
- By way of a resolution no. 46/VIII/2013 of 25 January 2013, the Supervisory Board appointed Mr Krzysztof Szlaga as Member of the Management Board, effective as of 11 March 2013 until the end of the seventh term of office and for the 8<sup>th</sup> term of office of three years, commencing on the date on which the General Shareholders Meeting approving the 2012 financial statements is held, i.e. 27 June 2013.

The above change was announced and recorded in a relevant court register.

## **2. Information on the financial statements for the prior financial year**

The Company closed operations in 2012 with a net profit of PLN 287,027,000. The financial statements for the financial year of 2012 were audited by a certified auditor. The audit was conducted by an authorised entity Deloitte Polska Spółka z Ograniczoną odpowiedzialnością Sp. k. On 14 March 2013, the certified auditor issued an unqualified opinion on the financial statements.

The General Shareholders Meeting approving the financial statements for the financial year of 2012 was held on 27 June 2013. The General Shareholders Meeting decided to distribute the net profit for the year of 2012 as follows:

- dividends for the shareholders – PLN 172,109,000,
- allocation to reserve capitals – PLN 114,918,000

The financial statements for the financial year of 2012 were filed with the National Court Register on 15 July 2013.

## **3. Data on the authorised entity and the key certified auditor conducting the audit on its behalf**

The financial statements were audited pursuant to an agreement of 17 July 2012, entered into between Lubelski Węgiel Bogdanka S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw at al. Jana Pawła II 19, entered on the list of entities authorised to audit financial statements, kept by the National Chamber of Certified Auditors in Poland, under the number 73. On behalf of the authorised entity, the audit was conducted under supervision of a key certified auditor Joanna Sklarz-Snopek (No. 10781), in the registered office of the Company between 25 and 29 November 2013 and between 17 and 21 February 2014, and outside the registered office of the Company by the date of issuance hereof.

The authorised entity was selected by the Supervisory Board in a resolution of 27 June 2012, based on the authorisation included in Article 32 of the Company's Articles of Association.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor Joanna Sklarz-Snopek confirm that they are authorised to audit financial statements and that they satisfy the conditions set forth in Article 56 of the Act on Certified Auditors and their Professional Self-Government, Entities Authorised to Audit Financial Statements and Public Supervision (Dz. U. [Journal of Laws] of 2009 No. 77, item 649, as amended) for the purpose of expressing an impartial and independent opinion on the financial statements of Lubelski Węgiel Bogdanka S.A.

## **4. Availability of data and statements of the Company's management**

The scope of our audit was not restricted in any way.



During the audit the authorised entity and the key certified auditor were provided with all required documents and data as well as received extensive information and explanations, which was confirmed, among others, in a written statement made by the Company's Management Board on 18 March 2014.

## II. PROPERTY AND FINANCIAL STANDING OF THE COMPANY

Below are presented the basic figures from the income statement, and financial ratios describing the Company's financial profit/loss, property and financial standing as compared to the same figures for the prior year.

| <u>Key figures from the income statement (PLN '000)</u> | <u>2013</u> | <u>2012*</u> |
|---|-------------|--------------|
| <u>Revenue</u>  | - 1,894,108 | - 1,830,595  |
| <u>Costs of operating activities</u>                    | -1,440,620  | -1,436,729   |
| <u>Other operating income</u>                           | 2,410       | 1,494        |
| <u>Other operating costs</u>                            | -33,807     | -7,764       |
| <u>Finance income</u>                                   | 5,915       | 10,003       |
| <u>Finance cost</u>                                     | -18,302     | -18,937      |
| <u>Income tax</u>                                       | -83,174     | -72,401      |
| <u>Net profit (loss)</u>                                | 326,530     | 306,261      |
| <u>Total comprehensive income</u>                       | 325,216     | 287,027      |
| <br>  |             |              |
| <u>Return ratios</u>                                    | <u>2013</u> | <u>2012</u>  |
| <u>Return on sales</u>                                  | 22%         | 21%          |
| <u>Net return on sales</u>                              | 17%         | 17%          |
| <u>Net return on equity</u>                             | 15%         | 16%          |
| <br>  |             |              |
| <u>Efficiency ratios</u>                                |             |              |
| <u>Assets turnover ratio</u>                            | 0.50        | 0.53         |
| <u>Debtors payment rate (days)</u>                      | 36          | 41           |
| <u>Creditors payment rate (days)</u>                    | 26          | 22           |
| <u>Inventory turnover</u>                               | 21          | 12           |
| <br>  |             |              |
| <u>Liquidity/Net working capital</u>                    |             |              |
| <u>Debt ratio</u>                                       | 36%         | 34%          |
| <u>Asset to equity ratio</u>                            | 64%         | 66%          |
| <u>Net working capital (PLN '000)</u>                   | -260,258    | -31,105      |
| <u>Liquidity ratio</u>                                  | 0.68        | 0.92         |
| <u>Quick ratio</u>                                      | 0.54        | 0.79         |

\*Financial data for the financial year ended on 31 December 2012 is taken from the restated financial statements.

The analysis of the above figures and ratios shows the following trends in 2013:

- increase in return on sales and decrease in return on equity,
- shorter assets turnover,
- shorter receivables, and longer liabilities and inventory turnover,
- increase in debt ratio with simultaneous decrease in asset to equity ratio,
- decrease in net working capital,
- decrease in liquidity ratios.

### **III. DETAILED INFORMATION**

#### **1. Assessment of the accounting system**

The Company has documentation required by Article 10 of the Accounting Act of 29 September 1994 (Dz. U. [Journal of Laws] of 2013 No. 152, item 330, as amended), hereinafter referred to as the “Accounting Act”, in particular as regards: specification of the financial year and reporting periods comprised therein, methods of measurement of assets and equity & liabilities and determination of financial profit/loss, manner of keeping the accounting books, data protection and data filing systems. Documentation of the accounting policies was drawn up in accordance with the Accounting Act and, as regards the measurement of assets and equity & liabilities and the presentation of the financial statements, as required by IFRS. It was adopted for application as of 1 January 2009 by way of a decision by the President of the Management Board no. 26/2009 of 20 October 2009. The basic principles regarding measurement of assets and equity and determination of the financial profit/loss are presented in explanatory additional information.

The accounting principles which the Company has an option to choose pursuant to IFRS have been chosen in a manner enabling to reflect correctly the specific characteristics of operations of the Company, its financial standing and achieved financial profits/losses. Those principles were applied on a consistent basis and did not change as compared to the principles applied in the prior year for the purpose of keeping the accounting books and drawing up the financial statements.

The Company uses a computer bookkeeping system called INTEGRA in which all business transactions are recorded. INTEGRA is protected with passwords against access of unauthorised persons and also equipped with functional access restrictions.

The opening balances of accounts are derived from the approved financial statements for the prior financial year and were entered correctly to the accounting books for the audited period.

In the part we audited, documentation of business transactions, accounting books and correlation between the accounting entries and documents and the financial statements satisfy the requirements set forth in Chapter 2 of the Accounting Act.

The accounting books, accounting documents, documentation on the adopted manner of bookkeeping and approved financial statements of the Company are retained in accordance in Chapter 8 of the Accounting Act.

The Company made the stocktaking of assets and liabilities to the extent, at dates and with frequency required by the Accounting Act. Stocktaking discrepancies were recognised and accounted for in the books covering the audited period.

## **2. Information on the audited financial statements**

The audited financial statements were drawn up as at 31 December 2013 and include:

- the statement of financial position as at 31 December 2013, with balance sheet totals, both on the assets and liabilities side, amounting to PLN 3,815,467,000,
- the income statement for the period from 1 January 2013 to 31 December 2013 showing net profit of PLN 326,530,000,
- the statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, showing net positive total comprehensive income amounting to PLN 325,216,000,
- the statement of changes in equity for the period from 1 January 2013 to 31 December 2013, with an increase in equity of PLN 155,959,000,
- the statement of cash flows for the period from 1 January 2013 to 31 December 2013, with an increase in cash and cash equivalents of PLN 91,804,000,
- additional information, consisting of information on the adopted accounting policies and other explanatory information.

The structure of assets and equity & liabilities as well as items affecting the financial profit/loss has been presented in the financial statements.

## **3. Information on selected material items in the financial statements**

### Non-current assets

Non-current assets in the Company comprise:

- property, plant and equipment in the amount of PLN 2,783,018,000,
- construction in progress in the amount of PLN 315,332,000.

Additional information describes correctly movements in property, plant and equipment and construction in progress, including disclosure of impairment losses of those assets.

### Non-current investments

Non-current investments in the Company include shares in the subsidiaries in the amount of PLN 74,534,000.

Additional information correctly describes changes in investments during the financial year.

#### Structure of inventory

The structure of inventory is presented correctly in explanatory information to that item of the statement of financial position.

#### Accounts receivable

The aging structure of the trade debtors is presented correctly in explanatory information to that item of the statement of financial position. In the sample we audited there were no receivables time-barred or cancelled.

The largest items of the Company's accounts receivable in terms of value are as follows:

- trade debtors in the amount of PLN 183,309,000,
- taxes receivable in the amount of PLN 29,091,000.

#### Liabilities

The aging and type structure of liabilities by maturity is presented correctly in explanatory information to that item of the statement of financial position.

The largest items of the Company's liabilities in terms of value are as follows:

- loans and borrowings in the amount of PLN 421,000,000,
- liabilities due to bond issue in the amount of PLN 200,000,000,
- creditors in the amount of PLN 99,386,000,
- investment liabilities in the amount of PLN 79,993,000.

Specification of loans taken, including description of their collaterals, is disclosed in additional information. In the sample we audited there were no liabilities time-barred or cancelled.

#### Deferrals and accruals and provisions for liabilities

Explanatory information to deferrals and accruals and to provisions for liabilities describes their structure correctly. Costs and revenues accounted for over time were classified correctly with respect to the audited financial period. The amounts of determined provisions for liabilities were estimated reliably. The items are recognised fully and correctly in material aspects in relation to the overall financial statements.

#### **4. Complete and correct additional information and explanations and Director's report on operations**

The Company confirmed that application of the going concern principle in drawing up the financial statements was reasonable. Description of the principles regarding measurement of assets, equity & liabilities, determination of financial profit/loss, and manner of drawing up the financial statements presented in the explanatory information is correct and complete.

Liquidity of particular assets disclosed in the statement of financial position was presented in view of collaterals established in favour of creditors. Explanatory information includes complete description of reporting items and presents clearly other information required by IFRS.

The Management Board prepared Directors' report on operations of the Company in the financial year of 2013 and attached it to the financial statements. The Director's report on operations includes information required by Article 49.2 of the Accounting Act and the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information provided by issuers of securities and conditions for treatment of the information required by law of the state other than the Member State (Dz. U. [Journal of Laws] of 2014 No. 133) as equivalent. We checked that report as regards the information disclosed therein originating directly from the audited financial statements.

#### **IV. CONCLUSION**

##### Statement of the Management Board

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received from the Company's Management Board a written statement to the effect that the Company had observed the provisions of law.

---

Joanna Sklarz-Snopek

Key Certified Auditor

conducting the audit

No. 10781

For Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorised to audit financial statements, entered on the list of authorised entities kept by the National Council of Certified Auditors in Poland under the number 73:

**LUBELSKI WĘGIEL BOGDANKA S.A.**

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.  
- general partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 18 March 2014