

**LUBELSKI WĘGIEL BOGDANKA GROUP
BOGDANKA, 21-013 PUCHACZÓW**

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

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

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DIRECTORS' REPORT ON OPERATIONS OF THE LUBELSKI WĘGIEL BOGDANKA GROUP 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 consolidated financial statements of the Lubelski Węgiel Bogdanka Group, with the Parent - Lubelski Węgiel Bogdanka S.A., registered office in Bogdanka, 21-013 Puchaczów, Poland, comprising of the consolidated statement of financial position drawn as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated 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 consolidated financial statements and report on the Group's operations, compliant with the applicable regulations, rests with the Management Board of the Parent.

The Group's Management Board and the members of the Supervisory Board are obliged to ensure that the consolidated financial statements and report on operations of the Group 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 consolidated financial statements are in compliance with the accounting principles (policies) adopted by the Group, whether they present (in all material aspects) a true and fair view of the property and financial standing and the financial profit/loss of Group.

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 consolidated financial statements. In particular, the audit included examining the correctness of accounting principles (policies) applied by the Parent and subsidiaries, and verifying, largely on a test basis, the documents supporting the amounts and disclosures in the consolidated financial statements as well as evaluating the overall presentation of the consolidated financial statements. We believe our audit provides a reasonable basis for our opinion.

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

- present fairly and clearly all information material for the assessment of the property and financial standing of the Group 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,
- are in conformity with the provisions of law binding upon the Group, and affecting the contents of the consolidated financial statements.

Director's report on operations of the Group 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 consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS
OF THE LUBELSKI WĘGIEL BOGDANKA GROUP
FOR THE FINANCIAL YEAR OF 2013**

I. GENERAL INFORMATION

1. Data on the audited Parent

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

The Parent 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 Parent 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 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 Parent 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 Parent 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 Parent'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 Group amounted to PLN 2,455,531,000.

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

As at the date of the Opinion, the composition of the Parent'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 Parent'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 8th 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 8th 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 7th 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 8th 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 8th 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.

As at 31 December 2013, the Lubelski Węgiel Bogdanka Group had the following members:

- the Parent – Lubelski Węgiel Bogdanka S.A., and
- subsidiaries:
 - EkoTRANS Bogdanka Sp. z o.o.,
 - RG Bogdanka Sp. z o.o.,
 - Łęczyńska Energetyka Sp. z o.o.

LUBELSKI WĘGIEL BOGDANKA GROUP

The consolidated financial statements as at 31 December 2013 cover the following companies:

a) Parent – Lubelski Węgiel Bogdanka S.A.

We have audited the financial statements of the Parent, Lubelski Węgiel Bogdanka S.A., for the period from 1 January 2013 to 31 December 2013. Following our audit, on 18 March 2014, we issued an unqualified opinion on those financial statements.

b) Companies covered by full consolidation:

Name and registered office	Share in capital (%)	Entity auditing the financial statements and type of opinion issued	Balance sheet date of the consolidated undertaking	Date of the opinion
EkoTRANS Bogdanka Sp. z o.o. Bogdanka, 21-013 Puchaczów	100%	Not subject to audit	31 December 2013	-
RG Bogdanka Sp. z o.o. Bogdanka, 21-013 Puchaczów	100%	Not subject to audit	31 December 2013	-
Łęczyńska Energetyka Sp. z o.o. Bogdanka, 21-013 Puchaczów	88.70%	PTE – Profit Sp. z o.o., Unqualified opinion	31 December 2013	28 February 2014

c) Companies consolidated with the equity method – none.

The Parent drawing up the consolidated financial statements did not apply any material simplifications of or departures from the adopted consolidation principles with respect to the controlled entities.

In the financial year covered with the audit, the following entities were included in consolidation: EkoTRANS Bogdanka Sp. z o.o. and RG Bogdanka Sp. z o.o.

This decision had the following effect in the consolidated financial statements:

- the balance sheet total of the entities included in consolidation is PLN 7,095,000,
- the net profit of the entities included in consolidation is PLN 973,000,
- the positive comprehensive income of the entities included in consolidation is PLN 973,000.

2. Information on the consolidated financial statements for the prior financial year

The Group closed operations in 2012 with a net profit of PLN 289,782,000. The consolidated 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 consolidated financial statements for the financial year of 2013 was held on 27 June 2013.

The consolidated 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 consolidated 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 Parent 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 Parent'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 consolidated financial statements of the Lubelski Węgiel Bogdanka Group.

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 Parent's Management Board on 18 March 2014.

II. PROPERTY AND FINANCIAL STANDING OF THE GROUP

Below are presented the basic figures from the consolidated income statement, and financial ratios describing the Group'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>	1,899,830	1,835,801
<u>Costs of operating activities</u>	-1,444,031	-1,440,401
<u>Other operating income</u>	3,837	4,065
<u>Other operating costs</u>	-34,833	-10,248
<u>Finance income</u>	7,267	11,833
<u>Finance cost</u>	-18,341	-18,979
<u>Income tax</u>	-84,001	-73,055
<u>Net profit (loss)</u>	329,728	309,016
<u>Total comprehensive income</u>	328,414	289,782
<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>	16%	16%
<u>Efficiency ratios</u>		
<u>Assets turnover ratio</u>	0.49	0.53
<u>Debtors payment rate (days)</u>	36	41
<u>Creditors payment rate (days)</u>	25	23
<u>Inventory turnover</u>	21	13
<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>	-228,868	5,829
<u>Liquidity ratio</u>	0.72	1.01
<u>Quick ratio</u>	0.58	0.88

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

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

- increase in return on sales,
- 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. Information on the audited consolidated financial statements

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

- the consolidated statement of financial position as at 31 December 2013, with balance sheet totals, both on the assets and liabilities side, amounting to PLN 3,844,130,000,
- the consolidated income statement for the period from 1 January 2013 to 31 December 2013 showing net profit of PLN 329,728,000,
- the consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, showing net positive total comprehensive income amounting to PLN 328,414,000,
- the consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013, with an increase in equity of PLN 159,157,000,
- the consolidated 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 91,453,000,
- 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 consolidated financial statements.

The audit covered the period from 1 January 2013 to 31 December 2013, and primarily consisted in:

- examination whether the consolidated financial statements drawn up by the Management Board of the Parent are correct and reliable,
- examination of the consolidation documentation,
- assessment whether the consolidation methods and procedures applied during consolidation are correct,

- review of opinions and reports prepared by other certified auditors following their audits of the financial statements of subsidiary entities subject to consolidation.

2. Consolidation documentation

The Parent presented the consolidation documentation which included:

- 1) the financial statements of the entity covered by the consolidated financial statements,
- 2) the financial statements of the subsidiary entities adjusted to the accounting principles (policies) applied during consolidation,
- 3) all adjustments and eliminations made for the purpose of consolidation and necessary for drawing up the consolidated financial statements,
- 4) calculations of minority interest.

Basis of drawing up the consolidated financial statements

The Group's consolidated financial statements for the financial year of 2013 were drawn up in accordance with the IFRS.

Identification of the Group member entities

When specifying the scope and methods of consolidation as well as the relation of dependence, the criteria set forth in the IFRS were applied.

Financial year

The consolidated financial statements were drawn up as at the same balance-sheet date and for the same financial year as the financial statements of the Parent, Lubelski Węgiel Bogdanka S.A. The consolidated subsidiaries drew up their financial statements as at the same balance sheet date as the Parent. The financial year of the consolidated subsidiaries ended on 31 December 2013.

Consolidation method

Consolidation of the financial statements of the Group, in relation to the subsidiaries, was made using the full method by summing up full amounts of all corresponding items in the financial statements of the Parent and the consolidated subsidiaries.

After the amounts were summed up, consolidation adjustments and eliminations were made, and referred to:

- the cost of acquisition of the shares held by the Parent in the subsidiary and a part of the subsidiary's net assets corresponding to the Parent's share in the ownership of the subsidiary,
- mutual accounts receivable and liabilities of the consolidated entities,
- material revenues and costs of the transactions effected between the consolidated entities.

There were no associated entities with respect to which the equity method was applied.

3. Complete and correct additional information and explanations and Director's report on operations of the Group

The Parent confirmed that application of the going concern principle in drawing up the consolidated 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 consolidated financial statements presented in the explanatory information and clarifications to the consolidated financial statements, is correct and complete.

The Parent prepared additional information and explanation as notes (in the form of tables) to individual items of the consolidated statement of financial position, the consolidated income statement, and the consolidated statement of comprehensive income and as descriptions, in accordance with the principles set forth in IFRS.

Explanatory information to the items of non-current assets, intangible assets, investments and provisions correctly presents increases and decreases and reasons of such movements during the financial year.

Liquidity of particular assets disclosed in the consolidated 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 Parent presented correctly the individual items of assets and equity & liabilities as well as of revenue and costs in the consolidated financial statements. The consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows, together with additional information and explanations, making an integral part thereof, include all items the disclosure of which in the consolidated financial statements is required by the IFRS.

The Management Board prepared Directors' report on operations of the Group in the financial year of 2013 and attached it to the consolidated 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 consolidated 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 Parent's Management Board a written statement to the effect that the Group 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:

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