

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

**CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE 2014 FINANCIAL YEAR**

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

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CONSOLIDATED FINANCIAL STATEMENTS OF LUBELSKI WĘGIEL “BOGDANKA” S.A. CAPITAL GROUP FOR THE 2014 FINANCIAL YEAR

1. Consolidated Statement of Financial Position
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REPORT ON THE ACTIVITIES OF THE LUBELSKI WĘGIEL “BOGDANKA” S.A. CAPITAL GROUP FOR THE 2014 FINANCIAL YEAR

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" S.A. Capital Group (henceforth referred to as the "Capital Group") with Lubelski Węgiel "Bogdanka" S.A. having its registered office in Bogdanka, 21-013 Puchaczów as the Parent Company, including the consolidated statement of financial position prepared as of 31 December 2014, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2014 to 31 December 2014 and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the Capital Group in line with the law is the responsibility of the Management Board of the Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013 item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group.

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

- section 7 of the Accounting Act;
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification - largely on a test basis - of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

- give a true and fair view of the information material to evaluation of the economic and financial position of the Capital Group as of 31 December 2014 as well as its financial performance in the financial year from 1 January 2014 to 31 December 2014,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and its executory provisions,
- comply with the provisions of law applicable to the Parent Company and Capital Group entities which affect the contents of the consolidated financial statements.

The report on the activities of the Capital Group for the 2014 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133) and consistent with underlying information disclosed in the audited consolidated financial statements.

Joanna Sklarz-Snopek
Key certified auditor
conducting the audit
No. 10781

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 11 March 2015

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT
OF THE CONSOLIDATED FINANCIAL STATEMENTS
OF THE LUBELSKI WĘGIEL „BOGDANKA” S.A. CAPITAL GROUP
FOR THE 2014 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Parent Company

The Capital Group's Parent Company operates under the business name Lubelski Węgiel „Bogdanka” S.A. Its registered office is located in Bogdanka, 21-013 Puchaczów.

The Parent Company operates as a joint stock company.

The Parent Company is recorded in the Register of Entrepreneurs kept by the District Court for Lublin XI Business Division of the National Court Register, under number 0000004549.

The Parent Company operates based on the provisions of the Code of Commercial Companies

As of 31 December 2014, the share capital of the Parent Company equaled PLN 170,068 thousand and was divided into 34,013,590 ordinary shares with a face value of PLN 5.00 each. The Company's share capital has been adjusted for the amount of PLN 131.090 thousand in connection to hyperinflationary corrections in previous years.

Composition of the Management Board of the Parent Company as at the date of the opinion:

- | | |
|----------------------|--|
| – Zbigniew Stopa | – Chairman of the Management Board; |
| – Waldemar Bernaciak | – Vice-Chairman of the Management Board; |
| – Roger de Bazelaire | – Vice-Chairman of the Management Board; |
| – Krzysztof Szlaga | – Vice-Chairman of the Management Board. |

During the audited period and until the date of the opinion no changes in the composition of the Parent Company's Management Board took place.

2. Structure of the Capital Group

The consolidated financial statements as of 31 December 2014 included the following entities:

- a) Parent Company – Lubelski Węgiel „Bogdanka” S.A.

We have audited the financial statements of the Parent Company Lubelski Węgiel „Bogdanka” S.A. for the period from 1 January to 31 December 2014. As a result of our audit, on 11 March 2015 we issued an unqualified opinion

b) Companies subject to full consolidation:

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
EkoTRANS Bogdanka Sp. z o.o. Bogdanka, 21-013 Puchaczów	100%	DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. Unqualified opinion	31.12.2014
RG “Bogdanka” Sp. z o.o. Bogdanka, 21-013 Puchaczów	100%	DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. Unqualified opinion	31.12.2014
”Łęczyńska Energetyka” Sp. z o.o. Bogdanka, 21-013 Puchaczów	88.70%	DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. Unqualified opinion	31.12.2014
MR Bogdanka Sp. z o.o. Bogdanka, 21-013 Puchaczów	100%	The financial statements were not audited.	31.12.2014

c) Companies subject to equity method of consolidation: did not occur.

In the audited financial year, MR Bogdanka Sp. z o.o. has been included in consolidation. Inclusion of this Company hasn’t substantially affect the consolidated financial statement.

3. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2013 resulted in a net profit of PLN 329,728. The consolidated financial statements of the Capital Group for 2013 were audited by a certified auditor. The audit of the financial statements was performed by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., an entity authorized to perform audits. On 18 March 2014, the certified auditor issued an unqualified opinion on these financial statements.

The General Shareholders’ Meeting which approved the consolidated financial statements for the 2013 financial year was held on 12 June 2014.

The consolidated financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 3 July 2014.

4. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board of 27 June 2012 based on authorization included in Article 32 of the Parent Company’s By-laws.

The audit of the consolidated financial statements was performed based on the agreement of 17 July 2012 concluded between the Parent Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was

conducted under the supervision of Joanna Sklarz-Snopek, key certified auditor, (No. 10781), in the registered office of the Parent Company from 16 to 20 February 2015 and outside its premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting the audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009 No. 77, item 649 as amended) to express an unbiased and independent opinion on the financial statements of the Lubelski Węgiel „Bogdanka” S.A. Capital Group.

5. Availability of data and management’s representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Parent Company’s Management Board of 11 March 2015.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated statement of profit or loss, consolidated statement of financial position as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main financial data from consolidated statement of profit or loss 2014 2013
(PLN '000)

Sales revenue	2 013 568	1 899 830
Operating expenses	(1 633 993)	(1 444 031)
Operating profit (loss)	362 315	424 803
Net profit (loss)	272 352	329 728

Main financial data from consolidated statement of financial position (PLN '000)

Inventory	132 488	111 503
Trade receivables	255 931	185 324
Current assets	634 250	570 126
Total assets	4 364 415	3 844 130
Equity	2 523 827	2 455 531
Short-term liabilities (including short-term provisions and accruals)	669 307	808 968
Trade liabilities	115 358	94 586
Total liabilities and provisions for liabilities	1 840 588	1 388 599

Profitability and efficiency ratios 2014 2013

– return on sales	18%	22%
– net return on equity	12%	16%
– assets turnover ratio	0.46	0.49
– receivables turnover in days	39	36
– liabilities turnover in days	23	25
– inventory turnover in days	27	21

Liquidity/Net working capital

– debt ratio	42%	36%
– equity to fixed assets ratio	58%	64%
– net working capital (PLN '000)	(35 057)	(238 842)
– current ratio	0.95	0.70
– quick ratio	0.75	0.57

An analysis of the above figures and ratios indicated the following trends in 2014:

- a decrease in return on sales and net return on equity;
- a decrease in assets turnover ratio;
- an increase in the receivables and inventory turnover in days;
- a decrease in the liabilities turnover in days;
- an increase in the debt ratio and a decrease in equity to fixed assets ratio;
- a decrease in negative net working capital;
- an increase in liquidity ratios.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2014 and include:

- consolidated statement of financial position prepared as of 31 December 2014, with total assets and liabilities plus equity of PLN 4,364,415 thousand;
- consolidated statement of profit or loss for the period from 1 January 2014 to 31 December 2014 disclosing a net profit of PLN 272,352 thousand;
- consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 with a total positive comprehensive income of PLN 260,498 thousand;
- consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 68,296 thousand;
- consolidated cash flow statement for the period from 1 January 2014 to 31 December 2014, showing a cash outflow of PLN 16,523 thousand;
- notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2014 to 31 December 2014 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation;
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

- financial statements of entities included in the consolidated financial statements;
- financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
- consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
- calculation of minority interests.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent Company and the subsidiaries included in consolidation were summed up.

The Parent Company preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements give a description of measurement principles regarding assets, liabilities, financial performance and principles of preparation of the consolidated financial statements.

The Parent Company prepared notes in the form of tables to individual items of the consolidated statement of financial position and consolidated statement of profit or loss and consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The Management Board of Parent Company prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2014 financial year. The report contains information determined by Article 49 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. FINAL NOTES

Management Board’s Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent Company’s Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Joanna Sklarz-Snopek
Key certified auditor
conducting the audit
No. 10781

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
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Warsaw, 11 March 2015