

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

**FINANCIAL STATEMENTS
FOR THE 2015 FINANCIAL YEAR**

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

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FOR THE 2015 FINANCIAL YEAR**

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**REPORT ON THE ACTIVITIES OF LUBELSKI WĘGIEL “BOGDANKA” S.A.
FOR THE 2015 FINANCIAL YEAR**

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 its registered office in Bogdanka, 21-013 Puchaczów (hereinafter: the "Company"), including statement of financial position prepared as of 31 December 2015, statement of profit or loss, statement of comprehensive income, statement of changes in equity, cash flow statement for the financial year from 1 January 2015 to 31 December 2015 and notes comprising a summary of significant accounting policies and other explanatory information, as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations.

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

The Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities of the Company 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 financial statements with the accounting principles (policy) adopted by the Company 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 Company in all material respects and an opinion on the correctness of the underlying accounting records.

Our audit was 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 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) and material estimates applied by the Company, verification – largely on a test basis – of the accounting evidence and records supporting the amounts and disclosures in the financial statements, as well as overall evaluation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited 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 Company as at 31 December 2015 as well as its financial performance in the financial year from 1 January 2015 to 31 December 2015;
- 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 executive provisions and based on properly kept accounting records;
- comply with the provisions of law and the by-laws of the Company, which affect the contents of the financial statements.

The report on the activities of the Company for the 2015 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 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.
— General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 17 March 2016

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 FINANCIAL STATEMENTS
OF LUBELSKI WĘGIEL “BOGDANKA” S.A.
FOR THE 2015 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Company

The Company operates under the business name Lubelski Węgiel “Bogdanka” S.A. (hereinafter: the “Company”). The Company’s registered office is located in Bogdanka, 21-013 Puchaczów.

The Company operates as a joint stock company.

The Company is recorded in the Register of Entrepreneurs kept by the District Court for Lublin-Wschód in Lublin with its registered seat in Świdnik, VI Business Division of the National Court Register, under number 0000004549.

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

As of 31 December 2015, the Company’s share capital equalled PLN 170,068 thousand and was divided into 34,013,590 ordinary shares with a face value of PLN 5.00 each. The share capital has been adjusted by PLN 131,090 thousand as a result of recognition of hyperinflation adjustments in prior years.

In the audited period, the Company conducted activities mainly in the area of mining and concentration of hard bituminous coal.

Composition of the Management Board as of the date of the opinion:

- | | |
|----------------------|--|
| – Zbigniew Stopa | – Chairman of the Management Board; |
| – Waldemar Bernaciak | – Vice-Chairman of the Management Board; |
| – Piotr Janicki | – Vice-Chairman of the Management Board; |
| – Jakub Stęchły | – Vice-Chairman of the Management Board. |

On 23 November 2015 the Supervisory Board dismissed the Management Board of the 8th term of office composed of Zbigniew Stopa, Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga. At the same time the Supervisory Board appointed the Management Board for the 9th term of office composed of Zbigniew Stopa, Waldemar Bernaciak, Piotr Janicki and Jakub Stęchły.

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

2. Information on the financial statements for the previous financial year

The activities of the Company in 2014 resulted in a net profit of PLN 272,942 thousand. The financial statements of the Company for 2014 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. On 11 March 2015 the certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders’ Meeting which approved the financial statements for the 2014 financial year was held on 18 June 2015.

The General Shareholders' Meeting decided to distribute the net profit for 2014 in the following manner:

- dividends for shareholders – PLN 119,048 thousand;
- allocation to supplementary capital – PLN 153,894 thousand.

The separate financial statements for the 2014 financial year were submitted to the National Court Register (KRS) on 1 July 2015.

The consolidated financial statements for the 2014 financial year were submitted to the National Court Register (KRS) on 1 July 2015.

3. 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 26 June 2015 based on authorization included in Article 32 of the Company's By-laws.

The audit of the financial statements was performed based on the agreement of 13 August 2015 concluded between the 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 Company from 22 to 25 October 2015, from 15 to 19 February 2016 and outside its premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting 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 Lubelski Węgiel „Bogdanka” S.A.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, 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 Company's Management Board of 17 March 2016.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

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

<u>Main financial data from statement of financial position (PLN ‘000)</u>	2015	2014
Sales revenue	1 883 118	2 010 499
Operating expenses	(2 207 220)	(1 640 508)
Operating profit (loss)	(328 502)	358 639
<i>Including impairment of fixed assets</i>	624.772	0
Net profit (loss)	(278 029)	272 942

<u>Main financial data from statement of financial position (PLN ‘000)</u>		
Inventory	101 452	130 848
Trade receivables	201 161	254 221
Current assets	616 156	605 152
Total assets	3 594 729	4 322 983
Equity	2 105 890	2 505 468
Short-term liabilities (including short-term provisions and accruals)	392 465	662 161
Trade liabilities	84 028	124 028
Total liabilities and provisions	1 488 839	1 817 515

Profitability and efficiency ratios

– return on sales	-17%	18%
– net return on equity	-12%	12%
– assets turnover ratio	0,52	0,47
– receivables turnover in days	44	39
– liabilities turnover in days	17	25
– inventory turnover in days	19	26

Liquidity/Net working capital

– debt ratio	41%	42%
– equity to fixed assets ratio	59%	58%
– net working capital (PLN ‘000)	223 691	(57 009)
– current ratio	1.57	0.91
– quick ratio	1.31	0.72

An analysis of the above figures and ratios indicated the following trends in 2015:

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

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation describing the adopted accounting principles, complying in all material respects with Article 10 of the Accounting Act. The principles have been applied consistently and did not change compared to the principles applied in the prior year. The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

Based on tests performed during the audit procedures, we have verified the adopted accounting system and found no misstatements that would affect the financial statements. The accounting system adopted by the Company wasn't a subject of our audit as a whole.

The Company performed a physical count of assets, equity and liabilities within the scope necessary to confirm the existence of the presented assets, equity and liabilities.

2. Information identifying the audited financial statements

The audited financial statements were prepared as at 31 December 2015 and include:

- statement of financial position prepared as at 31 December 2015, with total assets and liabilities plus equity of PLN 3,594,729 thousand;
- statement of profit or loss for the period from 1 January 2015 to 31 December 2015 disclosing a net loss of PLN 278,029 thousand;
- statement of comprehensive income for the period from 1 January 2015 to 31 December 2015 with a total negative comprehensive income of PLN 282,041 thousand;
- statement of changes in equity for the period from 1 January 2015 to 31 December 2015, disclosing a decrease in equity of PLN 399,578 thousand;
- cash flow statement for the period from 1 January 2015 to 31 December 2015, showing a cash inflow of PLN 67,748 thousand;
- notes to the financial statements comprising a summary of significant accounting policies and other explanatory information.

3. Information about selected material items of the financial statements

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

Property, plant and equipment

The property, plant and equipment include mainly:

- technical equipment and machines of PLN 1,078,107 thousand;
- excavation sites of PLN 1,030,454 thousand;
- other buildings and structures of PLN 487,723 thousand;
- fixed assets under construction of PLN 143,584 thousand.

The notes correctly describe changes in fixed assets and fixed assets under construction and disclose any impairment losses on such assets.

Long-term investments

The Company's long-term investments include value of shares in related parties of PLN 75,601 thousand.

The notes correctly describe changes in investments during the financial year.

Inventory

The structure of inventory and related impairment losses has been correctly presented in the relevant explanatory note to the statement of financial position.

Receivables

Ageing of trade receivables has been correctly presented in the respective explanatory note to the statement of financial position, together with related impairment losses.

The Company's key receivables are trade receivables in the amount of PLN 201,161 thousand.

Liabilities

Key liabilities include:

- liabilities due to issuance of bonds of PLN 700,092 thousand;
- trade liabilities of PLN 84,028 thousand.

The nature of contracted loans and bonds, the description of security and maturity has been presented in the notes to the financial statements.

Ageing and structure of liabilities by type and maturity have been correctly presented in the relevant explanatory note to the statement of financial position.

Prepayments, accruals and provisions for liabilities

The structure of prepayments, accruals and provisions for liabilities has been correctly presented in the relevant explanatory notes. Material items of deferred expenses and income have been correctly classified with respect to the audited financial year. Provisions for liabilities have been determined in reliably estimated amounts. The items have been recognized completely and correctly in all material respects in relation to the financial statements as a whole.

4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Company

The Company confirmed the validity of the going concern basis in preparation of the financial statements. The notes and explanations to the financial statements give a correct and complete description of measurement principles regarding assets, equity and liabilities, profit/loss and principles of preparation of the financial statements.

The notes to the financial statements give a correct and complete description of the material reporting items and clearly present other material information required under IFRS.

The financial statements have been supplemented with the Management Board's report on the activities of the Company in the 2015 financial year. The report contains information required under 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). We have audited the report with respect to the disclosed information derived directly from the audited 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 Company’s Management Board, in which the Board stated that the Company 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:

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Warsaw, 17 March 2016