



Auditor's Opinion

for the General Shareholders Meeting and the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.

We have audited the attached consolidated financial statements of the Lubelski Węgiel Bogdanka Group (the "Group"), in which Lubelski Węgiel Bogdanka S.A. is the Parent Undertaking (the "Parent Undertaking"), with registered office in Bogdanka, 21-013 Puchaczów, comprising of a consolidated statement of financial position prepared as at 31 December 2011, showing a balance-sheet total under assets and shareholders' equity and liabilities in the amount of PLN 3,076,228,000, a consolidated statement of comprehensive income for the period from 1 January to 31 December 2011 showing the comprehensive income in the amount of PLN 221,246,000, a consolidated statement of changes in the shareholders' equity, a consolidated cash flow statement for that financial year and additional information on adopted accounting policies and other explanatory 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 Undertaking. The Parent Undertaking's Management Board and the members of the Supervisory Board are obliged to ensure that the consolidated financial statements and report on the Group's operations comply with the requirements provided for in the Accountancy Act of 29 September 1994 (the "Accountancy Act" - Dz. U. of 2009, No. 152, item 1223, as amended).

It was our task to audit the attached consolidated financial statements and express an opinion on the compliance, in all material aspects, of these financial statements with applicable accounting principles (policies) and whether it presents, in a reliable and clear manner, in all material aspects, the economic and financial position and the Group's financial result.

We have conducted the audit pursuant to the following regulations:

- a. the provisions of chapter 7 of the Accountancy Act;
- b. national standards of performing the work of an auditor, as issued by the Polish National Council of Chartered Auditors.

The audit has been planned and carried out so as to obtain sufficient certainty that the consolidated financial statements are free from material errors and mistakes. As part of the audit, we checked, on the basis of a selected sample, the evidence confirming amounts and information disclosed in the consolidated financial statements. The audit also covered the assessment of accounting policies applied by the Group and a number of material estimations made during the preparation of the consolidated financial statements, as well as a general assessment of their presentation. We believe that our audit makes a sufficient basis for issuing an opinion.

Auditor's Opinion

for the General Shareholders Meeting and the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. (continued)

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

- a. present in a reliable and clear manner the economic and financial position of the Group as at 31 December 2011, and its financial result for the financial year from 1 January to 31 December 2011 in accordance with the International Financial Reporting Standards as endorsed by the European Union.
- b. comply in form and content with the binding provisions of law and the Group's Articles of Association;
- c. have been prepared on the basis of correctly maintained consolidation documentation;

The information contained in the Directors' report on Group's operations for the financial year from 1 January to 31 December 2011 complies with the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State (Dz. U. No. 33, item 259, as amended) and corresponds to the information included in the audited consolidated financial statements.

The 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 No. 144:

[signature]

Tomasz Reinfuss

Group's Chartered Auditor

Key Chartered Auditor

Register Number 90038

Katowice, 19 March 2012

The Lubelski Węgiel BOGDANKA Group

**Report on the audit of the consolidated financial statements
for the financial year from 1 January to 31 December 2011**

The Lubelski Węgiel BOGDANKA Group
Report on the audit of the consolidated financial statements
for the financial year from 1 January to 31 December 2011

for the General Shareholders Meeting and the Supervisory Board
of Lubelski Węgiel BOGDANKA S.A.

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The Lubelski Węgiel BOGDANKA Group

Report on the audit of the consolidated financial statements

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I. General characteristics of the Group

- a. Lubelski Węgiel BOGDANKA Spółka Akcyjna ("Parent Undertaking"), with registered office in Bogdanka, 21-013 Puchaczów, is the Parent Undertaking of the Lubelski Węgiel BOGDANKA Group.
- b. The foundation deed of the Parent Undertaking was prepared in the form of a notary deed in the Notary Office of Jacek Wojdyło - Notary Public in Katowice, on 1 March 1993 (Rep. A No. 855/1993). On 26 March 2001, the Parent Undertaking was registered in the Register of Entrepreneurs maintained by the District Court in Lublin, XI Division of the National Court Register, under KRS No. 0000004549.
- c. For the purpose of tax settlements the Parent Undertaking was given the tax registration number (NIP): 713-000-57-84. For statistics purpose the Parent Undertaking was given the industry identification number (REGON): 430309210.
- d. The Parent Undertaking's basic capital as at 31 December 2011 amounted to PLN 170,068,000 and consisted of 34,013,590 shares with par value of PLN 5.00 per share.
- e. In the audited period, the Group's core business activities were:
- mining and agglomeration of hard coal;
 - production of construction ceramics;
 - production of thermal energy.
- f. In the financial year the Parent Undertaking's Management Board was composed of the following members:
- Mirosław Taras President of the Management Board
 - Krystyna Borkowska Vice-President of the Management Board
 - Waldemar Bernaciak Vice-President of the Management Board
 - Zbigniew Stopa Vice-President of the Management Board
 - Lech Tor Member of the Management Board since 3 March 2011
- g. As at 31 December 2011, the Lubelski Węgiel BOGDANKA Group consisted of the following entities:

Name of the entity	Characteristics of capital relations (% of ownership)	Consolidation method	Entity auditing the financial statements	Opinion	Balance-sheet date, as of which the financial statements were prepared
Lubelski Węgiel BOGDANKA S.A.	Parent Undertaking	Does not apply	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2011
Łęczyńska Energetyka Sp. z o.o.	Subsidiary (88.796)	Full	Doradca Zespół Doradców Finansowo - Księgowych Sp. z o.o.	unqualified	31 December 2011

- h. The Parent Undertaking is an issuer of securities admitted into trading on the Warsaw Stock Exchange and in compliance with the requirements of the Polish Accounting Act prepares its consolidated financial statements based on the International Financial Reporting Standards (IFRS) endorsed by the European Union.

The Lubelski Węgiel BOGDANKA Group

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II. Information on the audit

- a. The consolidated financial statements for the financial year from 1 January to 31 December 2011 were audited by PricewaterhouseCoopers Sp. z o.o., a company with its registered office in Warsaw, at the address of Al. Armii Ludowej 14, registered under number 144 as an entity authorised to audit financial statements. On behalf of the authorised entity, the audit was carried out under the supervision of Mr Tomasz Reinfuss, a chartered auditor, the Group's Chartered Auditor (registered under number 90038).
- b. PricewaterhouseCoopers Sp. z o.o. was selected to be the Group's chartered auditor under Resolution 110/VII/2011 of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. dated 8 June 2011, pursuant to Article 32.1.4 of the Parent Undertaking's Articles of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key chartered auditor auditing the financial statements are independent of the entities comprising the Group within the meaning of Article 56.2-4 of the Act on Chartered Auditors and their Self-Governing Regulatory Body, the Entities Authorised to Audit Financial Statements and on Public Supervision of 7 May 2009 (Dz. U. No. 77, item 649, as amended).
- d. The audit was carried out under an agreement dated 12 July 2011, from 6 February to 19 March 2012.

III. Description of the Group's results and financial standing

The consolidated financial statements are not adjusted for inflation. The general consumer price index (for the period from December to December) was 4.6% for the year covered by the audit (3.1% for 2010).

The comments below are based on information obtained during the audit of the consolidated financial statements.

- The value of the Group's assets as at the end of the financial year was PLN 3,076,228,000. During the year, total assets increased by PLN 248,183,000, i.e. by 8.8%. This increase was the result of, above all, an increase in the value of tangible fixed assets by PLN 504,067,000 and was partially offset by a decrease in cash, as presented in current assets, by PLN 369,281,000, compared to the previous year. The above changes are the result of continued implementation of the Parent Undertaking's investment process started in the previous years.
- The Group's revenue for the audited year amounted to PLN 1,301,349,000 and were up by PLN 70,902,000 (i.e. by 5.8%) as compared to the figure for the previous year. The increase in revenue was mainly attributable to higher volumes of coal sold by the Company as compared to the previous year.
- The highest operating expenses items during the financial year covered by the audit were employee benefits, which amounted to PLN 424,053,000, which compared to the previous year, increased by PLN 26,496,000, i.e. 6.7%. This growth was mainly attributable to an increase in the number of employees in the Parent Undertaking, as a result of the launch of coal mining in the Stefanów Field.
- In 2011, the Group achieved net profit amounting to PLN 221,246,000 and was lower by PLN

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8,876,000 compared to 2010. It was reflected in a drop in profitability measured with net profit from 19% to 17%. The main cause of the change was lower average net commercial coal yield in relation to total output reached by the Parent Undertaking compared to the previous year.

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IV. Selected items from the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011

	31 Dec. 2011	31 Dec. 2010	Change	Change	31 Dec. 2011	31 Dec. 2010
	PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
ASSETS						
Fixed assets						
Tangible fixed assets	2,605,312	2,101,245	504,067	24.0	84.7	74.3
Intangible fixed assets	9,931	10,955	(1,024)	(9.3)	0.3	0.4
Investments in the associated undertakings	-	18	(18)	(100.0)	-	-
Trade debtors and other receivables	685	845	(160)	(18.9)	-	-
Cash and cash equivalents	58,288	50,909	7,379	14.5	1.9	1.8
	2,674,216	2,163,972	510,244	23.6	86.9	76.5
Current assets						
Stock	43,494	60,810	(17,316)	(28.5)	1.4	2.2
Trade debtors and other receivables	255,698	126,858	128,840	101.6	8.4	4.5
Overpaid income tax	-	4,304	(4,304)	(100.0)	-	0.2
Cash and cash equivalents	102,820	472,101	(369,281)	(78.2)	3.3	16.6
	402,012	664,073	(262,061)	(39.5)	13.1	23.5
Total assets	3,076,228	2,828,045	248,183	8.8	100.0	100.0

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011 (continued)

	31 Dec. 2011	31 Dec. 2010	Change	Change	31 Dec. 2011	31 Dec. 2010
	PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
SHAREHOLDERS' EQUITY						
Ordinary shares	301,158	301,158	-	-	9.8	10.6
Other capitals	1,261,013	1,081,298	179,715	16.6	40.9	38.3
Retained profits	570,896	577,309	(6,413)	(1.1)	18.6	20.4
	2,133,067	1,959,765	173,302	8.8	69.3	69.3
Non-controlling interests	9,579	9,254	325	3.5	0.3	0.3
	2,142,646	1,969,019	173,627	8.8	69.6	69.6
LIABILITIES						
Long-term liabilities						
Loans and borrowings	341,000	200,000	141,000	70.5	11.1	7.1
Deferred income tax liabilities	70,659	54,732	15,927	29.1	2.3	1.9
Employee benefits liabilities	113,144	108,582	4,562	4.2	3.7	3.8
Provisions for other liabilities and charges	76,856	67,314	9,542	14.2	2.5	2.4
Grants	19,111	19,451	(340)	(1.7)	0.6	0.7
Trade creditors and other liabilities	5,796	5,808	(12)	(0.2)	0.2	0.2
	626,566	455,887	170,679	37.4	20.4	16.1
Short-term liabilities						
Loans and borrowings	-	50,000	(50,000)	(100.0)	-	1.8
Employee benefits liabilities	34,109	29,709	4,400	14.8	1.1	1.1
Current income tax liabilities	2,034	-	2,034	-	0.1	-
Provisions for other liabilities and charges	36,698	82,689	(45,991)	(55.6)	1.2	2.9
Trade creditors and other liabilities	234,175	240,741	(6,566)	(2.7)	7.6	8.5
	307,016	403,139	(96,123)	(23.8)	10.0	14.3
Total equity and liabilities	3,076,228	2,828,045	248,183	8.8	100.0	100.0

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the financial year from 1 January to 31 December 2011

	2011	2010	Change	Change	2011	2010
	PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Revenue on sales	1,301,349	1,230,447	70,902	5.8	100.0	100.0
Cost of products, goods and materials sold	(916,696)	(820,763)	(95,933)	11.7	(70.4)	(66.7)
Gross profit	384,653	409,684	(25,031)	(6.1)	29.6	33.3
Selling costs	(39,008)	(35,885)	(3,123)	8.7	(3.0)	(2.9)
Administrative costs	(80,013)	(70,217)	(9,796)	14.0	(6.2)	(5.7)
Other income	5,597	3,902	1,695	43.4	0.4	0.3
Other costs	(2,434)	(3,343)	909	(27.2)	(0.2)	(0.3)
Other losses - net	(3,056)	(27,669)	24,613	(89.0)	(0.2)	(2.2)
Profit on operating activities	265,739	276,472	(10,733)	(3.9)	20.4	22.5
Financial income	12,535	25,362	(12,827)	(50.6)	1.0	2.0
Financial expenses	(6,293)	(13,546)	7,253	(53.5)	(0.5)	(1.1)
Net financial income	6,242	11,816	(5,574)	(47.2)	0.5	0.9
Share in (losses)/profits of associated undertakings	-	(59)	59	(100.0)	-	-
Profit before taxation	271,981	288,229	(16,248)	(5.6)	20.9	23.4
Income tax	(50,735)	(58,107)	7,372	(12.7)	(3.9)	(4.7)
Net profit for the financial year	221,246	230,122	(8,876)	(3.9)	17.0	18.7
Total income for the period	221,246	230,122	(8,876)	(3.9)	17.0	18.7
including:						
- attributable to shareholders of the Parent Undertaking	220,921	229,811	(8,890)	(3.9)		
- attributable to non-controlling interests	325	311	14	4.5		

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IV. Selected items describing 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:

	2011	2010 r.	2009 r.
Activity ratios			
- receivables turnover rate	37 days	24 days	29 days
- stock turnover rate	20 days	24 days	20 days
Return ratios			
- net profit margin	17%	19%	17%
- gross margin on sales	20%	25%	22%
- return on equity	11%	12%	13%
Debt ratios			
- debt ratio	30%	30%	30%
- liabilities turnover rate	16 days	21 days	22 days
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009
Liquidity ratios			
- liquidity ratio I	1.3	1.6	3.4
- liquidity ratio II	1.2	1.5	3.2
Other ratios			
- effective income tax rate	18.7%	20.2%	19.8%

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V. Statements by the independent chartered auditor

- a. During the audit, the Parent Undertaking's Management Board provided the required information, clarifications and statements, a statement confirming that all of the contingent liabilities are disclosed in the Parent Undertaking's consolidation documentation and presented, as well as information on significant events occurring after the balance sheet date until the date of making the statement.
- b. The scope of the audit was not limited.
- c. In all material aspects, specified by the Management Board of the Parent Undertaking, the Group's principles (policies) of accounting and providing data complied with the IFRS endorsed by the European Union. The principles and methods applied in the reporting period covered by the audit were consistent with those applied in the previous period.
- d. In all material aspects, the consolidation of capitals and determining the non-controlling interests were conducted correctly.
- e. Exemption of mutual settlements (receivables and liabilities) and the internal turnovers (revenue and costs) of the entities covered by the consolidation were conducted, in all material aspects, in compliance with the IFRS endorsed by the European Union.
- f. Exemption of the results not realised by the entities covered by the consolidation, included in the value of the assets and on account of dividends, were conducted in all material aspects, in compliance with the IFRS endorsed by the European Union.
- g. The consolidation documentation was complete and correct, and the manner of storing them ensures proper security.
- h. The Group's consolidated financial statements for the financial year from 1 January to 31 December 2010 were approved under the Parent Undertaking's General Shareholders Meeting's Resolution 4 dated 10 May 2011, submitted to the National Court Register in Lublin on 16 May 2011 and published in *Monitor Polski B* (No.1944) on 19 October 2011.
- i. The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The chartered auditor issued an unqualified opinion.
- j. The notes to the financial statements contain all the significant information defined by the IFRS endorsed by the European Union.
- k. The information contained in the report on the Group's activities in the financial year from 1 January to 31 December 2011 reflects the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State (Dz. U. No. 33, item 259, as amended).

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VI. Information and final comments

This report was prepared in connection with the audit of the consolidated financial statements of the Lubelski Węgiel BOGDANKA Group, where Lubelski Węgiel BOGDANKA S.A. is the Parent Undertaking, with registered office in Bogdanka, 21-013 Puchaczów. The consolidated financial statements were signed by the Parent Undertaking's Management Board on 19 March 2012.

This report should be read in conjunction with the independent chartered auditor's opinion for the General Shareholders Meeting and the Supervisory Board of Lubelski Węgiel Bogdanka" S.A. dated 19 March 2012, relating to the consolidated financial statements described above. The opinion on the consolidated financial statements is an expression of a general conclusion based on the audit. The conclusion is not the sum of assessments of the results of auditing the different items included in the consolidated financial statements, but rather the different findings are given an appropriate level of importance, taking into account the effect of the findings on the reliability and correctness of the consolidated financial statements.

The 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 No. 144:

[signature]

Tomasz Reinfuss

Group's Chartered Auditor

Key Chartered Auditor

Register Number 90038

Katowice, 19 March 2012