



Auditor's Opinion

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

We have audited the attached financial statements of Lubelski Węgiel Bogdanka S.A. (the "Company") with registered office in Bogdanka, 21-013 Puchaczów, comprising of a 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 3,060,843,000, a statement of comprehensive income for the period from 1 January to 31 December 2011 showing the comprehensive income in the amount of PLN 218,978,000, a statement of changes in the shareholders' equity, a cash flow statement for that financial year and additional information on adopted accounting policies and other explanatory information.

The responsibility for preparing the financial statements and report on operations compliant with the applicable regulations, as well as correctness of the accounting books 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 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 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 Company's financial result, as well as on the correctness of the accounting books serving as a basis for the preparation of the financial statements.

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 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 financial statements. The audit also covered the assessment of accounting policies applied by the Company and a number of material estimations made during the preparation of the 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 financial statements, in all material aspects:

- a. present in a reliable and clear manner the economic and financial position of the Company 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 Company's Articles of Association;
- c. have been prepared on the basis of correctly maintained accounting books, in accordance with the required accounting principles (policies);

The information contained in the Directors' report on Company'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) and corresponds to the information included in the audited 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

Key Chartered Auditor

Register Number 90038

Katowice, 19 March 2012

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

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

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Lubelski Węgiel BOGDANKA S.A.

Report on the audit of the financial statements

for the financial year from 1 January to 31 December 2011

I. General characteristics of the Company

- a. The registered office of Lubelski Węgiel BOGDANKA S.A. ("Company") is located in Bogdanka, 21-013 Puchaczów.
- b. The Company was created as a result of the restructuring of the state enterprise Kopalnia Węgla Kamiennego Bogdanka. The deed of transformation into a company wholly owned by the State Treasury 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 Company 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. In the audited financial year, the Company run its activity on the basis of a license to excavate hard coal issued by the Minister of the Environment Protection, Natural Resources and Forestry on 27 August 1997.
- d. For the purpose of tax settlements the Company was given the tax registration number (NIP): 713-000-57-84, and for statistics purpose the entity was given the industry identification number (REGON): 430309210.
- e. The Company's registered share 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 per share. The shareholders' equity as at that day amounted to PLN 2,129,238,000.
- f. In the audited period, the Company's core business activities were mining and agglomeration of hard coal.
- g. In the financial year the Company'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
- h. The Company's related party is Łęczyńska Energatyka Sp. z o.o. (subsidiary undertaking).
- i. The Company is an issuer of securities admitted into trading on the Warsaw Stock Exchange. Given the possibility to choose accounting policies as provided for in the Act, starting from 2009 the Company prepares its financial statements based on the International Financial Reporting Standards (IFRS) endorsed by the European Union.

The decision on preparing the Company's financial statements in compliance with those standards was made by the General Shareholders Meeting by virtue of Resolution No. 1 of 14 November 2008.
- j. The Company, being the Parent Undertaking in the Group, prepared also on 19 March 2012 the consolidated financial statements in compliance with the IFRS endorsed by the European Union. In order to understand the financial situation and results of operations of the Company as the Parent Undertaking, separate financial statements are to be read in conjunction with the consolidated financial statements.

II. Information on the audit

- a. The 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 (registered under number 90038).
- b. PricewaterhouseCoopers Sp. z o.o. was selected to be the Company's chartered auditor under Resolution 110/VII/2011 of the Supervisory Board dated 8 June 2011, pursuant to Article 32.1.4 of the Company's Articles of Association.
- c. PricewaterhouseCoopers Sp. z o.o and the key chartered auditor auditing the financial statements are independent of the audited entity 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, during the following periods:
 - the initial audit: from 7 November to 16 December 2011
 - the final audit: from 6 February to 19 March 2012

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

The 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 financial statements.

- The value of the Company's assets as at the end of the financial year was PLN 3,060,843,000. During the year, the balance sheet total increased by PLN 248,667,000, i.e. by 8.8%. This increase was the result of, above all, an increase in the value of tangible fixed assets by PLN 500,328,000 and was partially offset by a decrease in cash, as presented in current assets, by PLN 368,917,000, compared to the previous year. The above changes are the result of continued implementation of the investment process started in the previous years.
- Total sales revenue amounted to PLN 1,289,670,000 and were up by 5.6% 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 item was employee benefits, which amounted to PLN 416,671,000 in the financial year covered by the audit, accounting for 29.9% of the Company's costs by type. Compared to the previous year, the costs of employee benefits increased by 6.6%, which was mainly attributable to an increase in the number of employees

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as a result of the launch of coal mining in the Stefanów Field.

- Net return on sales was 17%, which was a decrease of 2 percentage points compared to the figure achieved in the previous year. The main cause of the change was lower average net commercial coal yield in relation to total output compared to the previous year.
- The Company's share capital (ordinary shares) was not changed in the financial year covered by the audit. In accordance with the General Shareholders Meeting's resolution dated 10 May 2011, the profit for the previous year of PLN 227,362,000 was distributed as follows:
 - PLN 47,619,000 was allocated to dividend payment;
 - PLN 179,743,000 was transferred to the reserve capital (for reporting purposes according to IFRS, presented in the 'other capitals' item).

The financial statements have been prepared in accordance with the principle of going concern.

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IV. Selected items from the financial statements

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	2,554,740	2,054,412	500,328	24.4	83.5	73.1
Intangible fixed assets	9,900	10,917	(1,017)	(9.3)	0.3	0.4
Long-term investments	73,341	73,341	-	-	2.4	2.6
Cash and cash equivalents	58,288	50,909	7,379	14.5	1.9	1.8
	2,696,269	2,189,579	506,690	23.1	88.1	77.9
Current assets						
Stock	41,572	58,463	(16,891)	(28.9)	1.4	2.1
Trade debtors and other receivables	252,605	120,364	132,241	109.9	8.2	4.3
Overpaid income tax	-	4,456	(4,456)	(100.0)	-	0.2
Cash and cash equivalents	70,397	439,314	(368,917)	(84.0)	2.3	15.5
	364,574	622,597	(258,023)	(41.4)	11.9	22.1
Total assets	3,060,843	2,812,176	248,667	8.8	100.0	100.0

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IV. Selected items from the financial statements (continued)

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	10.7
Other capitals	1,266,331	1,086,588	179,743	16.5	41.4	38.6
Retained profits	561,749	570,133	(8,384)	(1.5)	18.4	20.3
	2,129,238	1,957,879	171,359	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	72,491	56,378	16,113	28.6	2.4	2.0
Employee benefits liabilities	112,326	107,798	4,528	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	5,731	5,808	(77)	(1.3)	0.2	0.2
	627,515	456,749	170,766	37.4	20.5	16.2
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
Deferred income tax liabilities	2,136	-	2,136	-	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	231,147	235,150	(4,003)	(1.7)	7.5	8.4
	304,090	397,548	(93,458)	(23.5)	9.9	14.2
Total equity and liabilities	3,060,843	2,812,176	248,667	8.8	100.0	100.0

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IV. Selected items from the financial statements (continued)

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	1,289,670	1,221,540	68,130	5.6	100.0	100.0
Cost of products, goods and materials sold	(909,643)	(815,379)	(94,264)	11.6	(70.5)	(66.8)
Gross profit	380,027	406,161	(26,134)	(6.4)	29.5	33.2
Selling costs	(39,017)	(36,069)	(2,948)	8.2	(3.0)	(2.9)
Administrative costs	(76,939)	(67,888)	(9,051)	13.3	(6.0)	(5.5)
Other income	5,083	3,535	1,548	43.8	0.4	0.3
Other costs	(2,434)	(3,343)	909	(27.2)	(0.2)	(0.3)
Other losses - net	(2,216)	(27,650)	25,434	(92.0)	(0.2)	(2.3)
Profit on operating activities	264,504	274,746	(10,242)	(3.7)	20.5	22.5
Financial income	11,012	23,569	(12,557)	(53.3)	0.9	1.9
Financial expenses	(6,261)	(13,543)	7,282	(53.8)	(0.5)	(1.1)
Net financial income	4,751	10,026	(5,275)	(52.6)	0.4	0.8
Profit before taxation	269,255	284,772	(15,517)	(5.4)	20.9	23.3
Income tax	(50,277)	(57,410)	7,133	(12.4)	(3.9)	(4.7)
Net profit for the period	218,978	227,362	(8,384)	(3.7)	17.0	18.6
Total income for the period	218,978	227,362	(8,384)	(3.7)	17.0	18.6

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IV. Selected items from the financial statements (continued)

Selected items describing the economic and financial position as well as financial results of the Company

The following items characterise the Company'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	36 days	23 days	28 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%	14%
Debt ratios			
- debt ratio	30%	30%	30%
- liabilities turnover rate	15 days	21 days	22 days
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009
Liquidity ratios			
- liquidity ratio I	1.2	1.6	3.2
- liquidity ratio II	1.1	1.4	3.0
Other ratios			
- effective income tax rate	18.7%	20.2%	19.9%

V. Statements by the independent chartered auditor

- a. During the audit, the Company's Management Board provided the required information, clarifications and statements, a statement confirming that all of the Company's contingent liabilities are disclosed in the Company's books 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. The Company had up-to-date documentation describing its accounting principles (policies), as adopted by the Management Board. The accounting principles adopted by the Company were adapted to its needs and ensured the separation, in the Company's accounting records, of all events of significance in assessing the Company's economic and financial situation and the Company's financial results, in accordance with the prudence principle. The principles applied in the reporting period covered by the audit were consistent with those applied in the previous period.
- d. The closing balances as at the end of the previous financial year were, in all material aspects, correctly recorded in the Company's books as the opening balances for the current financial year.
- e. An inventory of assets, shareholders' equity and liabilities was conducted and accounted for in accordance with the Accountancy Act, and the results of the inventory were recognised in the books for the financial year covered by the audit.
- f. The Company's financial statements for the financial year from 1 January to 31 December 2010 were approved under the 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.
- g. The financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The chartered auditor issued an unqualified opinion.
- h. We have examined the Company's accounting system for correctness. Our examination included, in particular, the following: the correctness of the documentation of business transactions, reliability, correctness and verifiability of the Company's books, including its computerised books, the methods for controlling access to the Company's accounting data and its computerised accounting data processing system, as well as the protection of the Company's accounting documentation, books of account, and financial statements.
- i. The above assessment, combined with an examination of the reliability of the different items included in the financial statements, provide grounds for expressing an overall opinion on the financial statements. The purpose of our audit was not to express a comprehensive opinion on the operation of the system referred to above.
- j. The notes to the financial statements contain all the significant information required by the International Financial Reporting Standards endorsed by the European Union.

The information contained in the report on the Company'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) and it is consistent with the information contained in the audited financial statements.

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VI. Information and final comments

This report was prepared in connection with the audit of the financial statements of Lubelski Węgiel BOGDANKA S.A. with registered office in Bogdanka, 21-013 Puchaczów. The financial statements were signed by the Company'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 financial statements described above. The opinion on the 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 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 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

Key Chartered Auditor

Register Number 90038

Katowice, 19 March 2012