LUBELSKI WĘGIEL BOGDANKA S.A.

FINANCIAL STATEMENTS

for the financial year from 1 January 2013 to 31 December 2013

BOGDANKA, MARCH 2014

Contents of the Financial Statements

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Statement of Financial Position (Balance Sheet)

	Note	31 Dec. 2013	31 Dec. 2012
Assets			
Non-current assets			
Property, plant and equipment	6	3,098,350	2,918,273
Intangible assets	8	23,094	23,115
Non-current investments	9	74,534	73,341
Trade and other receivables	11	180	-
Cash and cash equivalents	13	77,912	68,031
		3,274,070	3,082,760
Current assets			
Inventories	12	110,361	54,095
Trade and other receivables	11	241,525	234,838
Overpaid income tax		1,639	7,234
Non-current assets for sale	7	9,974	-
Cash and cash equivalents	13	177,898	86,094
		541,397	382,261
TOTAL ASSETS		**3,815,467**	**3,465,021**
Equity			
Ordinary shares	14	301,158	301,158
Other capital	15	1,462,788	1,349,255
		672,224	629,798
Total equity		**2,436,170**	**2,280,211**
Liabilities			
Non-current liabilities			
Loans and borrowings	18	-	421,000
Deferred tax liabilities	21	99,869	75,456
Provisions for employee benefits	22	158,565	150,095
Provisions for other liabilities and charges	23	85,278	89,861
Grants	17	16,145	18,122
Financing liabilities due to bonds issue	19	200,000	-
Trade and other liabilities	16	17,785	16,909
		577,642	771,443
Current liabilities			
Loans and borrowings	18	421,000	20,000
Provisions for employee benefits	22	39,369	40,557
Financing liabilities	20	5,232	-
Provisions for other liabilities and charges	23	64,837	45,998
Grants	17	988	-
Dividend payable		4	4
Trade and other liabilities	16	270,225	306,808
		801,655	413,367
Total liabilities		**1,379,297**	**1,184,810**
TOTAL EQUITY AND LIABILITIES		**3.815.467**	**3.465.021**

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Income Statement

	Note	for the financial year from 1 January to 31 December	
		2013	**2012 restated***
Revenue	24	1,894,108	1,830,595
Costs of products, goods and materials sold	25	(1,303,376)	(1,300,948)
Gross profit		**590,732**	**529,647**
Selling cost	25	(44,539)	(44,007)
Administrative costs	25	(92,705)	(91,774)
Other income	26	2,410	1,494
Other costs	27	(3,062)	(1,822)
Other losses - net	28	(30,745)	(5,942)
Operating profit		**422,091**	**387,596**
Finance income	29	5,915	10,003
Finance cost	29	(18,302)	(18,937)
Finance cost - net	29	(12,387)	(8,934)
Profit before taxation		**409,704**	**378,662**
Income tax	30	(83,174)	(72,401)
Net profit		**326,530**	**306,261**
Earnings per share attributable to owners of the Company during the year (in PLN per share)			
- basic	31	9,60	9,00
- diluted	31	9,60	9,00

* Explanation provided in note 2.1a.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Statement of Comprehensive Income

	for the financial year from 1 January to 31 December	
	2013	**2012 restated***
Net profit	**326,530**	**306,261**
Other comprehensive income - net		
Items not intended to be transferred to the profit/ loss		
Actuarial gains/losses of defined benefit schemes	3,610	(23,746)
Income tax relating to non-transferrable items	(686)	4,512
Items not intended to be transferred to the profit/ loss - total	**2,924**	**(19,234)**
Items which may be transferred to the profit/loss		
Cash flow hedges		
- Profit/(loss) for period	(5,232)	-
Income tax relating to transferrable items	994	-
Items which may be transferred to the profit/ loss - total	**(4,238)**	**-**
Other net comprehensive income/ loss for the reporting period	**(1,314)**	**(19,234)**
Other net comprehensive income for the financial year	**325,216**	**287,027**

* Explanation provided in note 2.1a.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Statement of Changes in Equity

		Other capital				
	Ordinary shares	Other capital – transfer of profit / loss	Other capital – issue of Manage ment Options	Equity on valuation of cash flow hedges	Retained profits	Total equity
As at 1 January 2012	**301.158**	**1.266.331**	**-**	**-**	**561.749**	**2.129.238**
Total net comprehensive income for the reporting period – restated*:	-	-	-	-	287,027	287,027
- net profit	-		-		306,261	306,261
- other comprehensive income	-	-	-	-	(19,234)	(19,234)
Dividends concerning 2011	-	-	-	-	(136,054)	(136,054)
Transfer of the result for 2011	-	82,924	-	-	(82,924)	-
As at 31 December 2012	**301,158**	**1,349,255**	**-**	**-**	**629,798**	**2,280,211**
As at 1 January 2013	**301,158**	**1,349,255**	**-**	**-**	**629,798**	**2,280,211**
Total net comprehensive income for the reporting period:	-	-	-	(4,238)	329,454	325,216
- net profit	-		-	-	326,530	326,530
- other comprehensive income	-	-	-	(4,238)	2,924	(1,314)
Dividends concerning 2012	-	-	-	-	(172,110)	(172,110)
Transfer of the result for 2012	-	114,918	-	-	(114,918)	-
Management Options Issue	-	-	2,853	-	-	2,853
As at 31 December 2013	**301,158**	**1,464,173**	**2,853**	**(4,238)**	**672,224**	**2,436,170**

* Explanation provided in note 2.1a.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Statement of Cash Flows

	Note	for the financial year from 1 January to 31 December	
		2013	**2012 restated***
Cash flow from (used in) operating activities			
Cash inflow from operating activities	33	759,433	733,347
Interest received and paid		803	(2,920)
Income tax paid		(52,858)	(74,294)
Net cash flow from (used in) operating activities		**707,378**	**656,133**
Cash flows from (used in) investing activities			
Acquisition of property, plant and equipment	33	(594,849)	(563,132)
Interest paid regarding investing activity	33	(15,247)	(19,785)
Acquisition of intangible assets	8	(1,705)	(14,867)
Inflow from the sale of property, plant and equipment	33	213	221
Interest received	29	2,524	6,131
Acquisition of shares in related entities	9	(1,193)	-
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(9,881)	(9,743)
Net cash flows from (used in) investing activities		**(620,138)**	**(601,175)**
Cash flow from (used in) financing activities			
Proceeds from loans and borrowings		-	100,000
Inflow from issue of bonds	19	200,000	-
Repayments of loans and borrowings		(20,000)	-
Interest and commissions paid due to loans and borrowings	29	(3,327)	(3,211)
Dividend paid to owners of the Company	32	(172,109)	(136,050)
Net cash flows from (used in) financing activities		**4,564**	**(39,261)**
Net increase in cash and cash equivalents		91,804	15,697
Cash and cash equivalents at beginning of period		86,094	70,397
Cash and cash equivalents at end of period		**177,898**	**86,094**

Notes to the Financial Statements

Notes

1. General information

1.1. Information on the Company

Lubelski Węgiel Bogdanka S.A. is a joint stock company, operating under the laws of Poland. The Company was created as a result of the restructuring of the state enterprise Kopalnia Węgla Kamiennego Bogdanka with registered office in Bogdanka, under the Act on the Privatisation of State Enterprises of 13 July 1990.
The deed of transformation of a state-owned enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A. was drawn up on 1 March 1993 (Rep. A No. 855/1993) by Notary Public Jacek Wojdyło maintaining a Notarial Office in Katowice at ul. Kopernika 26.
The Company was entered in Section B of the Commercial Register of the District Court in Lublin, VIII Commercial Division, under No. H - 2993, on the basis of a valid decision of that Court issued on 30 April 1993 (file ref. No. HB - 2993, Ns. Rej. H 669/93).
On 26 March 2001, Lubelski Węgiel Bogdanka Spółka Akcyjna 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.
On 22 June 2009, pursuant to the decision of the Polish Financial Supervision Authority, Series A and C Shares and Rights to Series C Shares were admitted to public trading on the WSE's main market. On 25 June 2009, the Company made its debut on the WSE by introducing Rights to Series C Shares to trading. As a result of transactions effected in 2010 regarding the disposal of shares effected by the State Treasury, represented by the Minister of the State Treasury as well as transfer of shares on the basis of contracts on a free-of-charge disposal of shares for the benefit of eligible employees under the Act on Commercialisation and Privatisation, Lubelski Węgiel Bogdanka Spółka Akcyjna has lost the status of the Company owned by the State Treasury.
In accordance with resolution of the Management Board of the National Depository for Securities No. 74/13 of 24 January 2013, on 4 February 2013 the National Depository registered 34,754 shares of the Company and marked them with code PLLWBGD00016. On the same date 34,754 employee shares were introduced to the WSE. As at today, there are 135 registered series B shares outstanding.
The Company's core business activities, pursuant to the Polish Classification of Activity (PKD 0510Z), are mining and agglomeration of hard coal.

The Company is the parent in the Lubelski Węgiel Bogdanka Group. The Group prepares consolidated financial statements in accordance with IFSR for the period from 1 January to 31 December 2013. For the purpose of full understanding of the financial standing and results of the Company's operations, these financial statements should be read in conjunction with the consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial period ended on 31 December 2013. The financial statements are available at the Company's website at www.lw.com.pl on the date as announced in a current report stating the date of publication of the Company's financial statements as well as the Group's consolidated financial statements for the financial period ended on 31 December 2013.

1.2. Assumption of the Company going concern

The financial statements were prepared under the assumption of going concern in the foreseeable future and that there are no circumstances indicating any risk to the continuation of the Company's activities.

If, after the preparation of the financial statements, the Company's becomes aware of events which have a significant bearing on these financial statements or which result in the going concern assumption being no longer appropriate for the Company, the Management Board of Lubelski Węgiel Bogdanka S.A. is authorised to make amendments to the financial statements until the date of their approval. This does not preclude a possibility to make amendments to the financial statements retrospectively in subsequent periods in connection with rectification of errors or as a result of changes in the accounting policies following from IAS 8.

In the opinion of the Management Board of Lubelski Węgiel BOGDANKA S.A., there are currently no circumstances indicating any risk to continuation of the Company's activities.

2. Description of key accounting principles applied

The most important accounting principles applied in preparation of these financial statements are presented below.

2.1. Basis of preparation

These financial statements of the Company have been prepared in compliance with the International Financial Reporting Standards as well as the related interpretations published in the form of a regulation of the European Commission.

These financial statements were prepared according to the historical cost principle, including the valuation at fair value of certain components of property, plant and equipment in connection with assuming fair value as a deemed cost, which was carried out as at 1 January 2005.

These financial statements were prepared using the same accounting principles for the current and comparative periods, with adjustment of the comparative period to comparable conditions in order to reflect changes in the accounting principles and presentation adopted in the financial statements in the current period in connection with applying amendments to IAS 19" Employee Benefits."

These financial statements follow the same accounting principles (policies) and calculating methods as the latest approved annual financial statements, except for:

- change in the accounting principles related to the amendments to IAS 19 "Employee benefits",
- financial instruments measured at fair value in accordance with IFRS 13.

Detailed data regarding the amendments to IAS 19 and impact of application of IFRS 13 on the financial statements is disclosed in note 2.1a.

(a) Standards and interpretations used for the first time in 2013

The following amendments to the existing standards published by the International Accounting Standards Board and endorsed by the European Union come into force at the beginning of 2013:

- **IFRS 13 "Fair Value Measurement"** (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board on 12 May 2011, and endorsed by the European Union on 11 December 2012. IFRS 13 defines fair value, includes guidance for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not change, however, the requirements in respect of what elements should be measured or disclosed at fair value.

  IFRS 13 Fair Value Measurement sets out a single framework for measuring fair value and for disclosures about fair value measurement where such measurement is required or allowed under another IFRS. In particular, it provides for a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
  The standard also replaces and extends the requirements for disclosures about fair value measurement contained in other IFRS, including IFRS 7 Financial Instruments: Disclosures. As presentation of certain information within the above scope became obligatory in financial statements, the Company made relevant disclosures in note 20 to these financial statements.

Implementation of IFRS 13 provisions had no impact on the principles for measuring assets and liabilities as used by the Company to date, and consequently on the level of such measurements.

- **Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards"** – Severe hyperinflation and removal of fixed dates for first-time adopters (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board on 20 December 2010, and endorsed by the European Union on 11 December 2012. The first amendment refers to the replacement of fixed dates indicated in the standard "1 January 2004" with the "date of transition to IFRSs." Consequently, first-time adopters of IFRS will not have to restate derecognition operations made before the date of transition to IFRS. The second amendment provides guidance on re-application of IFRS following a period of inability to comply with IFRS because of severe hyperinflation of the functional currency.

  The introduction of amendments to IFRS 1 does not materially affect these financial statements.

- **Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards"** – Government loans (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board on 13 March 2011 and endorsed by the European Union on 4 March 2013. The amendment specifies how first-time adopters of IFRS should account for government loans with a below-market rate of interest at the time of transition to IFRS. The amendment also extends exemptions from retroactive application of IFRS to first-time adopters of IFRS analogously to exemptions made available to entities which currently prepare IFRS financial statements when that requirement was added in 2008 to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance."

  The introduction of amendments to IFRS 1 does not materially affect these financial statements. To date, there have been no actions described in IFRS 1 in the existing operations of the Company.

- **Amendments to IFRS 7 "Financial Instruments: Presentation"** – offsetting of financial assets and liabilities (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board on 16 December 2011, and endorsed by the European Union on 13 December 2012. The amendments require disclosure of information about recognised financial instruments that have been subject to offsetting in accordance with clause 42 IAS 32. The amendments also require disclosure of information about recognised financial instruments that give right to offsetting in accordance with a relevant agreement or similar arrangements, even if they have not been set off in accordance with IAS 32.

  The Company does not hold offset agreements. The introduction of amendments to IFRS 7 does not materially affect these financial statements.

- **Amendments to IAS 1 "Presentation of Financial Statements"** – presentation of items of other comprehensive income (applicable to annual periods beginning on or after 1 July 2012), published by the International Accounting Standards Board on 16 June 2011. The amendments require that entities preparing financial statements in accordance with IFRS present these items in other comprehensive income which may be transferred to the profit and loss account. The amendments also reaffirm that items in other comprehensive income and profit and loss account should be presented as either a single statement or two consecutive statements.

  In accordance with amendments to IAS 1 "Presentation of Financial Statements" regarding presentation of items in "Other Comprehensive Income", the Company introduced, as of 1 January 2013, modifications with respect to presentation of income and other comprehensive income in financial statements in the form of two separate documents, i.e. income statement and statement of comprehensive income.

- **Amendments to IAS 12 "Deferred Tax" -** Deferred tax: recovery of underlying assets (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board on 20 December 2010, and endorsed by the European Union on 11 December 2012. IAS 12 requires the entities to measure deferred tax assets depending on whether the entity plans to recover the asset through its use or sale. For assets measured in accordance with IAS 40 "Investment Property" the assessment whether such assets will be recovered through their use or sale may be difficult and subjective. The amendments solve that problem by making a presumption that the asset value is recovered usually upon its sale.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

During the Company's operations to date no activities of material value, described in the amendments to IAS 12, have occurred. The introduction of amendments to IAS 12 does not materially affect these financial statements.

- **Amendments to IAS 19 "Employee Benefits"** – amendments to accounting principles for benefits after the employment term (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board on 16 June 2011. The amendments contribute to significant improvements through: (1) eliminating the option of deferring gains and losses, known as the "corridor approach", thus enhancing comparable and true presentation; (2) improving presentation of changes in assets and liabilities which arise from specific employee benefits, including by implementing a requirement to present changes which arise from revaluation in other comprehensive income, separating thus those changes from changes which arise from usual operations of the entity; (3) enhancing requirements for disclosures about specific employee benefits, thus improving the quality of information about specific employee benefits and risks to which the entity is exposed in connection with participating in such benefits.

  The Company applies the amendments to IAS 19, and since 1 January 2013 it has disclosed actuarial gains/losses resulting from valuation of specific benefits schemes after the period of employment in other comprehensive income. As the amendments have been applied retrospectively, the income statement and the statement of comprehensive income contains restated data for the period ended on 31 December 2012. Accordingly, there was a change to the statement of changes in equity as at 31 December 2012. These changes did not affect the statement of financial position as at 31 December 2012.

  The financial statements for the financial period ended on 31 December 2012 were restated to the currently applicable conditions, based on the actuarial valuation prepared by an actuary for 2012.

  The impact of application of the amendments to IAS 19 on the income statement and the statement of comprehensive income for the period ended on 31 December 2012 of the Company is presented in the tables below:

Income Statement

	Data for the period from 1 Jan. 2012 to 31 Dec. 2012 – approved	**Adjustment following from application of amendments to IAS 19**	**Data for the period from 1 Jan. 2012 to 31 Dec. 2012 – restated**
Revenue	1,830,595	-	1,830,595
Cost of products, goods and materials sold	(1,330,073)	29,125	(1,300,948)
Gross profit	**500,522**	**29,125**	**529,647**
Selling costs			
Administrative costs	(44,159)	152	(44,007)
Other income	(94,366)	2,592	(91,774)
Other costs	1,494	-	1,494
Other losses - net	(1,822)	-	(1,822)
	(5,942)	-	(5,942)
Operating profit	**355,727**	**31,869**	**387,596**
Finance income	10,003	-	10,003

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Finance cost	(10,814)	(8,123)	(18,937)
Net finance cost	(811)	(8,123)	(8,934)
Profit before taxation	**354,916**	**23,746**	**378,662**
Income tax	(67,889)	(4,512)	(72,401)
Net profit	**287,027**	**19,234**	**306,261**

Earnings per share attributable to owners of the Company during the year (in PLN per share)		
- basic	8.44	9.00
- diluted	8.44	9.00

Statement of Comprehensive Income

	Data for the period from 1 Jan. 2012 to 31 Dec. 2012 – approved	Adjustment following from application of amendments to IAS 19	Data for the period from 1 Jan. 2012 to 31 Dec. 2012 – restated
Net profit for the period	**287,027**	**19,234**	**306,261**
Other net comprehensive income			
- Actuarial gains/losses of defined benefit schemes	-	(23,746)	(23,746)
- Income tax relating to non-transferrable items	-	4,512	4,512
Items not intended to be transferred to the profit/ loss	**-**	**(19,234)**	**(19,234)**
Other net comprehensive income for the reporting year	**287,027**		**287,027**

- **Amendments to various standards "Improvements to IFRS (2012)" –** amendments made under the annual IFRS improvements project and published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34), primarily oriented at eliminating inconsistencies and specifying terminology, endorsed by the European Union on 27 March 2013 (applicable to annual periods beginning on or after 1 January 2013). The amendments specified more precisely the required accounting treatment in situations where previously freedom of interpretation was allowed. The most important are new or amended requirements regarding: (i) resumed application of IFRS 1, (ii) borrowing costs under IFRS 1, (iii) more precisely specified requirements regarding comparative information, (iv) classification of equipment for service purposes, (v) impact of income tax on distribution of equity instruments to owners, (vi) segment information on total assets and liabilities in interim financial statements.
  The introduction of amendments to various standards does not materially affect these financial statements.

- **IFRIC 20 Interpretation "Stripping Costs in the Production Phase of a Surface Mine"** (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board on 19 October 2011 and endorsed by the European Union on 11 December 2012. The Interpretation specifies that stripping costs in surface mining operations should be recognised as an addition to (or an enhancement of) an existing asset and depreciated over the anticipated useful life of the identified resources that become more accessible as a result of the stripping activity (using the unit of production method, unless another method is more appropriate).

  The Company does not conduct activities described in IFRIC 20. The costs of preparatory works at the Company have been disclosed in accordance with IFRIC 20.

  The aforesaid standards, interpretations and standard amendments did not impact materially the current accounting policy of the Company.

(b) Standards and interpretations already published and endorsed by the European Union, but not effective yet

Upon approval of these financial statements, the Company was not applying the following standards, standard amendments or interpretations which were published and endorsed by the European Union for use within the European Union but which were not effective yet:

- **IFRS 10 "Consolidated Financial Statements" (**applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board on 12 May 2011 and endorsed by the European Union on 11 December 2012. IFRS 10 replaces consolidation guidelines included in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" by implementing a uniform consolidation model for all entities based on control, regardless of the nature of the investment (i.e. whether the entity is controlled by investors' voting rights or through other contractual arrangements commonly applied in special purpose entities). According to IFRS 10, control exists when the investor has 1) power over the investee, 2) exposure or right to variable returns from its involvement with the investee, and 3) the ability to use its power over the investee to affect the amount of the investor's returns from the investee.

  The Company will apply IFRS 10 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **IFRS 11 "Joint Arrangements"** (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board on 12 May 2011 and endorsed by the European Union on 11 December 2012. IFRS 11 introduces new accounting regulations with respect to joint arrangements, replacing IAS 31 "Interests in Joint Ventures." The ability to apply the proportional consolidation method in relation to jointly controlled entities has been removed. Furthermore, IFRS 11 eliminates jointly controlled assets and leaves a distinction into joint operations and joint venture. Joint operations are joint arrangements in which the parties have joint control over rights to the assets and liabilities. Joint venture is a joint arrangement in which the parties have joint control over rights to the net assets.

  The Company will apply IFRS 11 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **IFRS 12 "Disclosures of Shares in Other Entities"** (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board on 12 May 2011 and endorsed by the European Union on 11 December 2012. IFRS 12 will require more disclosures about both entities covered by consolidation and entities not covered by consolidation in which the entity is involved. The objective of IFRS 12 is to provide information so that the users of financial statements may evaluate the basis of control, restrictions imposed on consolidated assets and liabilities, exposure to risk arising from involvement in structured entities not covered by consolidation and involvement of non-controlling interests in the operations of consolidated entities.

The Company will apply IFRS 12 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **IAS 27 (revised in 2011) "Separate Financial Statements"** (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board on 12 May 2011 and endorsed by the European Union on 11 December 2012. The requirements regarding separate financial statements have not changed and are included in the revised IAS 27. Other parts of IAS 27 have been replaced by IFRS 10.

  The Company will apply IAS 27 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2014), was published by the International Accounting Standards Board on 12 May 2011 and endorsed by the European Union on 11 December 2012. IAS 28 was amended in consequence of publishing IFRS 10, IFRS 11 and IFRS 12.

  The Company will apply IAS 28 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interest in Other Entities" –** explanations to transitional provisions published by the International Accounting Standards Board on 28 June 2012 and endorsed by the European Union on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014). The objective of the amendments is to provide additional guidance to transitional provisions in IFRS 10, IFRS 11 and IFRS 12 so as to "limit the requirements to restate comparative data only to the preceding comparative period." Amendments were also made to IFRS 11 and IFRS 12 to eliminate the requirements to present comparative data for periods earlier than the directly preceding period.

  The Company will apply amendments to IFRS 10 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **Amendments to IFRS 10 "Consolidated Financial Statements",** IFRS 12 "Disclosure of Interest in Other Entities" and IAS 27 "Separate Financial Statements" – Investment entities were published by the IASB on 31 October 2012 and endorsed by the European Union on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014). The amendments provide for a release from the consolidation requirement in accordance with IFRS 10 and require the investment entities to disclose individual subsidiaries in fair value through profit or loss rather than consolidate them. The amendments provide also requirements regarding disclosures for investment entities.

  The Company will apply amendments to IFRS 10 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **Amendments to IAS 32 "Financial Instruments: Presentation"** – offsetting of financial assets and liabilities (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board on 16 December 2011 and endorsed by the European Union on 13 December 2012. The amendments specify more precisely the principles of offsetting and focus on four key areas: (a) clarification of the meaning of "to have a legally enforceable right to set off"; (b) simultaneous offsetting and settlement; (c) offsetting collaterals; (d) settlement unit for offsetting purposes.

The Company will apply amendments to IFRS 32 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **Amendments to IAS 36 "Impairment of Assets"** – Recoverable amount disclosures for non-financial assets, published by the IASB on 29 May 2013, endorsed by the European Union on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014). Small amendments to IAS 36 concern recoverable amount disclosures for those assets for which an impairment loss has been recognised and when recoverable amount is based on fair value less costs of disposal. When developing IFRS 13 "Fair Value Measurement", the IASB decided to amend IAS 36 so as to require entities to disclose recoverable amount of those assets for which an impairment loss has been recognised. Current amendments clarify the original intention of the IASB that the scope of such disclosures is limited only to recoverable amount of those assets for which an impairment loss has been recognised and when recoverable amount is based on fair value less costs of disposal.

  The Company will apply amendments to IFRS 36 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – novation of derivatives and further application of hedge accounting, published by the International Accounting Standards Board on 29 May 2013, and endorsed by the European Union on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014). Amendments of a small range provide a possibility to further apply hedge accounting in the event of a novation of a derivative (designated as a hedge instrument) in such a manner that a central counterparty clearing becomes a party thereto subject to the fulfilment of certain conditions. Standards and interpretations adopted by IASB, but not endorsed by the European Union yet

  The Company will apply amendments to IFRS 39 as from 1 January 2014. At present, the Company analyses the impact of the new standard on the financial statements.

At present, the IFRS endorsed by the European Union do not differ substantially from the regulations adopted by the International Accounting Standards Board (IASB), save for the following standards, standard amendments or interpretations which as at 20 March 2014 were not adopted for use:

- **IFRS 9 "Financial Instruments"** (the effective date has not been set yet), published by the International Accounting Standards Board on 12 November 2009. On 28 October 2010 the IASB published revised IFRS 9 which specified new requirements with respect to settlement of financial liabilities and transferred the requirements regarding the discontinuation of recognising assets and liabilities under IAS 39. On 19 November 2013, the IASB issued another series of amendments to the accounting of financial instruments. The standard establishes one approach to determine whether financial assets are measured at amortised cost or fair value, replacing numerous principles set forth in IAS 39. The approach in IFRS 9 is based on the assessment how the entity manages its financial instruments (i.e. based on business model assessment) and the assessment of characteristics of contractual cash flows connected with financial assets. The new standard also requires a single impairment method to be used, replacing the many impairment methods set forth in IAS 39. The new requirements regarding the settlement of financial liabilities concern the problem of changes in financial profit/loss resulting from the issuer's decision to measure its own indebtedness at fair value. The IASB decided to maintain the current measurement at amortised cost with respect to most of the liabilities, amending only regulations regarding own credit risk. Under the new requirements, if the entity decides to measure the liabilities at fair value, it has to present a change in fair value resulting from changes of own credit risk not in the income statement but in other comprehensive income. The amendments of November 2013 will introduce material changes in the hedge accounting, they allow own credit risk to be recognised without the need to change other accounting principles with regard to financial instruments and remove the binding effective date of IFRS 9 (earlier set to take place on 1 January 2015).

- **Amendments to IAS 19 "Employee benefits" -** Defined Benefit Plans: Employee Contributions – published by the International Accounting Standards Board on 21 November 2013 (applicable to annual periods beginning on or after 1 July 2014). Smaller amendments relate to the scope of application of the standard to contributions from employees or third parties paid to defined benefit plans. The objective is to simplify the accounting for contributions which are independent of the number of years of service (e.g. employee contributions calculated as a fixed percentage of salary).

- **Amendments to various standards "Improvements to IFRS (2010-2012)"** – published by the International Accounting Standards Board on 12 December 2013 (applicable to annual periods beginning on or after 1 July 2014). Amendments to various standards and interpretations as part of procedure of introducing annual amendments to Standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily oriented at eliminating inconsistencies and specifying terminology. The amendments clarified the required accounting treatment in situations wherein previously freedom of interpretation was allowed. The most important are new or amended requirements regarding: (i) definition of "vesting condition"; (ii) accounting for contingent consideration in a business combination; (iii) aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; (iv) measurement of current receivables and payables; (v) proportionate restatement of accumulated depreciation in the revaluation method, and (vi) definition of key management personnel.

- **Amendments to various standards "Improvements to IFRS (2011-2013)"** – published by the International Accounting Standards Board on 12 December 2013 (applicable to annual periods beginning on or after 1 July 2014). Amendments to various standards and interpretations as part of procedure of introducing annual amendments to Standards (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily oriented at eliminating inconsistencies and specifying terminology. The amendments clarified the required accounting treatment in situations wherein previously freedom of interpretation was allowed. The most important are new or amended requirements regarding: (i) meaning of effective IFRS in IFRS 1; (ii) scope of exemptions for joint ventures; (iii) scope of paragraph 52 (portfolio exception), and (iv) clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

- **IFRIC 21 "Levies" –** published by the International Accounting Standards Board on 20 May 2013 (applicable to annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets." IAS 37 sets forth the criteria for recognition of a liability, one of which is a requirement to have a present obligation arising from past events (the so called obligating event). The interpretation clarifies that the event triggering an obligation to pay a levy is the activity for which levies are imposed in accordance with the relevant legislation.

  The Company estimates that the aforesaid standards, interpretations and standard amendments would not materially impact financial statements, if adopted by the entity as at the reporting date. At the same time, hedge accounting for the portfolio of financial assets and liabilities, whose principles have not been adopted for use by the European Union yet still remain outside the regulations endorsed by the European Union. The Company estimates that the application of hedge accounting with respect to asset portfolio of financial liabilities in accordance with IAS 30 "Financial Instruments: Recognition and measurement" would not have a material bearing on the financial statements, if it was applied as at the balance-sheet date.

- **IFRS 14 "Regulatory Deferral Accounts" -** the IFRS applicable for annual periods beginning on or after 1 January 2016 was published by the International Accounting Standards Board on 30 January 2014. IFRS 14 was implemented as an interim standard for IFRS first-time adopters. The new standard permits to continue to apply the accounting policies applicable to rate-regulated activities if it was allowed under previously applied generally acceptable accounting policies. The standard implements separate presentation of regulatory deferral account balances in the statement of financial position, income statement and statement of comprehensive income in order to separate such amounts. IFRS implements disclosure requirements which allow users to assess the nature and risk connected with the form of rate regulation based on which regulatory deferral account balances are recognised.

2.2. Information regarding seasonality

Seasonality of production does not occur. However, seasonality of sales is visible in connection with retail sales at a point of coal sale. Sales to individual customers account for 1.94% of total sales. This has no significant effect on operating and financing activity of the Company.

2.3. Measurement of items expressed in foreign currencies

a) Functional currency and presentation currency

Items expressed in the financial statements of the Company are measured in the currency of the basic economic environment in which the entity conducts its operations (“functional currency”). The functional currency of the Company is Polish zloty (PLN). The financial statements are presented in Polish zlotys (“PLN”), being the functional and presentation currency of the Company. Data in the financial statements is presented in PLN ‘000, unless specified as an exact figure in specific situations.

b) Transactions and balances

Transactions expressed in foreign currencies are translated into the functional currency at the exchange rate prevailing on the transaction date. Foreign exchange gains and losses from accounting for such transactions and from the balance-sheet measurement of monetary assets and liabilities expressed in foreign currencies are recorded in the income statement, provided they are not deferred under the equity, when they qualify for recognition as a cash flow hedge and hedge of share in net assets.

2.4. Property, plant and equipment

Property, plant and equipment are the non-current assets:

- which are held by the Company with a view to being used in the production process, in supply of goods or provision of services, and for administrative purposes,
- which are expected to be used for a period longer than one year,
- in respect of which it is probable that the future economic benefits associated with the asset will flow to the entity, and
- whose value can be measured reliably.

Property, plant and equipment are initially recognised at acquisition or production cost.

As at initial recognition, the acquisition or production cost of property, plant and equipment includes costs of construction of underground tunnels (the so-called main tunnels and operational tunnels) and longwall headings driven in the extraction fields net of revenue from sales of coal mined during construction of such tunnels and headings.

As at initial recognition, the acquisition or production cost of property, plant and equipment includes estimated cost of dismantling and removing the asset and restoring the site, which the Company is obliged to incur at the installation of the asset or its placement in service. In particular, the initial value of non-current assets includes discounted cost of decommissioning the non-current assets related to underground mining as well as other structures which, under the applicable mining laws, are subject to decommissioning when operations are discontinued.

The cost of mine closure recognised in the initial value of non-current assets is depreciated using the same method as that used for the non-current assets to which the cost relates. Depreciation starts as soon as a given non-current asset is placed in service, and continues over a period determined in the closure plan for groups of structures under the estimated mine closure schedule.

As at the balance-sheet date, items of property, plant and equipment are carried at acquisition or production cost less accumulated depreciation and impairment charges.

Subsequent outlays are recognised in the carrying amount of a given item of non-current assets or recognised as a separate item of non-current assets (where appropriate) only when it is probable that future economic benefits associated with that item will flow to the Company and the value of that item can be measured reliably. Any other outlays on repair and maintenance are recognised in the income statement in the accounting period in which they are incurred.

Land is not depreciated. Other items of non-current assets are depreciated using the straight-line method or the unit-of-production method in order to distribute their initial values or re-measured values, less residual values, over their useful economic lives, which for particular groups of non-current assets are as follows:

Buildings and structures	25-40 years, but not longer than until the estimated date of mine closure
Structures (excavation pits)	Depreciation with the cost-of-production method based on the length of exploited walls
Plant and equipment	5-20 years, but not longer than until the estimated date of mine closure
Vehicles	3-30 years, but not longer than until the estimated date of mine closure
Other property, plant and equipment	3-20 years, but not longer than until the estimated date of mine closure

Depreciation of an item of non-current assets starts when that item is available to be placed in service. The asset then ceases to be depreciated at the earlier of: the day when a given asset is classified as available for sale (or included in a group of assets that are to be disposed of, classified as available for sale) in accordance with IFRS 5 "*Non-Current Assets Available for Sale and Discontinued Operations*", or the day when the asset is derecognised due to decommissioning, sale or placement out of service.

Individual material components of non-current assets, whose useful lives are different from the useful life of the entire non-current asset and whose acquisition or production cost is material relative to the acquisition or production cost of the entire non-current asset are depreciated separately, using the depreciation rates which reflect such their estimated useful lives.

The residual value and useful lives of non-current assets are reviewed and, if necessary, changed as at each balance-sheet date.

If the carrying amount of an item of non-current assets exceeds its estimated recoverable value, then the carrying amount of that asset is reduced to its recoverable value (note 2.7).

The value of a non-current asset includes costs of regular, major inspections (including certification inspections) which are considered necessary.

Borrowing costs, including interest, fees and commissions on account of liabilities, as well as currency exchange differences arising in relation to borrowings and loans incurred in foreign currencies, to the extent they are recognised as an adjustment of interest expense, which may be directly attributed to acquisition, construction or production of an adapted asset, are activated as a portion of the purchase price or cost of production of that asset. The amount of borrowing costs, which is subject to activation, is calculated in accordance with IAS 23.

Specialist spare parts with a significant initial value, which are expected to be used for a period longer than one year are recorded as property, plant and equipment. Spare parts and equipment connected with maintenance which may only be used only for certain items of property, plant and equipment are recorded similarly. Other low-value spare parts and equipment connected with maintenance are carried as inventories and recognised in the income statement at the time of their use.

Gain or loss on sale of items of non-current assets is calculated by comparing the revenue with their carrying amount, and is recognised in the income statement under "other (loss)/profit – net."

2.5. Intangible assets

Geological information
The acquisition cost of purchased geological information is capitalised. The capitalised cost is amortised over the estimated period of use of the information. Geological information is amortised over a period of 10 years.

Computer software
Purchased software licenses are capitalised at cost incurred on acquisition and preparation of given software for use. The capitalised cost is amortised over the estimated period of use of the software (2-5 years).

Fees, licences
The fee for mining usufruct for the purpose of extraction of coal from the Bogdanka deposit is capitalised in the amount of the fee paid. The capitalised cost is amortised over the estimated period of mining use, i.e. until 31 December 2031.

Intangible assets are amortised using the straight-line method.

2.6. Non-current investments

Shares and equity interests in subsidiary and associated entities are measured at acquisition cost less impairment charges.

Gain or loss on sale of investments is calculated by comparing the revenue with their carrying amount, and is recognised in the income statement under "finance income/costs."

2.7. Impairment of non-financial assets

Assets with indefinite useful lives are not amortised, but tested for possible impairment each year. Amortised assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a given asset exceeds its recoverable amount. Recoverable amount represents the asset's net selling price or the value in use, whichever is higher. For the purpose of assessing impairment, assets are grouped at the lowest level for which separate cash flows can be identified (cash generating centres). Impaired non-financial assets are tested as at each balance-sheet date to determine whether there are circumstances indicating the possibility of reversing previous impairment charges.

2.8. Financial assets

The Management Board classifies its financial assets at the time of their initial recognition. The category under which financial assets will fall is established depending on the purpose for which they were acquired.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments, not classified as derivatives and not traded on any active market. Loans and receivables are included in current assets providing their maturity does not exceed 12 months as of the balance-sheet date, and they are included in the non-current assets if their maturity exceeds 12 months as of the balance-sheet date. Trade and other receivables as well as cash and cash equivalents are presented as loans and receivables.

No other categories of financial assets are carried by the Company.

As at the date of the transaction, loans and receivables are recognised at fair value. Subsequently, they are carried at adjusted acquisition or production cost using the effective interest rate method. Loans and receivables are derecognised when the rights to receive cash flows related to them expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company assesses at each balance-sheet date whether there is objective evidence that an item or a group of financial assets may be impaired. A test for impairment of trade debtors is described in note 2.10.

2.9. Inventories

Inventories are recognised at acquisition or production cost, which however cannot exceed their net selling price. The amount of outflows is determined using the weighted average method. Cost of finished goods and work in progress includes direct labour cost, auxiliary materials and other direct cost and relevant general production costs (based on normal production capacities), and excludes the borrowing cost. The net selling price is the estimated selling price in the normal course of business, net of relevant variable selling costs.

2.10. Trade debtors

Trade debtors are initially recognised at fair value, and subsequently at adjusted acquisition or amortised production cost using the effective interest rate method, less impairment charges. Impairment charges are recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and late payments are considered indicators that the trade receivable is impaired. The amount of the provision is equal to the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of an asset is determined through the use of a provision account, and the amount of the loss is presented in the income statement under selling costs. When a trade receivable becomes uncollectible, it is written off against the provision for trade receivables. Subsequent collection of amounts previously written off is credited against "Selling cost" in the income statement.

2.11. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits payable on demand and other highly liquid current investments with original maturities of up to three months. Overdraft facilities are presented in the statement of financial position as an item of current loans and borrowings under current liabilities.

Restricted cash and cash equivalents where the restriction persists for at least 12 months as from the balance-sheet date are classified as non-current assets.

2.12. Non-current assets for sale

Non-current assets held for sale are classified if their carrying amount will be recovered rather through a sale transaction than the continued use. This condition is deemed satisfied only if a sale transaction is highly probable and the asset is available for immediate sale in its present condition (as per generally accepted commercial terms). Classification of the asset as held for sale assumes that the Company's Management Board intends to make the sale transaction within one year from the date of changing classification. The entity measures the non-current asset (or a group for disposal) classified as held for sale in the lower of the two amounts: its carrying amount and fair value net of the costs of effecting the sale.

2.13. Share capital

Ordinary shares are classified as equity.
Expenditure directly connected with issuance of new shares or options are presented under equity as a decrease, after taxation, of issue proceeds.

2.14. Trade creditors

Trade creditors are initially measured at fair value and subsequently at adjusted acquisition cost (amortised cost) using the effective interest rate method.

2.15. Loans and borrowings

Loans and borrowings are initially measured at fair value, net of transaction costs incurred. Subsequently, loans and borrowings are carried at adjusted acquisition cost (amortised cost). Any difference between the amounts received (net of transaction cost) and the redemption value is recognised in the income statement over the period of the loan or borrowing using the effective interest rate method.

Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer repayment of the liability for at least 12 months as from the balance-sheet date.

Borrowing costs are expensed in the period in which they are incurred, except the costs which increase the value of construction in progress (note 2.4).

2.16. Financial derivatives

The Company enters into derivative contracts in order to manage its currency exchange risk. They include forward contracts. Detailed information about derivatives is presented in note 3.1.b and in note 20. Derivatives are initially recognised at fair value as at the date of concluding the respective contract, and subsequently re-measured to fair value at the end of each reporting period. The resultant gains or losses are recognised in the statement of comprehensive income as a "Cash flow hedge" and in the statement of financial position (balance sheet) under "Financial liabilities."

2.17. Current income tax and deferred tax

Current liabilities under income tax are calculated in accordance with the tax laws applicable or actually implemented as at the balance-sheet date in the country where the Company operates and generates taxable income. The Management Board periodically reviews the tax liability calculations where the applicable tax laws are subject to interpretation, and creates provisions, if necessary, for the amounts payable to the tax authorities.

Deferred tax liability resulting from the temporary differences between the tax value of assets and liabilities and their carrying amount shown in the financial statements is recognised in the full amount, calculated using the balance-sheet method. No deferred tax asset or liability is recognised when it relates to the initial recognition of an asset or liability arising from a transaction other than a business combination which affects neither financial result nor taxable income (loss). Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance-sheet date.
A deferred tax asset is recognised if it is probable that taxable income will be available in the future to allow the benefit of the temporary differences to be utilised.

2.18. Employee benefits

a) Retirement and other employee benefits

Pursuant to the Company's Collective Bargaining Agreements and applicable provisions of law, the Company’s entities disburse the following key benefits:

- pays upon retirement due to old age or disability,
- length-of-service awards,
- death benefits,
- coal allowance benefits.

As at the balance-sheet date, the Company recognises liabilities under the above stated benefits in the statement of financial position at the current value of the liability, taking into account the adjustment for unrecognised actuarial gains or losses and costs of past service. The Company's liability under employment benefits is assessed by an independent actuary using the projected unit credit method.

Provisions are calculated on a case-by-case basis, separately for each employee, Provisions are calculated on the basis of the projected amount of a benefit which the Company is obliged to pay out to a given employee under internal rules, particularly under the Collective Bargaining Agreements, as well as applicable provisions of law.

The projected amount of a benefit is calculated using, inter alia, the projected amount of the base used to calculate a given benefit, estimate of how much that base will increase until a given employee acquires the right to the benefit, and a percentage ratio which reflects the employee's length of service.

As at the balance-sheet date, the resulting amount is discounted using the actuarial method, then it is decreased by the amount of the Company's annual contributions towards a given employee's individual provision, also discounted using the actuarial method as at the same date. The actuarial discount rate is the product of the financial discount rate and the likelihood that a given employee will remain with the Company until that employee is entitled to receive the benefit. The financial discount rate corresponds to the market rate of return on long-term treasury bonds effective for the valuation date.

The above stated likelihood is calculated using the multiple decrement model and reflects the likelihood of a given employee leaving the Company as well as the risk of the employee full work disability and death.

The likelihood that a given employee will leave is calculated using a probability schedule and the Company's statistical data. The risk of full work disability and death are computed on the basis of statistical data.

Actuarial gains and losses are charged or credited to other comprehensive income (retirement benefits) or expenses (other non-current benefits) in the statement of comprehensive income in the period in which they arise.

The costs of past employment that have arisen as a result of a change of the programme are immediately disclosed in the statement of comprehensive income.

b) Profit-sharing programmes and bonus programmes

The Company recognises liabilities and expenses related to awards and bonuses as well as profit distribution programmes where it is contractually obliged to pay them, or where past practice has created a constructive obligation.

2.19. Provisions

A provision for legal claims or removal of mining damage is recognised when the Company has a legal or constructive obligation resulting from a past event and where it is probable that an outflow of resources will be required to settle the liability and this outflow has been reliably measured. No provisions for future operating losses are established.

Provision for mine closure

A provision for future cost of closure of a mining plant is established due to obligations arising under the Geological and Mining Law whereby a mining company is required to decommission mining plants on discontinuation of production. The provision corresponds to the estimated costs connected with:

- securing or closing of mines as well as structures and equipment of a mining plant;
- securing of the unexploited part of a mineral deposit;
- securing adjacent mineral deposits;
- securing workings of adjacent mining plants;
- taking necessary measures to protect the environment, perform land reclamation and development on areas previously covered by mining activity.

The amount of closing of a mining plant is calculated by an independent consultancy company on the basis of historical data concerning costs related to mine closures in the Polish hard coal mining sector.

The amounts of provisions are recognised in the present value of expenditures which are expected to be needed to discharge a given obligation. An interest rate is applied before taxation which reflects the current assessment of the market situation with respect to time value of money and risk related to a particular item of liabilities. Increase in provisions due to the passage of time is included in interest expenses. Change in provisions due to revaluation of relevant applicable estimates (inflation rate, expected nominal value of outlays on closure) is recognised as adjustment to the value of property, plant and equipment for which a closure obligation exists.

2.20. Recognition of revenue

Revenue is measured at fair value of payment received or due from the sales of goods for resale and services in the normal course of the Company's operations. Revenue is presented net of value added tax, returns, sales rebates and discounts.

The Company recognises revenue when the amount of revenue can be measured reliably and when it is probable that the economic benefits will flow to the Company and when certain criteria for each type of the Company's activities are met, as described below. It is deemed that the amount of revenue cannot be measured reliably before all conditional circumstances related to sales are clarified. The Company makes estimates on the basis of historical information, taking into account the customer and transaction type and details of agreements.

a) Revenue from sales of products, goods for resale and materials

Revenue from sales of products, goods for resale and materials are recognised as soon as the Company supplies products to a customer. The supply is deemed to occur when the Company has transferred to the buyer the significant risks and rewards of ownership of the products, goods for resale and materials pursuant to terms of delivery defined in the sales agreements. Sales revenue is recognised based on the prices specified in sales agreements, net of estimated rebates and other sales reductions.

b) Interest income

Interest income is recognised proportionately to the lapse of time at the effective interest rate method. Whenever a receivable is impaired, the Company reduces its carrying amount to recoverable value which is equal to estimated future cash flows discounted at the instrument's original effective interest rate; subsequently, the discounted amount is gradually charged to the interest income. Interest income on impaired loans advanced is recognised at the original effective interest rate.

2.21. Recognition of government grants

The Company applies the below-described method for accounting for government grants to subsidise initial investments under the Regulation of the Minister of Economy of 10 June 2010 (Dz.U. [Journal of Laws] of 2010, No. 109, item 714).

IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” is applied in accounting for, and in the disclosure of, government grants.
According to IAS 20.3, grants related to assets are defined as government grants whose objective is to finance non-current assets. Under IAS 20, government grants must be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.
The Company presents grants related to assets in its financial statements as follows:

- in its statement of financial position (balance sheet) under “*Liabilities*” and “*Grants*”;
- in its income statement proportionately to the depreciation of the non-current assets for which a particular grant was received.

Recognising a grant in the books of account requires the application of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” to related contingent liabilities or contingent assets.

The grant received should be settled in the full amount on the moment it is amortised in full, sold or if an asset financed with that grant is liquidated.

2.22. Leases

A lease is classified as an operating lease if the substantial amount of risk and benefits resulting from the ownership of the leased asset remains with the lessor (the financing party). Lease payments under operating lease agreements, net of special promotional offers (if any) granted by the lessor (the financing party), are expensed on a straight-line basis over the lease term.

Acquired usufruct right to land is classified as operating lease, and recognised under non-current prepayments and accrued income. Acquisition cost paid for the possibility to use that right is amortised over the lease term in accordance with the timing of benefits from that right.

2.23. Dividend payment

Payment of dividend to the Company’s shareholders is disclosed as a liability in the Company’s financial statements in the period in which the dividend payment is approved by the Company’s shareholders.

3. Managing financial risk

3.1. Financial risk factors

The Company is exposed to various types of financial risks connected with its activities, such as market risk (including cash flow risk resulting from change in interest rates), credit risk and liquidity risk. The Company's general programme for risk management focuses on ensuring sufficient liquidity to enable the Company to implement its investment projects and secure the Company's dividend policy.

a) Risk of a change in cash flows resulting from a change in interest rates

Given that the Company holds a significant amount of interest-bearing assets, the Company's revenue and cash flows are affected by changes in market interest rates.
The Company is also exposed to interest rate risk in connection with its current and non-current debt instruments. Loans bearing interest at variable rates result in the Company's exposure to a change in cash flows resulting from changes in interest rates. In 2013 the Company used external financing denominated in the złoty.

Current debt of the Company under loans amounts to PLN 421 million (as at 31 December 2012 – PLN 441 million) and under bond issue – PLN 200 million (as at 31 December 2012 – PLN 0 million). The total debt of the Company as at 31 December 2013 amounts to PLN 621 million (as at 31 December 2012 – PLN 441 million). Based on simulations made as at 31 December 2013, it was determined that a 1 p.p. change in interest rates would increase or decrease, as applicable, the net profit by an amount lower or equal to PLN 6.21 million (as at 31 December 2012 – PLN 4.21 million).

Based on the 2013 data concerning the Company's interest bearing assets, the sensitivity of the finance income changes to changes in interest rates has been assessed. The value of assets exposed to the interest rate risk as at 31 December 2013 amounts to PLN 177,898,000. The change in finance income is presented in the table below:

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Impact of changes of interest rates on finance income from deposits as at 31 December 2013:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1.0 p. p.
Estimated impact	(1,166)	(583)	583	1,166

The analysis indicates that when interest rate of deposits goes up by 1 p.p., finance income under deposits is higher by PLN 1,166,000. Analogously, when interest rate of deposits goes down by 1 p.p., finance income under deposits is lower by PLN 1,166,000.

The value of assets relating to Mine Closure Fund exposed to interest rate risk amounts to PLN 77,912,000 as at 31 December 2013. Impact of changes in interest rates on finance income under funds deposited to the Mine Closure Fund as at 31 December 2013:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1.0 p. p.
Estimated impact	(708)	(354)	354	708

The analysis indicates that when interest rate of deposits related to the Mine Closure Fund goes up by 1 p.p., finance income under deposits is higher by PLN 708,000. Analogously, when interest rate of deposits related to the Mine Closure Fund goes down by 1 p.p., finance income under deposits is lower by PLN 708,000.
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b) *Currency risk*

The Company enters into specific transactions denominated in foreign currencies, which brings about a risk of exchange rate fluctuations. The Company is exposed mostly to a risk of changes in EUR/PLN exchange rate.

The risk is managed within the approved procedures using forward currency contracts. The Company applies hedge accounting for future cash flows. The objective of measures hedging against changes in EUR/PLN exchange rate is to ensure a specific level in PLN of future expenses in EUR which will be incurred in connection with investment works.

As at 31 December 2013 the Company holds the following instruments hedging the currency exchange risk:
- forward contracts in the total amount of EUR 41,587,000.

The expected cash flows relating to hedged transactions amount to EUR 33,270,000 on 31 July 2014 and EUR 8,317,000 on 14 November 2014. The fair value of derivative liabilities, recognised under equity, amounts to PLN 4,238,000 after tax effect as at 31 December 2013 (31 December 2012: PLN 0).

The fair value of currency forwards is determined on the basis of discounted future cash flows from concluded transactions, calculated based on difference between the forward price and the transaction price. The forward price is determined with reference to prices fixed by the National Bank of Poland and the interest rate curve implied from fx swap transactions.

In connection with the applied hedging policy, in 2013 realised foreign exchange gains/losses of PLN 390,000 were included in the initial value of property, plant and equipment.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

As at 31 December 2013 the carrying amount of financial instruments exposed to currency exchange risk relates to liabilities on account of purchase of intangible assets and equals PLN 5,454,000, which is equivalent to EUR 1,310,000 (31 December 2012: PLN 6,240,000, which is equivalent to EUR 1,526,000).

Because the value of financial instruments exposed to currency exchange risk is not material, no significance analysis has been performed.

As at 31 December 2013 the Company did not have material financial instruments exposed to currency exchange risk.

c) Credit risk

The Company is exposed to credit risk in connection with cash and cash equivalents, deposits at banks and financial institutions, as well as credit exposures of the Company's customers. When selecting banks and financial institutions, the Company only accepts highly credible entities. In addition, the Company pursues a policy limiting credit exposure connected with particular financial institutions. As regards customers, the Company sells its products to a group of regular customers whose credibility has been proven in the years of cooperation.

The table below shows exposure to credit risk and credit risk concentration:

	31 Dec. 2013	**31 Dec. 2012**
Cash in hand and bank deposits	255,810	154,125
Current trade debtors	183,309	188,819
Total exposure to credit risk	439,119	342,944
Receivables from 7 key customers	168,451	174,741
Concentration of credit risk under receivables from 7 key customers	93%	94%
Cash deposited at BZ WBK S.A. (expressed as % of total cash and bank deposits)	49%	8%
Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits)	31%	45%
Cash deposited at mBank S.A. (expressed as % of total cash and bank deposits)	9%	16%
Cash deposited at PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	7%	18%
Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits)	5%	8%

The ability of the Company's main customers to make payments for goods is good, therefore the credit risk is assessed as low. The Company has worked with these customers for quite a long time and to date no problems with payments have occurred. The share of receivables from other customers in total trade debtors is not significant.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

The banks at which the Company places its cash and deposits have been awarded the following ratings (data as at the date of these financial statements):

- BRE Bank S.A. - long-term Fitch rating: BBB (stable)
- Bank Millennium S.A. - long-term Fitch rating: BBB - (stable)
- Bank PEKAO S.A. – long-term rating (IDR): A- (stable)
-PKO Bank Polski S.A. - Fitch support rating: 2 (no long-term Fitch rating), long-term Poor’s credit rating: A - (stable)
- BRE Bank S.A. - long-term Fitch rating: A - (stable)
- Bank Ochrony Środowiska S.A. - long-term Fitch rating (IDR): BBB - (stable)

d) liquidity risk

Conservative management of liquidity risk consists in, inter alia, maintaining appropriate amounts of cash and ensuring availability of financing through securing credit facilities of appropriate size. The Management Board monitors the current forecasts concerning the Company's liquid assets (comprising available credit facilities as well as cash and cash equivalents) based on estimated cash flows. By making this forecast, deviations between actual cash flow and the demand for cash are eliminated. Given the intention to hedge current financing of the Company and to optimise cash management, on 7 January 2014 the Company’s Management Board adopted a resolution on initiating a public tender for an overdraft in the amount of PLN 150 million.

The table below presents an analysis of the Company's financial liabilities by remaining contractual maturity as from the balance-sheet date. The amounts presented in the table are contractual, non-discounted cash flows. The balance to be repaid within 12 months is presented in carrying amounts given that the discount effect on the value is insignificant.

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Balance as at 31 December 2013				
Loans and borrowings	431,321	-	-	-
Financing liabilities on account of bond issue	6,979	6,960	217,159	-
Financing liabilities	5,232	-	-	-
Trade and other liabilities	268,489	2,638	7,024	9,859

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Balance as at 31 December 2012				
Loans and borrowings	40,476	435,392	-	-
Trade and other liabilities	302,165	4,311	12,931	4,310

Liabilities maturing in less than 1 year are chiefly represented by liabilities whose maturity falls within up to 3 months as from the balance-sheet date.

e) sensitivity analysis of the financial result

Based on the 2013 data concerning the Company's core business, the sensitivity of the financial result to changes in market risk factors (price of coal and interest rates) has been assessed.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

The assessment indicates that a 1% increase in the unit price of coal (translating into a 1% increase in revenues from the sale of coal) results in a rise of the result on sales by 4.02%. Similarly, a 1% decrease in the coal price reduces the result on sales by 4.02%. The table below shows changes in the result in other analysed ranges (assuming that other factors remain unchanged).

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in sales	-60.36%	-40.24%	-20.12%	-8.05%	-4.02%	0.00%	4.02%	8.05%	20.12%	40.24%	60.36%

With a view to mitigating the risk related to changes in prices of energy sources, the Company enters into long-term commercial contracts with key customers purchasing power coal.

3.2. Managing capital risk

The Company's objective in the area of managing capital risk is to protect the Company's ability to continue as going concern, deliver returns for shareholders and benefits to other interested parties, and maintain the optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may change the amount of dividend declared to be paid to shareholders, refund capital to shareholders, issue new shares or dispose of assets with a view to reducing indebtedness.
In the area of capital management, the Company focuses on managing cash and cash equivalents, and debts under contracted loans and the bond issue.

The Company has contracted bank loans and financial liabilities due to the bond issue for the financing of current operations and investment activities. The table below shows the relation between the net debt and the capital employed:

	31 Dec. 2013	**31 Dec. 2012**
Total loans	421,000	441,000
Financing liabilities on account of bond issue	200,000	-
Less: cash and cash equivalents	(255,810)	(154,125)
Net debt	**365,190**	**286,875**
Total equity	2,436,170	2,280,211
Employed capital	2,801,360	2,567,086

4. Material accounting estimates and judgments

The accounting estimates and judgments are based on past experience as well as other factors, including assessments of future events which seem justified in a given situation. Accounting estimates and judgments are reviewed on a regular basis.

The Company makes estimates and assumptions relating to the future. By definition, such accounting estimates are rarely identical with the actual results. Below, the estimates and assumptions which bear a significant risk that a material adjustment will have to be made to the carrying amount of assets and liabilities in the following financial year are discussed.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Estimate concerning the mine's life and the size of coal reserves
Mine's life is estimated on the basis of current resources of coal held, covered with the licence, and the estimated production capacities for 2034. Actual date of mine closure may however differ from that estimated by the Company. This follows from the fact that the length of the mine's life has been estimated using the current coal reserves only. Over the next few years, the Company intends to expand its mining area by adding K-3, K-6 and K-7 reserves which may significantly prolong the mine's life. The Company has already commenced work on acquiring licenses necessary to add these reserves to the mining area.

Estimate concerning provision for mining plant closure
The Company establishes a provision for expenses related to closure of a mining plant, as required under applicable provisions. The main assumptions used to determine the amount of expenses related to the closure of a mining plant include assumptions regarding the mine's life, expected inflation rate and long-term discount rates. Any changes to these assumptions affect the carrying amount of the provision.

Assumptions regarding the life of the mine have been described above.
Adopted inflation ratios for 2014-2034 range from 1.7% to 2.2%.
The calculation of the provision was significantly affected by the discount rate which reflects the change in money value over time. For the purpose of assumptions, a discount rate based on the treasury bills yield was adopted.

If the actual interest rates departed from the Management Board's estimates by 10%, the carrying amount of provisions would be PLN 3.959,000 higher or PLN 3.791,000 lower.

The impact of changing the financial discount on the carrying amount of the provision for the mine closure fund as at 31 December 2013 is presented in the table below:

Change in the financial discount	-1 p. p.	-0.5 p. p.	0 p. p.	0.5 p. p.	+1 p. p.
Value of the provision for mine closure fund	104,359	94,314	85,278	77,144	69,819

The analysis indicates that when the financial discount rate goes up by 1 p.p., the provision for the Mine Closure Fund is lower by PLN 15,459,000. Analogously, when the financial discount rate goes down by 1 p.p., the provision for the Mine Closure Fund is higher by PLN 19,081,000.

Assumptions regarding the actuarial valuation of provisions for employee benefits
The current value of employee benefits depends on a number of factors which are determined with the use of actuarial methods on the basis of certain assumptions. The assumptions used to determine the provision and expenses related to employee benefits include assumptions concerning discount rates. Major assumptions regarding the provisions for employee benefits are disclosed in note 22. Any changes to these assumptions affect the carrying amount of the provisions for employee benefits.

As at 31 December 2013, an analysis was carried out with respect to sensitivity of the results of valuation to a change in the financial discount rate and to changes in the planned increases in bases in the range from -1.0 p. p. to +1.0 p. p.

Carrying amount of individual provisions and values of the provisions calculated on the basis of other assumptions is presented in the table below:

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Provision	Carrying amount	Financial discount rate -1.0 p. p.	Financial discount rate +1.0 p. p.	Planned increases in bases -1.0 p. p.	Planned increases in bases +1.0 p. p.
Pays upon retirement due to old age	33,800	35,841	32,062	31,782	36,112
Pays upon retirement due to disability	1,513	1,689	1,364	1,359	1,691
Long-service award	70,526	75,723	65,959	65,494	76,155
Death benefits	2,660	2,966	2,398	2,390	2,970
Employees as future retirees eligible for coal allowance	32,330	36,537	28,796	28,286	37,109
Other persons eligible for coal allowance	48,964	53,792	44,814	44,042	54,646
	189,793	**206,548**	**175,393**	**173,353**	**208,683**

Carrying amount of individual provisions and possible changes in the carrying amount with other assumptions are presented in the table below:

Provision	Carrying amount	Deviations Financial discount rate -1.0 p. p.	Deviations Financial discount rate +1.0 p. p.	Deviations Planned increases in bases -1.0 p. p.	Deviations Planned increases in bases +1.0 p. p.
Pays upon retirement due to old age	33,800	2,041	(1,738)	(2,018)	2,312
Pays upon retirement due to disability	1,513	176	(149)	(154)	178
Long-service award	70,526	5,197	(4,567)	(5,032)	5,629
Death benefits	2,660	306	(262)	(270)	310
Employees as future retirees eligible for coal allowance	32,330	4,207	(3,534)	(4,044)	4,779
Other persons eligible for coal allowance	48,964	4,828	(4,150)	(4,922)	5,682
	189,793	**16,755**	**(14,400)**	**(16,440)**	**18,890**

The results of balance-sheet valuation as at 31 December 2013, broken down by maturity periods, are presented in the table below:

Payment period	Pays upon retirement due to old age	Pays upon retirement due to disability	Long-service award	Death benefits	Employees as future retirees eligible for coal allowance	Other persons eligible for coal allowance	Total
2014*	16,212	79	10,735	140	1,043	3,020	**31,229**
2015	1,676	76	5,351	132	869	3,084	**11,189**
2016	1,641	76	5,927	128	969	2,962	**11,702**
2017	1,054	76	5,577	129	967	2,803	**10,606**
2018	744	77	4,291	133	933	2,647	**8,825**
Remainder	12,473	1,129	38,645	1,998	27,549	34,448	**116,242**
	33,800	**1,513**	**70,526**	**2,660**	**32,330**	**48,964**	**189,793**

* Value of benefits for payment in 2014 results from the acquired retirement rights and long-service awards for persons who achieved retirement age, but remain in the employment relationship.

5. Information on business segments

a) Key reporting structure - industry segments

The Company's core business is production and sale of coal. In 2013, revenue from sales of other products and services amounted to PLN 69,164,000 (in 2012: PLN 54,071,000), representing, 3.65% in 2013 and 2.95% in 2012, respectively, of total revenue.

Accordingly, the Company does not present its results by industry segments.

b) Supplementary reporting structure - geographical segments

The Company operates primarily in Poland. In 2013, revenue from foreign sales amounted to PLN 1.047,000 (in 2012: PLN 795,000), representing, respectively, 0.06% and 0.04% of total revenue in each of the years. The Company does not hold assets or liabilities outside Poland.

Accordingly, the Company does not present its results by geographical segments.

Within the scope of its duties, the Management Board analyses financial data which is in agreement with the financial statements prepared in accordance with the IFRS.

Disclosures regarding key customers whose share in the Company's revenue is more than 10% are presented in section 4.4 of the Directors' Report on Operations of the Company for the period from 1 January to 31 December 2013.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

6. Property, plant and equipment

	Land	Buildings and structures total	Buildings and structures including workings	Plant and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
As at 1 January 2012								
Cost or assessed value	3,667	1,977,798	1,367,957	1,191,123	103,791	13,347	375,509	3,665,235
Depreciation	-	(586,336)	(453,595)	(462,166)	(53,103)	(8,890)	-	(1,110,495)
Net book value	**3,667**	**1,391,462**	**914,362**	**728,957**	**50,688**	**4,457**	**375,509**	**2,554,740**
As at 31 December 2012								
Net book value at beginning of year	3,667	1,391,462	914,362	728,957	50,688	4,457	375,509	2,554,740
Increases	35	25,121	21,999	3,236	-	-	639,520	667,912
Transfer from construction in progress	573	366,281	334,785	277,548	9,069	853	(654,324)	-
Decreases*	(176)	(7,500)	(6,467)	(80)	(47)	-	(1,786)	(9,589)
Depreciation	-	(209,922)	(184,844)	(77,992)	(6,023)	(853)	-	(294,790)
Net book value	**4,099**	**1,565,442**	**1,079,835**	**931,669**	**53,687**	**4,457**	**358,919**	**2,918,273**
As at 31 December 2012								
Cost or assessed value	4,099	2,328,386	1,686,894	1,466,729	110,888	14,129	358,919	4,283,150
Depreciation	-	(762,944)	(607,059)	(535,060)	(57,201)	(9,672)	-	(1,364,877)
Net book value	**4,099**	**1,565,442**	**1,079,835**	**931,669**	**53,687**	**4,457**	**358,919**	**2,918,273**
As at 31 December 2013								
Net book value at beginning of year	4,099	1,565,442	1,079,835	931,669	53,687	4,457	358,919	2,918,273
Increases	281	279	-	917	-	-	567,084	568,561
Transfer from construction in progress	558	388,891	272,424	213,408	4,847	2,185	(609,889)	-
Reclassification to assets for sale	-	(9,284)	-	(690)	-	-	-	(9,974)
Decreases*	(544)	(24,609)	(23,487)	(28,186)	(588)	(8)	(782)	(54,717)
Depreciation	-	(207,451)	(177,809)	(108,840)	(6,501)	(1,001)	-	(323,793)
Net book value	**4,394**	**1,713,268**	**1,150,963**	**1,008,278**	**51,445**	**5,633**	**315,332**	**3,098,350**
As at 31 December 2013								
Cost or assessed value	4,394	2,564,586	1,818,083	1,642,358	113,704	16,225	315,332	4,656,599
Depreciation	-	(851,318)	(667,120)	(634,080)	(62,259)	(10,592)	-	(1,558,249)
Net book value	**4,394**	**1,713,268**	**1,150,963**	**1,008,278**	**51,445**	**5,633**	**315,332**	**3,098,350**

* the item includes creating, releasing and using the impairment losses on non-current assets.

The impairment losses of property, plant and equipment are made based on the analysis of individual items of non-current assets and of construction in progress taking into account their technological usefulness.
Non-current assets are classified to the following groups:
- non-current assets used in full,
- non-current assets fully unserviceable,
- non-current assets partially unserviceable.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

The impairment losses are in full amount for the non-current assets fully unserviceable. The impairment losses on property, plant and equipment are presented in the table below:

	Land	**Buildings and structures**	**Plant and equipment**	**Vehicles**	**Other property, plant and equipment**	**Construction in progress**	**Total**
As at 1 January 2012	**4,328**	**645**	**1,453**	**-**	**-**	**593**	**7,019**
Creating impairment losses	142	756	-	-	-	1,061	1,959
Using impairment losses created	(35)	(258)	-	-	-	(756)	(1,049)
As at 31 December 2012	**4,435**	**1,143**	**1,453**	**-**	**-**	**898**	**7,929**
Creating impairment losses	188	844	24,950	573	8	145	26,708
Using impairment losses created	(281)	(279)	-	-	-	(827)	(1,387)
As at 31 December 2013	**4,342**	**1,708**	**26,403**	**573**	**8**	**216**	**33,250**

The creation, releasing and using the impairment losses as at 31 December 2013 was disclosed in the income statement under “other profit/loss – net.”

Depreciation of non-current assets is disclosed in the income statement as follows:

	31 Dec. 2013	**31 Dec. 2012**
Costs of products, goods and materials sold	(314,079)	(285,327)
Selling cost	(324)	(354)
Administrative costs	(9,390)	(9,109)
	(323,793)	**(294,790)**

7. Non-current assets for sale

	Buildings and structures	**Plant and equipment**	**Total**
As at 1 January 2013	**-**	**-**	**-**
Reclassification to assets held for sale	9,284	690	9,974
As at 31 December 2013	**9,284**	**690**	**9,974**

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

On 17 December 2013 the Company's Management Board adopted Resolution No. 779/VIII/2013 regarding the sale of heating plant assets with carrying amount of PLN 9,974,000 to Łęczyńska Energetyka Sp. z o. o. in Bogdanka. The transaction was closed on 22 January 2014 pursuant to Agreement No. 97/O/2014, the asset sale price amounted to PLN 9,974,000.

8. Intangible assets

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 January 2012					
Cost or assessed value	4,293	4,294	11,235	22	19,844
Amortisation	(2,840)	(993)	(6,097)	(14)	(9,944)
Net book value	**1,453**	**3,301**	**5,138**	**8**	**9,900**
As at 31 December 2012					
Net book value at beginning of year	1,453	3,301	5,138	8	9,900
Increases	479	75	14,313	-	14,867
Amortisation	(283)	(214)	(1,153)	(2)	(1,652)
Net book value	**1,649**	**3,162**	**18,298**	**6**	**23,115**
As at 31 December 2012					
Cost or assessed value	4,611	4,347	25,548	22	34,528
Amortisation	(2,962)	(1,185)	(7,250)	(16)	(11,413)
Net book value	**1,649**	**3,162**	**18,298**	**6**	**23,115**
As at 31 December 2013					
Net book value at beginning of year	1,649	3,162	18,298	6	23,115
Increases	454	86	1,161	4	1,705
Decreases	(19)	-	-	-	(19)
Amortisation	(327)	(222)	(1,154)	(4)	(1,707)
Net book value	**1,757**	**3,026**	**18,305**	**6**	**23,094**
As at 31 December 2013					
Cost or assessed value	4,989	4,423	26,709	6	36,127
Amortisation	(3,232)	(1,397)	(8,404)	-	(13,033)
Net book value	**1,757**	**3,026**	**18,305**	**6**	**23,094**

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Amortisation of intangible assets is disclosed in the income statement as follows:

	31 Dec. 2013	31 Dec. 2012
Costs of products, goods and materials sold	(1,656)	(1,598)
Selling cost	(1)	(3)
Administrative costs	(50)	(51)
	(1,707)	**(1,652)**

9. Non-current investments

	Shares	Total
As at 31 December 2012		
Net book value at beginning of year	73,341	73,341
Net book value	**73,341**	**73,341**
As at 31 December 2013		
Net book value at beginning of year	73,341	73,341
Acquisition of shares in subsidiary entities	1,193	1,193
Net book value	**74,534**	**74,534**

In 2013, there were changes in the structure of the Lubelski Węgiel BOGDANKA Group. The Group was enlarged by the following subsidiaries:

1. EkoTRANS Bogdanka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów.

   EkoTRANS Bogdanka Sp. z o.o. provides services to the mine with respect to recovery of spoil arising during coal- associated shale cleaning and washing.

2. RG Bogdanka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów.

   RG Bogdanka Sp. z o.o. provides services to the mine with respect to the mining works and regeneration services.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

10. Financial instruments by category

	Loans and receivables	Total
31 December 2013		
Assets as disclosed in the statement of financial position		
Trade debtors	183,309	183,309
Cash and cash equivalents	255,810	255,810
Total	**439,119**	**439,119**

	Other financial liabilities	Hedging instruments	Total
Liabilities as disclosed in the statement of financial position			
Loans and borrowings	421,000	-	421,000
Liabilities due to bond issue	200,000	-	200,000
Financing liabilities	-	5,232	5,232
Trade and other financial liabilities	245,017	-	245,017
Total	**866,017**	**5,232**	**871,249**

Interest paid	
Interest	18,484
Fees and commissions	90
Total	18,574

	Loans and receivables	Total
31 December 2012		
Assets as disclosed in the statement of financial position		
Trade debtors	188,819	188,819
Cash and cash equivalents	154,125	154,125
Total	**342,944**	**342,944**

	Other financial liabilities	Hedging instruments	Total
Liabilities as disclosed in the statement of financial position			
Loans and borrowings	441,000	-	441,000
Financing liabilities	-	-	-
Trade and other financial liabilities	285,738	-	285,738
Total	**726,738**	**-**	**726,738**
Interest paid			
Interest			22,896
Fees and commissions			100
Total			**22,996**

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

11. Trade and other receivables

	31 Dec. 2013	31 Dec. 2012
Trade debtors	184,318	189,851
Less: impairment losses of accounts receivable	(1,009)	(1,032)
Net trade debtors	**183,309**	**188,819**
Deferred expenses and rebates	17,865	17,571
Other accounts receivable	40,351	28,449
current	**241,525**	**234,838**
Deferred expenses and rebates	180	-
non-current	**180**	**-**
Total trade and other receivables	**241,705**	**234,838**

Fair value of trade and other receivables does not differ significantly from their carrying amount.
All receivables of the Company are expressed in PLN.

Changes in the impairment losses of trade debtors are presented below:

	31 Dec. 2013	31 Dec. 2012
As at 1 January	**1,032**	**4,951**
Creating impairment losses	82	338
Receivables written down during the year as uncollectible	(19)	(20)
Reversal of unused amounts	(86)	(4,237)
As at 31 December	**1,009**	**1,032**

Creation and release of impairment losses was disclosed in the income statement. Other categories of trade and other receivables do not included items of reduced value.

Maturity structure of accounts receivable with impairment of value is presented in the table below:

	31 Dec. 2013	31 Dec. 2012
Up to 1 month inclusive	78	24
1 to 3 months	-	-
3 to 6 months	-	-
6 to 12 months	9	3
over 12 months	922	1,005
	1,009	**1,032**

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Maturity structure of accounts receivable with respect to which the payment deadline has elapsed, which are however unlikely to lose value, is presented in the table below:

	31 Dec. 2013	**31 Dec. 2012**
Up to 1 month inclusive	5,909	1,500
1 to 3 months	37	72
3 to 6 months	332	71
6 to 12 months	92	630
over 12 months	6	-
	6,376	**2,273**

Maximum exposure to credit risk as at the reporting date is the fair value of each category of accounts receivable described above. Accounts receivable on coal sales constitute collateral of bank loans and liabilities under the bond issue.

12. Inventories

	31 Dec. 2013	**31 Dec. 2012**
Materials	65,141	40,326
production in progress	-	523
Impairment losses of sale price, likely to achieve, of the production in progress	-	(98)
Finished goods	48,539	15,917
Impairment losses of the sale price, likely to achieve, of the finished goods	(3,319)	(2,573)
	110,361	**54,095**

Cost of inventories disclosed under "Cost of products, goods and materials sold" amounted to PLN 1,303,376,000 in 2013 (2012: PLN 1,300,948,000).
Changes in the impairment losses of the sale price, likely to achieve, and for impairment of inventories are presented below:

	31 Dec. 2013	**31 Dec. 2012**
As at 1 January	**2,671**	**370**
Creating impairment losses of the sale price, likely to achieve, of the production in progress and finished goods	3,319	2,671
Release of impairment losses of the sale price, likely to achieve, of the finished goods	(2,671)	(370)
As at 31 December	**3,319**	**2,671**

Creating and release of impairment losses of inventories was presented in the income statement in "other profit/(loss) – net."

13. Cash and cash equivalents

	31 Dec. 2013	**31 Dec. 2012**
Cash in banks and at hand	126,277	2,375

Bank deposits	129,533	151,750
	255,810	**154,125**
including:		
Non-current*	77,912	68,031
Current	177,898	86,094
	255,810	**154,125**

* cash with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 83,439,000 as at 31 December 2013, including PLN 77,912,000 (as at 31 December 2012: PLN 68,031,000) of the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine. Cash and bank deposits are expressed in PLN.

Effective interest rates of short-term bank deposits are close to nominal interest rates, and the fair value of the short-term bank deposits does not differ materially from their carrying amount. Interest rates are based on WIBOR rates which stood at the following levels (1M WIBOR):

2013 – 2.59% - 4.2%
2012 – 4.2% - 4.9%

14. Share capital

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2012	34,014	170,068	131,090	301,158
As at 31 December 2012	34,014	170,068	131,090	301,158
As at 1 January 2013	34,014	170,068	131,090	301,158
As at 31 December 2013	34,014	170,068	131,090	301,158

All shares issued by the Company have been fully paid up.

15. Other capital

Pursuant to the Articles of Association, the Company can create supplementary capital and other reserve capitals, the purpose of which is determined by provisions of law and resolutions of decision-making bodies. Other capital includes supplementary capital under the Management Options issue and capital resulting from valuation of cash flow hedging financial instruments.

On 30 September 2013 the Supervisory Board of the Company adopted, by way of a resolution, the Rules of Management Options Scheme in 2013-2017. The resolution was adopted based on Resolution no. 26 of the Annual General Shareholders Meeting of the Company of 4 July 2013 regarding issue of up to 1,360,540 registered series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Company’s share capital by no more than PLN 6,802,700 through issue of up to 1,360,540 ordinary series D shares with a par value of PLN 5 each and with the exclusion of a pre-emptive right. Detailed information about the Rules of Management Option Scheme and the grant of options is presented in the Directors’ Report on operations of the Company in section 11.3. As at the allocation date, the valuation of the scheme was made using the Black – Scholes – Merton model (level 3), the calculated value of bonds as at the allocation date amounted to PLN 23,657,000. In the valuation model, the following assumptions were made:

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

- option allocation date (valuation date) was set to fall on 30 September 2013 for each of the tranches.

- current price for calculation purposes was the forecast share price of Lubelski Węgiel Bogdanka S.A. as at 30 September 2013,

- the option life was calculated with the assumption of its maturity falling in the middle of the range between the first and the last possible day of option exercise,

- risk-free rate was defined as the semi-annual average of weekly prices of 5-year Treasury bonds,

- share price variability was calculated on the basis of annual rates of return on shares of Lubelski Węgiel Bogdanka S.A. using continuous capitalisation for the 4-year period of Company listings,

- zero dividend rate is assumed in connection with the MOS provisions that set out that dividends to be paid by Lubelski Węgiel Bogdanka S.A. will be deducted from the Option strike price.

220,406 options were allocated as at 31 December 2013 for 2013 which gives the options value of PLN 2,853,000, recognised in the income statement under "Administrative costs" and in the statement of changes in equity under "Other capital."
Other capitals include also derivatives used as cash flow hedges after tax effect. The loss on cash flow hedges as at 31 December 2013 amounting to PLN 4,238,000 (after tax effect) was recognised in the statement of comprehensive income and in the statement of financial position (balance sheet) under "Financial liabilities." Disclosures about financial instruments and applied hedging policy are provided in note 3.1.b.

16. Trade and other liabilities

	31 Dec. 2013	31 Dec. 2012
Trade creditors	99,386	104,229
Other liabilities, including:	145,631	181,509
Company Employee Benefit Fund	9,925	8.954
Liabilities due security deposit	3,487	3.237
Investment liabilities	79,993	114.329
Salaries payable	38,822	32,525
Other liabilities	13,404	22.464
Total financial liabilities	245,017	285,738
Liabilities - social security and other tax payable	42,993	37,979
Trade and other liabilities	**288,010**	**323,717**
including:		
Non-current	17,785	16,909
Current	270,225	306,808
	288,010	**323,717**

17. Grants

	31 Dec. 2013	31 Dec. 2012
Non-current liabilities		
Grants	16,145	18,122
Current liabilities		
Grants	988	-

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

	17,133	**18,122**

The grant received should be settled in the full amount on the moment it is amortised in full, sold or if an asset financed with that grant is liquidated. The manner of disclosure of the grant is described in note 2.21.

18. Loans and borrowings

	31 Dec. 2013	**31 Dec. 2012**
Long-term:		
Bank loans:	-	421,000
- PKO BP S.A.	-	241,000
- PEKAO S.A.	-	180,000
Short-term:		
Bank loans:	421,000	20,000
- PKO BP S.A.	241,000	-
- PEKAO S.A.	180,000	20,000
	421,000	**441,000**

The bank loans mature on 31 December 2014 and bear interest equal to 3M WIBOR + bank margin. Details on maturity dates of loans are presented in note 3.1. Information on security interest for bank loans received is provided in note 34.
The fair value of loans does not significantly differ from their carrying amount. The Company takes out loans in PLN.
The Company does not have any unutilised overdraft credit lines as at 31 December 2013.

19. Financing liabilities on account of bond issue

	31 Dec. 2013	**31 Dec. 2012**
Non-current:		
Bond issue		
- PEKAO S.A.	200,000	-
	200,000	**-**

Financial liabilities under the agreement covering bond issue scheme, concluded with Bank Polska Kasa Opieki S.A. on 27 September 2013, are to be paid by 31 December 2018. Interest on the bonds is based on WIBOR 3M plus a fixed margin. The Company established collateral in favour of the bank in the following forms: agreements for assignment of receivables under a contract with one of the Company's customers, statements on submission to execution under Article 777.1.5 of the Civil Procedure Code and powers of attorney to a designated bank account of the Company. The bond redemption date is 30 March 2018 for bonds in the amount of PLN 75 million and 30 September 2018 for bonds in the amount of PLN 50 million. Detailed information about the Bond Issue Scheme is included in the Directors' Report on Operations of the Company in section 3.2.2.

20. Financial instruments

Hierarchy of financial instruments measured at fair value.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Financial instruments measured at fair value may be categorised to the following valuation models:
Level 1: quoted prices (unadjusted) for identical assets and liabilities in an active market,
Level 2: data inputs, other than quoted prices used in Level 1, which are observable for given assets and liabilities, both directly (e.g. as prices) or indirectly (e.g. derived from provisions),
Level 3: data inputs which are not based on observable market prices (unobservable data inputs).

As at 31 December 2013 derivatives were the only financial instruments measured at fair value in the Company. Level 2 was used to measure the liabilities under derivatives measured at fair value, amounting to PLN 5,232,000 as at 31 December 2013 (31 December 2012: PLN 0).

21. Deferred income tax

Assets and liabilities regarding the deferred income tax mutually set-off is the Company has an enforceable legal title for offsetting current tax assets and liabilities and if the deferred income tax is subject to reporting to the same tax office. Following the set off, the following amounts are presented in the financial statements:

	31 Dec. 2013	31 Dec. 2012
Deferred tax assets		
- to be realised after 12 months	36,776	28,518
- to be realised within 12 months	15,998	15,530
	52,774	**44,048**
Deferred tax liabilities		
- to be realised after 12 months	149,486	116, 056
- to be realised within 12 months	3,157	3,448
	152,643	**119,504**
Deferred tax liabilities (net)	**99,869**	**75,456**

Changes in the assets and liabilities regarding the deferred income tax during the year (before their set off is taken into account under one legal jurisdiction) are the following:

Deferred tax assets	**Provisions for employee benefits and similar**	**Unpaid remuneration and other benefits**	**Provision for real property tax**	**Other**	**Total**
As at 1 January 2012	27,823	769	2,416	1,676	32,684
(Decrease)/increase of the financial result, including:	8,401	985	(995)	2,973	11,364
- recognised in the income statement	3,889	985	(995)	2,973	6,852
- recognised in statement of comprehensive income	4,512	-	-	-	4,512
As at 31 December 2012	**36,224**	**1,754**	**1,421**	**4,649**	**44,048**
(Decrease)/increase of the financial result, including:	1,383	1,467	2,828	3,048	8,726
- recognised in the income statement	2,069	1,467	2,828	2,054	8,418

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

- recognised in statement of comprehensive income	(686)	-	-	994	308
As at 31 December 2013	**37,607**	**3,221**	**4,249**	**7,697**	**52,774**

Deferred tax liabilities	**Valuation of non-current assets**	**Costs of panel strengthening**	**Provision for mine closure – net***	**Property tax receivable**	**Other**	**Total**
As at 1 January 2012	94,511	1,476	5,074	3,227	887	105,175
(Decrease)/increase of the financial result, including:	12,026	1,391	270	948	(306)	14,329
- recognised in the income statement	12,026	1,391	270	948	(306)	14,329
- recognised in statement of comprehensive income	-	-	-	-	-	-
As at 31 December 2012	**106,537**	**2,867**	**5,344**	**4,175**	**581**	**119,504**
(Decrease)/increase of the financial result, including:	33,501	(102)	869	(978)	(151)	33,139
- recognised in the income statement	33,501	(102)	869	(978)	(151)	33,139
- recognised in statement of comprehensive income	-	-	-	-	-	-
As at 31 December 2013	**140,038**	**2,765**	**6,213**	**3,197**	**430**	**152,643**

* The item includes the on balance value of non-current assets and provisions related to mine closure.

22. Provisions for employee benefits

	31 Dec. 2013	**31 Dec. 2012**
As disclosed in the statement of financial position		
- Retirement and disability benefits	35,313	35,542
- Long service awards	70,526	60,379
- Coal allowances in kind	81,295	85,785
- Other benefits for employees (unused holidays, death benefits)	10,800	8,946
	197,934	**190,652**

	31 Dec. 2013	**31 Dec. 2012 restated***
Costs recognised in the income statement:		
- Retirement and disability benefits	3,060	2,561
- Long service awards	21,029	29,421
- Coal allowances in kind	4,670	4,801
- Other benefits for employees (unused holidays, death benefits)	8,324	6,804
	37,083	**43,587**

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

	31 Dec. 2013	31 Dec. 2012 restated*
Costs recognised in the statement of comprehensive income regarding the distribution of actuarial gains and losses resulting from demographic assumptions, financial assumption and other changes:		
- Retirement and disability benefits	1,250	8,352
- Coal allowances in kind	(5,132)	14,528
- Other benefits for employees (death benefits)	272	866
	(3,610)	**23,746**

Change in provisions for employee benefits

	31 Dec. 2013	31 Dec. 2012 restated*
As at 1 January	190,652	146,435
Costs of current employment (unused holidays, death benefits)	17,512	12,593
Interest expense	8,051	8,123
Actuarial gains/losses as recognised in the income statement	11,520	22,871
Actuarial gains/losses as recognised in the statement of comprehensive income	(3,610)	23,746
Recognised in the comprehensive income, total	**33,473**	**67,333**
Benefits paid	(26,191)	(23,116)
As at 31 December	**197,934**	**190,652**
Including:		
- non-current	158,565	150,095
- current	39,369	40,557

Amounts disclosed in the income statement and in the statement of comprehensive income in 2013 are as follows:

	Benefits during employment	Post-employment benefits	Total
Liabilities as at 1 January	67,051	123,601	190,652
Costs of current employment (unused holidays, death benefits)	15,022	2,490	17,512
Interest expense	2,627	5,424	8,051
Actuarial gains/losses as recognised in the income statement:	11,520	-	11,520
Actuarial gains/losses as recognised in the statement of comprehensive income:	-	(3,610)	(3,610)
Recognised in the statement of comprehensive income, total	**29,169**	**4,304**	**33,473**

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Amounts disclosed in the income statement and in the statement of comprehensive income in 2012 are as follows:

	Benefits during employment	**Post-employment benefits**	**Total restated***
Liabilities as at 1 January	42,068	104,367	146,435
Costs of current employment (unused holidays, death benefits)	10,903	1,690	12,593
Interest expense	2,318	5,805	8,123
Actuarial gains/losses as recognised in the income statement:	22,871	-	22,871
Actuarial gains/losses as recognised in the statement of comprehensive income:	-	23,746	23,746
Recognised in the statement of comprehensive income, total	**36,092**	**31,241**	**67,333**

Employee benefits costs are recognised in the income statement and the statement of comprehensive income as follows:

	31 Dec. 2013	**31 Dec. 2012 restated***
Costs of products, goods and materials sold	26,399	32,411
Selling cost	142	170
Administrative costs	2,491	2,883
Finance cost	8,051	8,123
Recognised in the income statement, total:	**37,083**	**43,587**
Actuarial gains/losses as recognised in the statement of comprehensive income:	(3,610)	23,746
Recognised in the statement of comprehensive income, total	**33,473**	**67,333**

Main actuarial assumptions made:

	31 Dec. 2013	**31 Dec. 2012**
Discount rate	4.50%	4.50%
Increase in remunerations in the subsequent year	2.90%	4.00%
Increase in remunerations in 2014-2023	2.99%	2.30%
Increase in remunerations after 2023	2.50%	1.00%

The assumptions for future mortality are based on opinions, published statistics and experience in a given area. Average expected length of life (in years) of persons retiring as at the balance-sheet date:

	31 Dec. 2013	**31 Dec. 2012**
Men	15.38	12.69
Women	23.77	22.94

* Explanation provided in note 2.1a.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

23. Provisions for other liabilities and charges

	Mine closure	Mining damage	Legal claims	Real property tax	Total
As at 1 January 2012	**76,856**	**5,360**	**14,751**	**16,587**	**113,554**
Including:					
Non-current	76,856	-	-	-	76,856
Current	-	5,360	14,751	16,587	36,698
Recognition in the income statement					
- Creation of additional provisions	8,624	11,970	31,339	5,213	57,146
- Release of an unused provision	-	(1,353)	(25,011)	(11,763)	(38,127)
- Interest	-	-	1,985	2,217	4,202
- Discount settlement	4,381	-	-	-	4,381
- Use of the provision	-	(2,507)	(38)	(2,752)	(5,297)
As at 31 December 2012	**89,861**	**13,470**	**23,026**	**9,502**	**135,859**
Including:					
Non-current	89,861	-	-	-	89,861
Current	-	13,470	23,026	9,502	45,998
Recognition in the income statement					
- Creation of additional provisions	-	7,474	238	15,884	23,596
- Use of the provision	-	(7,468)	(1,169)	(1,360)	(9,997)
- Release of an unused provision	(8,806)	(543)	-	-	(9,349)
- Interest	-	-	1,963	3,820	5,783
- Discount settlement	4,223	-	-	-	4,223
As at 31 December 2013	**85,278**	**12,933**	**24,058**	**27,846**	**150,115**
Including:					
Non-current	85,278	-	-	-	85,278
Current	-	12,933	24,058	27,846	64,837

(a) Mine closure
The Company establishes a provision for expenses related to closure of a mining plant, as required under applicable provisions. The value of closing the mine calculated as at 31 December 2013 amounts to PLN 85,278,000.

(b) Removing mining damage
Given the need of removing mining damage, the Company creates a provision for mining damage. As at 31 December 2013, the estimated value of works necessary for damage removal is: PLN 12,933,000.

(c) Legal claims
The amount disclosed constitutes a provision for certain legal claims filed against the Company by customers and suppliers. The amount of the provision is disclosed in the income statement as “Other profit/(loss) – net.” In the Management Board's opinion, supported by an appropriate legal opinion, those claims being filed will

not result in significant losses in an amount that would exceed the value of provisions created as at 31 December 2013.

(d) Real property tax

The amount disclosed constitutes a provision for real property tax. While preparing statements for real property tax, the Company (like other mining companies in Poland) does not take into account the value of underground mining excavations or the value of equipment installed there, for the purpose of calculating this tax.

The position taken by the Constitutional Tribunal in its ruling of 13 September 2011, confirmed subsequently by a line of decisions given by administrative courts, is that real property tax is not chargeable on mining excavation understood as empty space in the rock mass which has been created as a result of carrying out mining works. At the same time, the Constitutional Tribunal did not exclude in the above ruling that mining excavations may contain objects constituting structures within the meaning of the Act on Local Charges and Taxes on which real property tax may be chargeable. If it is determined that mining excavations contain objects constituting structures within the meaning of the Act on Local Charges and Taxes. The assessment of taxable base cannot include the value of works which consist in performing the mining excavation.
Although the above ruling by the Constitutional Tribunal has not resolved finally and unequivocally what elements of the equipment in mining excavations are chargeable with real property tax, in addition until now there is no position to that extent in a line of decisions given by administrative courts, nevertheless, bearing in mind the above position by the Constitutional Tribunal – even if it were finally established that mining excavations belonging to the Company contain any structures within the meaning of the Act on Local Charges and Taxes, the amount of real property tax, if any, on such objects should be, according to the Company, significantly (many times) lower that the amounts of tax determined to date in decisions issued by first instance tax authorities wherein the adopted taxable base was the value of the entire mining excavations together with their equipment set forth in the records of property, plant and equipment

In connection with decisions issued by the Commune Heads and the Local Government Appellate Court in Lublin, determining real property tax of the Company for 2008, the amounts of real property tax calculated for 2009-2013 were adjusted. The adjustment of the tax provision calculated for the above years was supported by a risk that in tax proceedings relating to the period 2009-2013 the tax authorities will decide in the same way as in relation to 2008. Having taken the above into account, the provision disclosed in the Company's books as at 31 December 2013 in the amount of PLN 27,846,000 (31 December 2012: PLN 9,502,000) represents a provision for real property tax liabilities, if any, and interest thereon for 2009-2013, should the tax authorities determine that mining excavations of the Company contain objects constituting structures on which real property tax is chargeable. The values connected with real property tax are disclosed in the income statement under "Cost of products, goods and materials sold."

Based on the above, in connection with the payments of the real property tax made on account of mining excavations for 2008, as at 31 December 2013 the Company calculated income due for those years for an excess payment of the real property tax, in the amount of PLN 1,282,000 (as at 31 December 2012: PLN 8,279,000). Total receivables from the communes on account of the disputed real property tax on underground mine excavations, as disclosed in the Company's books, as at 31 December 2013 amount to PLN 29,091,000.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

24. Revenue

	31 Dec. 2013	31 Dec. 2012
Sales of coal	1,824,944	1,776,524
Sales of ceramics	5,124	6,749
Other activities	54,414	34,271
Sales of goods and materials	9,626	13,051
Total revenue	**1,894,108**	**1,830,595**

25. Costs by type

	31 Dec. 2013	31 Dec. 2012 restated*
Amortisation / Depreciation	325,500	296,442
Materials and energy consumption	485,399	451,495
Outsourced services	430,030	432,782
Employee benefits	532,925	491,008
Entertainment and advertising expenses	7,602	9,121
Taxes, fees and charges	32,550	31,264
Other costs by type	19,570	23,348
Total costs by type	**1,833,576**	**1,735,460**
Selling cost	(44,539)	(44,007)
Administrative costs	(92,705)	(91,774)
Activities for the Company's own needs	(369,785)	(293,544)
Release of a provision for the real property tax	-	(9,502)
Change in products	(32,574)	(8,689)
Cost of products sold	**1,293,973**	**1,287,944**
Value of goods and materials sold	9,403	13,004
Costs of products, goods and materials sold	**1,303,376**	**1,300,948**

* Explanation provided in note 2.1a.

26. Other income

	31 Dec. 2013	31 Dec. 2012
Compensations and damages received	1,057	1,179
Other,	1,353	315
including:		
- Release of used other provisions for liabilities	954	-
- Release of impairment losses	366	188
Total other income	**2,410**	**1,494**

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

27. Other costs

	31 Dec. 2013	31 Dec. 2012
Donations	(458)	(318)
Enforcement fees and penalties	9	(8)
Compensation	(2,530)	(1,414)
Other	(83)	(82)
Total other costs	**(3,062)**	**(1,822)**

28. Other profit/(loss) – net

	31 Dec. 2013	31 Dec. 2012
Profit / (loss) on sale of non-current assets	(14)	49
Currency exchange differences	(954)	1,057
Impairment losses of the sale price, likely to achieve, of the production in progress and finished goods	(3,319)	(2,671)
Creating and using impairment losses of property, plant and equipment	(25,321)	5,119
Provision for mining damage	537	(8,110)
Other,	(1,674)	(1,386)
including:		
- Creation of other provisions	(233)	(1, 077)
Total other net losses	**(30,745)**	**(5,942)**

29. Finance income and costs

	31 Dec. 2013	31 Dec. 2012 restated*
Interest income on short-term bank deposits	2,524	6,131
including: Interest regarding the Mine Closure Fund	3,391	3,872
Total finance income	**5,915**	**10,003**
Interest expenses:		
- bank loans and commissions on loans	(3,327)	(3,211)
- interest expense on valuation of employee benefits	(8,051)	(8,123)
- settlement of discount on other non-current provisions and liabilities	(5,127)	(4,681)
- creation of a provision and impairment losses of interest	(1,797)	(2,922)
Total finance cost	**(18,302)**	**(18,937)**
Finance cost - net	**(12,387)**	**(8,934)**

* Explanation provided in note 2.1a.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

30. Income tax

	31 Dec. 2013	31 Dec. 2012 restated*
Current tax	58,453	64,927
Deferred tax charged into profit or loss	24,721	7,474
Deferred tax charged into other comprehensive income:		
- as cash flow hedge	(994)	-
- as actuarial gains/losses as recognised in the statement of comprehensive income:	686	(4,512)
	82,866	**67,889**
	58,453	64,927

	31 Dec. 2013	31 Dec. 2012 restated*
Profit before taxation	409,704	378,662
Tax calculated at the rate of 19% (2012: 19%)	77,844	71,946
Tax effect of income permanently excluded from the taxable base	(3,230)	(1,845)
Tax effect of costs permanently excluded from the taxable base	8,561	2,300
Decrease in financial result by the income tax	**83,174**	**72,401**

The regulations concerning value added tax, real property tax, corporate income tax, personal income tax and social security contributions are frequently changed. As a result, there is sometimes no reference to established regulations or legal precedents. The applicable regulations also contain ambiguities which result in differences in opinions regarding the legal interpretation of tax regulations, both between state authorities and between state authorities and businesses.

Such interpretational doubts concern, for example, tax classification of outlays on creating certain mining excavations. The practice currently applied by the Company and other coal sector companies consists of recognising costs related to the creation of exploitation excavations, i.e. excavations which are not part of permanent underground infrastructure of a mine, directly in the tax costs of the period.

However, in the light of applicable tax regulations, it may not be ruled out that such costs could be classified by the Company for the purpose of corporate income tax in a way that differs from the classification presented by the Company, which could potentially result in adjustments in corporate income tax settlements and the payment of an additional amount of tax. Such amount would be significant.

Tax and other settlements (e.g. customs or foreign currency settlements) can be inspected by the authorities which are entitled to impose heavy fines, and additional amounts of liabilities established as a result of an inspection must be paid with high interest. As a result, the tax risk in Poland is greater than that which usually exists in countries with more advanced tax systems. Tax settlements can be inspected within a five-year period. Amounts disclosed in the financial statements can therefore be changed after their amount has been finally determined by the tax authorities.

31. Earnings per share

Basic
Basic earnings per share are calculated as the quotient of the profit attributable to the shareholders of the Company and the weighted average number of ordinary shares during the year.

	31 Dec. 2013	**31 Dec. 2012 restated***
Earnings attributable to owners of the Company	326,530	306,261
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN per share)	**9,60**	**9,00**

* Explanation provided in note 2.1a.

Diluted
Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. . As at 31 December 2013, the Company held instruments resulting in dilution of potential ordinary shares due to the introduction of the Management Options Scheme in 2013. As at 31 December 2013, the impact of the dilution is immaterial. Diluted earnings per share are therefore equal to basic earnings per share of the Company.
As at 31 December 2013, the Company did not have instruments causing dilution of potential ordinary shares.

32. Dividend per share

Under Resolution No. 23 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 27 June 2013, profit for 2012 in the amount of PLN 172,110,000 has been allocated for distribution among the shareholders of the Company. Dividend for 2012 in the amount of PLN 172,110,000 was paid on 1 October 2013. The dividend rate due to shareholders of the Company is presented in the table below.

	31 Dec. 2013	**31 Dec. 2012**
Dividend paid	172,110	136,050
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
Dividend per share (in PLN per share)	**5.06**	**4.00**

The dividend rate per share is calculated as the quotient of the dividend attributable to the shareholders of the Company and the number of ordinary shares as at the dividend date.

The Company's Management Board did not decide upon the manner of distribution of financial result for 2013.

33. Net cash inflow from operating activities

	31 Dec. 2013	**31 Dec. 2012 restated***
Profit before taxation	409,704	378,662
- Depreciation of non-current assets (note 6)	323,793	294,790
- Amortisation of intangible assets (note 8)	1,707	1,652
- Profit / (Loss) on sale of property, plant and equipment	14	(49)
- Income and costs related to changes in the property, plant and equipment	14,941	(9,751)
Actuarial gains/losses as recognised in the statement of	3,610	(23,746)

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

comprehensive income:		
- Change in provisions for employee benefits (note 22)	7,282	44,217
- Change in provisions	25,199	16,514
- Other flows	365	205
- Cost of Management Options	2,853	-
- Creating and using impairment losses of property, plant and equipment	25,321	(5,119)
- Inventories	(56,266)	(12,523)
- Change in trade and other receivables	(6,867)	17,767
- Change in trade and other liabilities	7,777	30,728
Cash inflow from operating activities	**759,433**	**733,347**
Balance-sheet change in liabilities	(36,697)	85,850
Change in investment liabilities	44,474	(55,122)
Change in liabilities for the purposes of the statement of cash flows	**7,777**	**30,728**
Increase in non-current assets	565,622	638,039
Change in investment liabilities	44,474	(55,122)
Interest paid regarding investing activity	(15,247)	(19,785)
Acquisition of property, plant and equipment	**594,849**	**563,132**

In the statement of cash flows, the amount of inflows from the sale of property, plant and equipment is comprised of:

	31 Dec. 2013	**31 Dec. 2012**
Net book value	227	172
Profit / (Loss) on sale of property, plant and equipment	(14)	49
Inflow from the sale of property, plant and equipment	**213**	**221**

34. Contingent items

The Company has contingent liabilities on account of legal claims arising in the normal course of its business activities and contingent liabilities on account of real property tax.

The contingent liability concerning the value of mining excavations from which the Company does not create a provision, may primarily result from the existing discrepancies between the position of the Company and the position of tax authorities with respect to the subject of that tax. The issue revolves around the question of whether there are in the mining excavations any structures within the meaning of the Act on Local Taxes and Charges which would be subject to the property tax. The discrepancies may also occur with regard to the value of particular facilities — in the event that it is agreed that the facilities are subject to the property tax.

The contingent liability for legal claims related to the fee for co-inventors of inventions covered with patents no. 206048 and 209043 functioning at the Company from which the Company does not create provision may primarily result from impossibility to assess whether the claim in question is justified and different positions taken by the Company and the co-inventors of inventions covered with the abovementioned patents. The value of the possible liability as at the day of publishing this report amounts to PLN 48 million. The Company estimated a provision for remuneration for co-inventors to the best of its knowledge and in line with principles so far applied at the Company when calculating remunerations for inventors. The item provisions for legal claims shows a provision for legal claims regarding remuneration for co-inventors of inventions covered by patents No. 206048 and 209043, used at the Company. The amount of remuneration will be subject to analysis of court experts or experts accepted by both parties.

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

In connection with the conclusion of the long-term loan agreements with PKO Bank Polski S.A. and PEKAO S.A., the Company issued blank promissory notes with declaration, covering the amount corresponding to the amount of debt under the loans plus interest and other Bank's costs, for the purpose of securing the repayment of the abovementioned loans. The value of the used portion of the loan as at 31 December 2013 amounted to PLN 421 million and has been disclosed as liability in the statement of financial position of the Company. Further, the loan agreements provide for collaterals in the form of deduction from the Company's bank account and transfer of receivables from the sale of coal up to the amount of liability under the loan plus interest.

35. Future contractual liabilities

Investment liabilities

Contractual investment liabilities incurred as at the balance-sheet date, but still not disclosed in the statement of financial position, amount to:

	31 Dec. 2013	**31 Dec. 2012**
Property, plant and equipment	392,364	131,870
	392,364	**131,870**

36. Transactions with related entities

All transactions with the subsidiaries are concluded as part of regular operations of the Company and are performed on an arms' length basis.
The Company’s revenue resulting from cooperation with Łęczyńska Energetyka, with registered office in Bogdanka, a Company’s subsidiary, is in the most part generated through sale of coal and bricks, lease of premises, telecommunications services and re-invoicing electricity costs.

Purchases primarily include the purchase of heat power, potable water and the maintenance services for sewage installations, central heating, tailwater and water grid.

The Company’s revenue resulting from the cooperation with the subsidiary, EkoTRANS Bogdanka Sp. z o.o., Bogdanka, is in the most part generated through lease of premises, and telecommunications services.

Purchases include primarily services of recovery of spoil arising during coal- associated shale cleaning and washing.

Further, the Company’s revenue resulting from the cooperation with the subsidiary, RG Bogdanka Sp. z o.o., Bogdanka, is in the most part generated through lease of premises, fees for using the machinery, and telecommunications services.

Purchases include primarily services with respect to the mining works and regeneration services.

In the reporting periods ended on 31 December 2012 and 31 December 2013 the value of trade related to purchase with the following subsidiaries: Łęczyńska Energetyka Sp. z o.o. in Bogdanka, EkoTRANS

(All amounts in the tables are in PLN thousand, unless otherwise specified.)

Bogdanka Sp. z o.o. in Bogdanka and RG Bogdanka Sp. z o. o. in Bogdanka, and the balance of the Company's liabilities towards these associated entities as at subsequent balance-sheet dates were as follows:

	31 Dec. 2013	**31 Dec. 2012**
Purchases in period	36,201	17,013
Total liabilities at end of period including VAT	7,175	2,599

In the reporting periods ended on 31 December 2012 and 31 December 2013 the value of trade related to sale with the following subsidiaries: Łęczyńska Energetyka Sp. z o.o. in Bogdanka, EkoTRANS Bogdanka Sp. z o.o. in Bogdanka and RG Bogdanka Sp. z o. o. in Bogdanka, and the balance of the Company's liabilities towards these associated entities as at subsequent balance-sheet dates were as follows:

	31 Dec. 2013	**31 Dec. 2012**
Sales in period	9,364	10,819
Total receivables at end of period including VAT	1,704	2,204

37. Information on remuneration of the Management Board, the Supervisory Board and the commercial proxies

	31 Dec. 2013	**31 Dec. 2012**
Remuneration of Management Board members and commercial proxies	**4,386**	**3,954**
Including:		
Annual award	402	161
Long-service award	-	75
Pay for termination of employment relationship	30	180
Pay upon retirement due to old age	-	60
Remuneration for the time of release from work	-	180
Other benefits	113	57
Remuneration of the Supervisory Board members	**843**	**605**

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Company’s Supervisory Board allocated a total of 1,102,032 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672 Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Company's development. Options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares.

The total cost of valuation of the Management Options Scheme included in the Company’s costs as at 31 December 2013 amounts to PLN 2,853,000. Details are specified in note 15.

38. Information on the auditor responsible for auditing the report and the auditor’s fee

Information on the auditor responsible for auditing the Company’s financial statements and the auditor’s fee is contained in section 12 of the Directors’ Report on Operations of the Company for a period from 1 January 2013 to 31 December 2013.

39. Events after the balance-sheet date

After the balance-sheet date, to the best of the Company's knowledge, no material event occurred, which could affect the result for 2013 and were not disclosed in the Company’s financial statements. By the publication date of these financial statements, the following material events affecting the Company's operations in 2014 occurred:

- On 15 January 2014, the following documents were signed with ENEA Wytwarzanie S.A. with registered office in Świerże Górne:
  - Annex to Annual agreement for the supply of power coal in 2013, attached as Appendix 4 to Long-Term Agreement No. UW/LW/01/2010,
  - Annual agreement for the supply of power coal in 2014, attached as Appendix 5 to Long-Term Agreement No. UW/LW/01/2010,
  - Annual agreement for the supply of power coal in 2015, attached as Appendix 6 to Long-Term Agreement No. UW/LW/01/2010,

  As a result of concluding the Annex and the abovementioned Agreements, the net value of the entire Long-Term Agreement currently amounts to PLN 10,677 million.

40. Approval of the financial statements

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 14 March 2014, it approves for publication these financial statements of the Company for the period from 1 January to 31 December 2013.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD AND THE CHIEF ACCOUNTANT

Zbigniew Stopa	President of the Management Board
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics
Roger de Bazelaire	Vice-President of the Management Board, Economic and Financial Affairs
Krzysztof Szlaga	Member of the Management Board, Procurement and Investments
Urszula Piątek	Chief Accountant