Lubelski Węgiel BOGDANKA S.A.

Condensed Interim Financial Statements

for the period of six months ended 30 June 2014

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

Interim Statement of Financial Position (Balance Sheet)

	Note	30 Jun. 2014	31 Dec. 2013
Assets			
Non-current assets			
Property, plant and equipment	5	3,153,424	3,098,350
Intangible assets	6	22,340	23,094
Non-current investments		75,601	74,534
Trade and other receivables		170	180
Cash and cash equivalents		79,143	77,912
		3,330,678	3,274,070
Current assets			
Inventories		95,864	110,361
Trade and other receivables		320,465	241,525
Overpaid income tax		2,766	1,639
Property, plant and equipment held for sale		-	9,974
Cash and cash equivalents		182,513	177,898
		601,608	541,397
TOTAL ASSETS		**3,932,286**	**3,815,467**
Equity			
Ordinary shares	7	301,158	301,158
Other capital	8	1,595,206	1,462,788
Retained profits		434,349	672,224
Total equity		**2,330,713**	**2,436,170**
Liabilities			
Non-current liabilities			
Deferred tax liabilities		100,575	99,869
Provisions for employee benefits	12	160,015	158,565
Provisions for other liabilities and charges	13	101,248	85,278
Subsidies	9	15,610	16,145
Financing liabilities – bonds issue	11	300,028	200,000
Trade and other liabilities		17,002	17,785
		694,478	577,642
Current liabilities			
Loans and borrowings	10	299,043	421,000
Provisions for employee benefits	12	51,828	39,369
Financing liabilities	18	8,613	5,232
Current portion of income tax payable	13	79,716	64,837
Subsidies	9	988	988
Dividend payable		197,283	4
Trade and other liabilities		269,624	270,225
		907,095	801,655
Total liabilities		**1,601,573**	**1,379,297**
TOTAL EQUITY AND LIABILITIES		**3,932,286**	**3,815,467**

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

Interim Income Statement

	Note	For the 6 months ending on June 30 2014	2013
Revenue		943,007	875,951
Costs of products, goods and materials sold		(748,898)	(624,512)
Gross profit		**194,109**	**251,439**
Selling cost		(20,323)	(21,324)
Administrative expenses		(46,815)	(44,359)
Other income		693	1,106
Other expenses		(997)	(542)
Other losses - net		(8,799)	(587)
Operating profit		**117,868**	**185,733**
Finance income		7,744	2,170
Finance cost		(14,457)	(9,069)
Net finance cost		(6,713)	(6,899)
Pre-tax profit		**111,155**	**178,834**
Income tax		(23,756)	(39,383)
Net profit for the financial period		**87,399**	**139,451**
Earnings per share attributable to owners of the Company during the year (in PLN per share)			
- basic	16	2.57	4.10
- diluted	16	2.57	4.10

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

Interim Statement of Comprehensive Income

	For the 6 months ending on June 30	
	2014	**2013**
Net profit for the financial period	**87,399**	**139,451**
Other comprehensive income for the financial period		
Items not intended to be transferred to the profit/ loss		
Actuarial gains/ losses of defined benefit schemes	1,550	(6,270)
Income tax relating to non-transferrable items	(294)	1 191
Items not intended to be transferred to the profit/ loss - total	**1,256**	**(5,079)**
Items which may be transferred to the profit/ loss		
Cash flow hedges		
- Profit/(loss) for period	(3,381)	5,467
Income tax relating to transferrable items	643	(1,039)
Items which may be transferred to the profit/ loss - total	**(2,738)**	**4,428**
Other comprehensive income/ loss for the financial period	**(1,482)**	**(651)**
Total net comprehensive income for the financial period	**85,917**	**138,800**

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

Interim Statement of Changes in Equity

		Other capital				
	Ordinary shares	**Other capital - transfer of the result**	**Other capital – issue of Management Options**	**Equity on valuation of cash flow hedges**	**Retained profits**	**Total equity**
As at 1 January 2013	**301,158**	**1,349,255**	**-**	**-**	**629,798**	**2,280,211**
Total net comprehensive income for the financial period	-	-	-	4,428	134,372	138,800
- net profit	-		-		139,451	139,451
- other comprehensive income	-	-	-	4,428	(5,079)	(651)
Dividends concerning 2012	-	-	-	-	(172,110)	(172,110)
Transfer of the result for 2012	-	114,918	-	-	(114,918)	-
As at 30 June 2013	**301,158**	**1,464,173**	**-**	**4,428**	**477,142**	**2,246,901**
As at 1 January 2014	**301,158**	**1,464,173**	**2,853**	**(4,238)**	**672,224**	**2,436,170**
Total net comprehensive income for the financial period:	-	-	-	(2,738)	88,655	85,917
- net profit	-		-	-	87,399	87,399
- other comprehensive income	-	-	-	(2,738)	1,256	(1,482)
Dividends concerning 2013	-	-	-	-	(197,279)	(197,279)
Transfer of the result for 2013	-	129,251	-	-	(129,251)	-
Issue of Management Options	-	-	5,905	-	-	5,905
As at 30 June 2014	**301,158**	**1,593,424**	**8,758**	**(6,976)**	**434,349**	**2,330,713**

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

Interim Statement of Cash Flows

	Note	For the 6 months ending on June 30	
		2014	**2013**
Cash flow from (used in) operating activities			
Cash flow from operating activities	19	349,410	332,789
Interest received		2,699	498
Income tax paid		(23,830)	(14,062)
Net cash flow from (used in) operating activities		**328,279**	**319,225**
Cash flow from (used in) investing activities			
Acquisition of property, plant and equipment		(301,479)	(275,988)
Interest regarding investing activity		(5,719)	(6,519)
Acquisition of intangible assets		(124)	(1,427)
Inflow from the sale of property, plant and equipment		10,032	163
Interest received		1,941	727
Purchase of shares in subsidiaries		(1,067)	(101)
Dividends received		580	-
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(1,231)	(799)
Net cash flow from (used) in investing activities		**(297,067)**	**(283,944)**
Cash flow from (used in) financing activities			
Proceeds from loans and borrowings		18,043	-
Proceeds from bonds issue		100,000	-
Repayments of loans and borrowings		(140,000)	(5,000)
Interest and commissions paid regarding loans and borrowings		(4,640)	(1,023)
Net cash flow from (used in) financing activities		**(26,597)**	**(6,023)**
Net increase in cash and cash equivalents		4,615	29,258
Cash and cash equivalents at beginning of period		177,898	86,094
Cash and cash equivalents at end of period		**182,513**	**115,352**

Notes on the Condensed Interim Financial Statements

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 European Classification of Activity (EKD 0510Z), are mining and agglomeration of hard coal.

The Company is the parent in the Lubelski Węgiel Bogdanka Group. The Group prepares condensed interim consolidated financial statements for the period of 6 months ended on 30 June 2014.

1.2 Assumption of the Company going concern

The condensed interim 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.

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

These condensed interim financial statements follow the same accounting principles (policies) and calculating methods as the latest annual financial statements.

2.1 Basis of preparation

These condensed interim financial statements of LW Bogdanka for the first six months of 2014 were prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting."

In order to understand fully the financial standing of the Company as the Parent in the Group and the results of its operation, these condensed interim financial statements should be read in conjunction with the condensed interim consolidated financial statements of the Lubelski Węgiel Bogdanka Group, for the period ended 30 June 2014. Those financial statements will be available on the Company's website at www.lw.com.pl on the date conforming to the current report regarding the date for the provision of the Company's interim report and the Group's consolidated report for the period ended 30 June 2014.

These condensed interim 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 the day of the Company's transition to the IFRS, i.e. 1 January 2005.

Drawing up the condensed interim financial statements in accordance with IAS 34 requires the use of certain significant accounting estimates. It also requires that the Management Board exercises its own judgement when applying the accounting principles adopted by the Company. The main estimates and judgements have not changed since the publication of the annual financial statements for 2013.

These condensed interim financial statements were prepared using the same accounting principles for the current and comparative periods.

a) Standards and interpretations applied for the first time in 2014.

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 2014:

- **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 introduction of IFRS 10 does not materially affect these condensed interim 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 introduction of IFRS 11 does not materially affect these condensed interim 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 requires 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 introduction of IFRS 12 does not materially affect these condensed interim 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 introduction of IAS 27 does not materially affect these condensed interim 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 IASB 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 introduction of IAS 28 does not materially affect these condensed interim 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 IASB 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 introduction of amendments to IFRS 10 does not materially affect these condensed interim 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 introduction of amendments to IFRS 10 does not materially affect these condensed interim 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 introduction of amendments to IAS 32 does not materially affect these condensed interim 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 introduction of amendments to IAS 36 does not materially affect these condensed interim 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.

  The introduction of amendments to IAS 39 does not materially affect these condensed interim financial statements.

(b) Standards and interpretations which have been published and endorsed by the European Union, but have not become effective yet.

Upon approval of these condensed interim 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 have not become effective yet:

- **Interpretation of IFRIC 21 "Levies"** published by the IASB on 20 May 2013 and endorsed by the European Union on 13 June 2014 (effective for annual periods beginning on or after 17 June 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 will apply the interpretation of IFRIC 21 as of 1 January 2015. The Company analyses the influence of the new standard on the financial statements.

(c) Standards and interpretations adopted by the IASB, which have not been endorsed by the European Union.

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 28 August 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 discontinuation of recognising of assets and liabilities from IAS 39. On 19 November 2013 the IASB issued another series of amendments to the accountancy 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).

- **IFRS 14 "Regulatory Deferral Accounts"** was published by the International Accounting Standards Board on 30 January 2014. The aim of the standard is to enable IFRS first-time adopters to continue to account for regulatory deferral account balances in accordance with their previous generally applicable accounting policies, on and following first-time adoption of IFRS.

- **IFRS 15 "Revenue from Contracts with Customers"** was published by the International Accounting Standards Board on 28 May 2014. The standard specifies how and when revenue is to be recognised and requires more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and many interpretations connected with revenue recognition. The standard is applicable to nearly all contracts with customers (with main exceptions covering lease contracts, financial instruments and insurance agreements). The core principle of the new standard is that an entity will recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration (i.e. price) to which the entity expects to be entitled in exchange for those goods or services. The standard also provides guidance for recognition of transactions which have not been regulated in detail by previous standards (e.g. revenue from services or contract modifications) as well as more comprehensive explanations to recognition of multi-part contracts.

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for the acquisition of interests in joint operations published by the International Accounting Standards Board on 6 May 2014. The amendments give new guidance how to account for the acquisition of an interest in a joint operation that is a business.

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of acceptable methods of depreciation and amortisation was published by the International Accounting Standards Board on 12 May 2014. The amendments clarify that application of revenue-based methods to calculate depreciation of property, plant and equipment is not appropriate as revenue generated from the activity covering the use of assets usually reflects other factors than consumption of the economic benefits embodied in the asset. The amendments also clarify that adoption of revenue as measurement basis of the use of economic benefits embodied in the intangible asset is in principle not recognised as appropriate. However, exceptions to that rule are allowed in strictly specified circumstances.

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Agriculture: bearer plants, published by the International Accounting Standards Board on 30 June 2014; The amendments include bearer plants which are used solely to grow produce within the scope of application of IAS 16 and so they are accounted for in the same way as property, plant and equipment.

- **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.

The Company analyses the impact of new standards on the financial statements.

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. According to the Company's estimates, the application of hedge accounting for the portfolio of financial assets or financial liabilities in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" would have no material impact on the financial statements if adopted for application for the balance-sheet date.

3. Information on business segments

IFRS 8 – "Operating Segments" is applicable for the purposes of preparing these condensed interim financial statements. That standard requires that the financial statements of the entity present a series of data concerning individual segments, while the approach to segmentation of the entity presented in the financial statements should be consistent with the division into segments used for the purposes of making strategic management decisions.

The Management Board does not apply division into segments for managing the Company since the Company mainly focuses its activities on the production and sale of coal. Revenue from other products and services in the period between 1 January 2014 and 30 June 2014 amounted to PLN 38,604,000, which accounts for 4.09% of total revenue. Accordingly, the Company does not present its results by industry segments.

The Company operates primarily in Poland. In the period between 1 January 2014 and 30 June 2014, revenue from foreign sales amounted to PLN 280,000, which accounts for 0.03% of total revenue in the year in question. The Company does not hold assets or liabilities outside Poland.

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

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

4. Information regarding seasonality

The production is not seasonal, whereas seasonal character of sales can be noticed in the case of retail sales at a point of coal sale. Sales to individual customers account for 0.43% of the total sales. They do not have any significant impact on the operating and financial activities of the Company.

5. Property, plant and equipment

	Land	**Buildings and structures**		**Plant and equipment**	**Vehicles**	**Other property, plant and equipme nt**	**Construction in progress**	**Total**
		Total	**Including workings**					
As at 1 January 2013								
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 30 June 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	36	2,682	-	917	-	-	222,185	225,820
Transfer from construction in progress	142	108,906	76,355	72,281	3,017	928	(185,274)	-
Decreases*	(162)	(5,193)	(4,613)	(2,506)	-	-	(409)	(8,270)
Depreciation	-	(100,242)	(85,954)	(51,766)	(3,241)	(475)	-	(155,724)
Net book value	**4,115**	**1,571,595**	**1,065,623**	**950,595**	**53,463**	**4,910**	**395,421**	**2,980,099**
As at 1 January 2014								
Cost or assessed value	4,115	2,349,527	1,673,383	1,536,056	113,158	15,014	395,421	4,413,291
Depreciation	-	(777,932)	(607,760)	(585,461)	(59,695)	(10,104)	-	(1,433,192)
Net book value	**4,115**	**1,571,595**	**1,065,623**	**950,595**	**53,463**	**4,910**	**395,421**	**2,980,099**
As at 30 June 2014								
Net book value at beginning of year	4,394	2,564,586	1,818,083	1,642,358	113,704	16,225	315,332	4,656,599
Increases	-	(851,318)	(667,120)	(634,080)	(62,259)	(10,592)	-	(1,558,249)
Transfer from construction in progress	**4,394**	**1,713,268**	**1,150,963**	**1,008,278**	**51,445**	**5,633**	**315,332**	**3,098,350**
Decreases*								
Depreciation	4,394	1,713,268	1,150,963	1,008,278	51,445	5,633	315,332	3,098,350
Net book value	-	11,092	-	-	-	-	224,992	236,084
As at 30 June 2014	21	136,442	129,360	26,182	2,767	497	(165,909)	-
Cost or assessed value	(21)	(6,293)	(5,996)	(16)	(1)	-	(118)	(6,449)
Depreciation	-	(107,987)	(91,282)	(62,781)	(3,223)	(570)	-	(174,561)
Net book value	**4,394**	**1,746,522**	**1,183,045**	**971,663**	**50,988**	**5,560**	**374,297**	**3,153,424**

* the item includes creating, releasing and using the impairment losses of property, plant and equipment.

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

6. Intangible assets

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 January 2013					
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 30 June 2013					
Net book value at beginning of year	1,649	3,162	18,298	6	23,115
Increases	262	-	1,161	4	1,427
Decreases	(18)	-	-	-	(18)
Amortisation	(158)	(108)	(577)	(4)	(847)
Net book value	**1,735**	**3,054**	**18,882**	**6**	**23,677**
As at 30 June 2013					
Cost or assessed value	4,805	4,337	26,709	6	35,857
Amortisation	(3,070)	(1,283)	(7,827)	-	(12,180)
Net book value	**1,735**	**3,054**	**18,882**	**6**	**23,677**
As at 1 January 2014					
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**
As at 30 June 2014					
Net book value at beginning of year	1,757	3,026	18,305	6	23,094
Increases	-	118	-	5	123
Amortisation	(175)	(125)	(577)	-	(877)
Net book value	**1,582**	**3,019**	**17,728**	**11**	**22,340**
As at 30 June 2014					
Cost or assessed value	4,969	4,541	26,709	11	36,230
Amortisation	(3,387)	(1,522)	(8,981)	-	(13,890)
Net book value	**1,582**	**3,019**	**17,728**	**11**	**22,340**

7. Share capital

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2013	34,014	170,068	131,090	301,158
As at 30 June 2013	34,014	170,068	131,090	301,158
As at 1 January 2014	34,014	170,068	131,090	301,158
As at 30 June 2014	34,014	170,068	131,090	301,158

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

8. Other capitals

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 covers reserve related to the issue of the Management Options and the equity on valuation of cash flow hedges.

On 30 September 2013 the Supervisory Board 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 bearer shares with a par value of PLN 5 each and with the exclusion of a pre-emptive right. Further information about the Rules of Management Option Scheme is presented in the Directors' Report on operations of the Company in section 2.2. The valuation of options was made as at the grant date using the Black – Scholes – Merton model (level 3), the value of options calculated as at that date was PLN 23,657,000. The following assumptions were used in the valuation model:

- Option allocation date (valuation date) was set on 30 September 2013 for each of the tranches,
- Current price for calculation purposes is the forecast price of Lubelski Węgiel Bogdanka S.A. shares as at 30 September 2013,
- Option life was calculated with the assumption of option maturity falling in the middle of the range set by the first and the last day of possible option exercise,
- Risk-free rate was defined as the semi-annual average of weekly prices of 5-year Treasury bonds,
- Shares variability was calculated on the basis of annual rates of return on shares of Lubelski Węgiel Bogdanka S.A. using continuous capitalisation for four years since the Company became listed.
- Zero dividend rate was 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.

As at 30 June 2014 the number of options granted under the Scheme for the year of 2013 was 220,406. The aggregate costs of the scheme as at 30 June 2014 amounted to PLN 8,758,000, out of which the amount of PLN 5,905,00 was recognised in the income statement under "Administrative expenses" and in the statement of changes in equity under "Other capitals" as at 30 June 2014 (31 December 2013: PLN 2,853,000).

Other capitals include also derivatives used as cash flow hedges after tax effect. The loss on cash flow hedges as at 30 June 2014 amounting to PLN 2,738,000 (31 December 2013: 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."

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

9. Grants

	30 Jun. 2014	31 Dec. 2013
Non-current liabilities		
Grants	15,610	16,145
Current liabilities		
Grants	988	988
	16,598	**17,133**

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.

10. Loans and borrowings

	30 Jun. 2014	31 Dec. 2013
Short-term:		
Bank loans:	299,043	421,000
- PKO BP S.A.	181,000	241,000
- PEKAO S.A.	100,000	180,000
- mBANK S.A.	18,043	-
	299,043	**421,000**

The bank loans mature on 31 December 2014 and bear interest equal to 3M WIBOR + bank margin. The fair value of loans does not significantly differ from their book value. The Company takes out loans in PLN. Details on maturity dates of the loans are presented below.

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
As at 30 June 2014				
Loans and borrowings	285,181	18,521	-	-

As at 30 June 2013 the Company had an unutilised overdraft credit line (under an overdraft revolving loan agreement) of PLN 131,957,000. The above agreement was signed on 21 May 2014 and covered the term of 24 months. The credit limit granted under the agreement is PLN 150,000,000.

11. Financing liabilities on account of bond issue

	30 Jun. 2014	31 Dec. 2013
Long-term:		
Bonds issue		
- PEKAO S.A.	300,028	200,000
	300,028	**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 75 million, and as 30 December 2018 for bonds in the amount of PLN 75 million.

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

Fair value of the financing liabilities on account of bond issue does not differ materially from the book value.

12. Provisions for employee benefits

	30 Jun. 2014	30 Jun. 2013
Provisions, as disclosed in the interim statement of financial position:		
- retirement and disability benefits	33,863	37,476
- long service awards	69,718	70,223
- coal allowances in kind	81,997	90,775
- other benefits for employees (unused holidays, death benefits)	26,265	19,283
	211,843	**217,757**
including:		
- non-current	160,015	168,576
- current	51,828	49,181

	30 Jun, 2013	30 Jun, 2013
As disclosed in the interim income statement:		
- retirement and disability benefits	1,712	1,541
- long service awards	2,682	13,724
- coal allowances in kind	2,255	2,375
- other benefits for employees (unused holidays, death benefits)	23,007	15,938
	29,656	**33,578**

	30 Jun, 2014	30 Jun, 2013
Costs, as disclosed in the interim statement of comprehensive income, regarding distribution of actuarial gains and losses resulting from demographic assumptions, financial assumptions and other changes in:		
- retirement and disability benefits	50	3,187
- coal allowances in kind	(1,515)	2,630
- other benefits for employees (death benefits)	(85)	453
	(1,550)	**6,270**

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

Change in provisions for employee benefits

	30 Jun, 2014	30 Jun, 2013
As at 1 January	**197,934**	**190,652**
Costs of current employment (unused holidays, death benefits)	28,564	20,531
Interest expense	4,219	4,117
Actuarial losses/ profits as disclosed in the interim income statement	(3,127)	8,930
Actuarial losses/ profits as disclosed in the statement of comprehensive income	(1,550)	6,270
Total as disclosed in the interim statement of comprehensive income	**28,106**	**39,848**
Benefits paid	(14,197)	(12,743)
As at 30 June	**211,843**	**217,757**

Total amount of employee benefits disclosed in the interim income statement and the interim statement of comprehensive income:

	30 Jun. 2014	30 Jun. 2013
Costs of products, goods and materials sold	23,130	26,925
Selling cost	125	141
Administrative expenses	2,182	2,395
Finance cost	4,219	4,117
Total as disclosed in the interim income statement	**29,656**	**33,578**
Actuarial gains and loses disclosed in the interim statement of comprehensive income:	(1,550)	6,270
Total as disclosed in the interim statement of comprehensive income	**28,106**	**39,848**

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

13. Provisions for other liabilities and charges

	Mine closure	Mining damage	Legal claims	Real property tax	ZUS claims	Other	Total
As at 1 January 2013	**89,861**	**13,470**	**23,026**	**9,502**	**-**	**135,859**	**89,861**
Including:							
Non-current	89,861	-	-	-	-	89,861	89,861
Current	-	13,470	23,026	9,502	-	45,998	-
As disclosed in the interim income statement							
- Creation of additional provisions	3,862	-	-	1,688	-	5,550	3,862
- Interest	-	-	1,000	483	-	1,483	-
- Discount settlement	2,632	-	-	-	-	2,632	2,632
- Provisions used during a year	-	(2,259)	(7)	-	-	(2,266)	-
- Provisions not used during a year	-	-	(1,162)	-	-	(1,162)	-
As at 30 June 2013	**96,355**	**11,211**	**22,857**	**11,673**	**-**	**142,096**	**96,355**
Including:							
Non-current	96,355	-	-	-	-	96,355	96,355
Current	-	11,211	22,857	11,673	-	45,741	-
As at 1 January 2014	**85,278**	**12,933**	**24,058**	**27,846**	**-**	**150,115**	**85,278**
Including:							
Non-current	85,278	-	-	-	-	85,278	85,278
Current	-	12,933	24,058	27,846	-	64,837	-
As disclosed in the interim income statement							
- Creation of additional provisions	12,133	-	127	3,541	1,811	17,612	12,133
- Interest	-	-	979	1,194	537	2,710	-
- Additional fine (sanctions)	-	-	-	-	8,092	8,092	-
- Discount settlement	3,837	-	-	-	-	3,837	3,837
- Provisions used during a year	-	(703)	(699)	-	-	(1,402)	-
As at 30 June 2014	**101,248**	**12,230**	**24,465**	**32,581**	**10,440**	**180,964**	**101,248**
Including:							
Non-current	101,248	-	-	-	-	-	101,248
Current	-	12,230	24,465	32,581	10,440	90	79,716

(a) Mine closure

The Company establishes a provision for expenses related to closure of a mining plant, as required under applicable provisions. The amount of the costs for closing the mine calculated as at 30 June 2014 amounts to PLN 101,248,000.

(b) Removing mining damage

Given the need to remove mining damage, the Company creates a provision for mining damage. As at 30 June 2014, the estimated value of works necessary for damage removal is: PLN 12,230,000.

(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 interim income statement as “Other losses - net .” In the Management Board 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 30 June 2014. The value of the provision for legal claims as well as their legal status did not change materially compared to the end of the previous year (31 December 2013).

(d) Claims of the Social Security Institution (ZUS) related to contribution for accident insurance

The percentage rate of a contribution for accident insurance, determined by the Social Security Institution based on ZUS IWA documents (Information on data required for calculation of contribution for accident insurance) and an adjustment of ZUS IWA document for 2012 submitted by the Company, was 3.09% for the settlement period from 1 April 2013 to 31 March 2014 and 2.70% for the settlement period from 1 April 2014 to 31 March 2015. In its Decision No. 7/2014 of 18 June 2014, the Social Security Institution, Branch in Lublin, determined the percentage rate of a contribution for accident insurance for the Company. Having taken into account ZUS IWA adjustments for the years of 2011 and 2012 (made *ex officio*), the authority determined the percentage rate of a contribution for accident insurance at 3.47% for the settlement period from 1 April 2013 to 31 March 2014 and at 3.09% for the settlement period from 1 April 2014 to 31 March 2015. In addition, pursuant to Article 34 of the Act on Social Insurance against Accidents at Work and Occupational Diseases and Article 83.1.3 of the Act on Social Insurance System, the Social Security Institution determined for the Company the percentage rate of a contribution for accident insurance increased by 50% for the above contributory years, i.e. at 5.21% for the contributory year from 1 April 2013 to 31 March 2014 and at 4.64% for the contributory year from 1 April 2014 to 31 March 2015. On 25 July 2014 the Company filed an appeal to the Regional Court in Lublin, against the above decision, requesting that it be cancelled and proceeding be discontinued, or in the alternative that the Court change the decision appealed against and decide that the Company is not required to pay the contribution for accident insurance at the rate increased by 50%, as well as decide that the percentage rate of the contribution for the above contributory years should be 3.09% and 2.7% respectively. The above decision is not final and binding.
After taking the above into account, the provision disclosed in the Company’s books as at 30 June 2014 and amounting to PLN 10,440,000 represents a provision for claims of the Social Security Institution related to a contribution for accident insurance (PLN 1,811,000), the increased percentage rate of that contribution by 50% (PLN 8,092,000) and interest (PLN 537,000).

(e) 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 in decisions for 2004-2007 issued by first instance tax authorities wherein the adopted taxable base was

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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 2009-2014 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 2009-2014 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 30 June 2014 in the amount of PLN 32,581,000 (30 June 2013: PLN 11,673,000) represents a provision for real property tax liabilities, if any, and interest thereon for 2009-2014, 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."

14. Unusual events affecting the financial result

In the period of six months of 2014, no unusual events occurred that would seriously affect the financial position of the Company.

15. Income tax

	1 Jan. 2014-30 Jun. 2014	1 Jan. 2013-30 Jun. 2013
Current tax	22,700	23,639
Deferred tax charged to financial profit/loss	1,056	15,744
Deferred tax charged to other comprehensive income:		
- on account of cash flow hedge	(643)	1,039
- actuarial gains and losses as disclosed in the statement of comprehensive income	294	(1,191)
	23,407	**39,231**

Income tax in the condensed interim financial statements was established pursuant to the expected tax rate for 2014 of 19.0% (2013: 19.0%).

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 light of applicable tax regulations, it is possible that such costs could be classified 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. As a result, amounts disclosed in the condensed interim financial statements might be changed later, after their amount has been finally determined by the tax authorities.

16. Earnings per share

(a) 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.

	1 Jan. 2014-30 Jun. 2014	**1 Jan. 2013-30 Jun. 2013**
Earnings attributable to owners of the Company	87,399	139,451
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN per share)	**2.57**	**4.10**

(b) 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 30 June 2014, in connection with the introduction of the Management Options Scheme the Company held instruments causing dilution of possible ordinary shares. The impact of the dilution as at 30 June 2014 is not material, therefore diluted earnings per share are equal to basic earnings per share of the Company (as at 30 June 2013 the Company did not hold instruments causing dilution of potential ordinary shares).

17. Dividend per share

In the first half of 2014 and in the same period of 2014, the Company did not pay any dividend to Shareholders. The payment of dividend for 2013, in the amount of PLN 197,279,000, will take place on 2 October 2014. In compliance with Resolution No. 23 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 12 June 2014, the profit for 2013 in the amount of PLN 197,279,000 has been distributed among the Company's shareholders. The dividend rate due to shareholders of the Company is presented in the table below (as at 30 June 2014 the Company did not hold instruments causing dilution of potential ordinary shares).

	1 Jan. 2014-30 Jun. 2014	**1 Jan. 2013-30 Jun. 2013**
Dividend due	197,279	172,110
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
Dividend per share (in PLN per share)	**5.80**	**5.06**

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.

18. Financial instruments (financial liabilities)

Hierarchy of financial instruments measured at fair value.

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,

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- 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 30 June 2014 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 8,613,000 as at 30 June 2014 (31 December 2013: PLN 5,232,000). The fair value of currency forwards is determined based on discounted future cash flows from concluded transactions, calculated based on a difference between the forward price and the transaction price. The forward price is determined based on fixing rates at the National Bank of Poland and interest rate curve implied from fx swap transactions.

19. Net cash inflow from operating activities

	Note	**30 Jun. 2014**	**30 Jun. 2013**
Profit before taxation		111,155	178,834
- Depreciation of property, plant and equipment	5	174,561	155,724
- Amortisation of intangible assets	6	877	847
- Profit / (loss) on sale of property, plant and equipment		(20)	(3)
- Profit on revenue and expenses related to changes in property, plant and equipment		6,273	5,821
- Actuarial gains and losses as disclosed in the statement of comprehensive income		1,550	(6,270)
- Change in provisions for employee benefits		13,910	27,104
- Changes in provisions		20,053	3,595
- Other flows		28	319
- Dividends		(3,411)	-
- Cost of Management Options		5,905	-
- Creating and using impairment losses of property, plant and equipment		(275)	195
- Inventories		14,497	(47,683)
- Change in trade and other receivables		(26,527)	(25,441)
- Change in trade and other liabilities		30,834	39,747
Cash inflow from operating activities		**349,410**	**332,789**
Balance-sheet change in accounts receivable		(78,930)	(25,441)
Dividends receivable		2,831	-
Accounts receivable related to advances paid for property, plant and equipment		49,572	-
Change in accounts receivable for the purposes of the interim statement of cash flows		**(26,527)**	**(25,441)**
Balance-sheet change in liabilities		195,361	149,083
Change in investment liabilities		32,752	62,774
Liabilities on account of dividend concerning the previous year		(197,279)	(172,110)
Change in liabilities for the purposes of the interim statement of cash flows		**30,834**	**39,747**
Increase in property, plant and equipment		274,446	219,732
Interest paid in relation to investing activities		(5,719)	(6,519)
Change in investment liabilities		32,752	62,774
Acquisition of property, plant and equipment		**301,479**	**275,987**

20. Contingent items

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

Contingent liability concerning part of the value of mining excavations from which the Company does not create a provision (provision for real property tax, in its parts deemed as probable by the Company, amounts to PLN 32,581,000 and is presented in Note 13), may primarily result from the existing discrepancies between the position of the Company and the position of the 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 determined that the facilities are subject to the property tax. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2013).

Contingent liability for legal claims concerning fees for co-developers of the inventions covered by patent No. 206048 and 209043, used at the Company, from which the Company does not create a provision, may primarily result from inability to assess whether the value of subject claim is reasonable and different opinions of the Company and of co-developers of the inventions covered by the above patents. The value of the possible liability as at the day of publishing this condensed interim 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. The scope of the above liability has not changed materially as compared to the end of the previous financial year (31 December 2013).

Further, 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 30 June 2014 amounted to PLN 281 million (as at 31 December 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.

On 21 May 2014 the Company and mBANK S.A. signed an agreement No. 04/021/14/Z/VV for an overdraft revolving facility in Polish zlotys. The value of the facility used as at 30 June 2014 amounts to PLN 18,043,000 and is disclosed as a liability in the statement of financial position of the Company. Repayment of the facility is secured by:

1. Statement by the Company on submission to execution under Article 97.1 and 97.2 of the Banking Law of 29 August 1997 up to the amount of PLN 225,000,000.
2. Power of attorney to the current account kept by the Bank, granted by the Company to the Bank.
3. Assignment of receivables of the Company from the coal sale agreement up to the amount of debt under the facility with interest and other costs, but no more than PLN 225,000,000, and transfer of proceeds from performance of that agreement to the current account kept by the Bank for the Company.

21. Future contractual liabilities

Investment liabilities

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

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

	30 Jun. 2014	31 Dec. 2013	30 Jun. 2013
Property, plant and equipment	435,184	392,364	392,497

22. 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 the cooperation with Łęczyńska Energetyka Sp. z o.o. 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 cooperation with EkoTRANS Bogdanka Sp. z o.o. in Bogdanka, a Company's subsidiary, is in the most part generated through lease of premises and telecommunications services.

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

The Company's revenue resulting from the cooperation with RG Bogdanka Sp. z o.o. in Bogdanka, a Company's subsidiary, is in the most part generated through lease of premises, fees for the use of equipment and tools, as well as telecommunications services.

Purchases primarily include the purchase of services related to mining works and regeneration services.

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

Purchases primarily include the purchase of services related to repair of mining machinery and equipment.

In the reporting periods ended on 30 June 2013 and 30 June 2014 the value of trade related to purchase with the following subsidiaries: Łęczyńska Energetyka Sp. z o.o. in Bogdanka, EkoTRANS Bogdanka Sp. z o.o. in Bogdanka, RG Bogdanka Sp. z o. o. in Bogdanka and MR Bogdanka Sp. z o. o. in Bogdanka, and the balance of the Company's liabilities towards these related entities as at subsequent balance-sheet dates were as follows:

	30 Jun. 2014	31 Dec. 2013	30 Jun. 2013
Purchases in period	47,712	36,201	11,190
Total liabilities at end of period including VAT	11,805	7,175	1,790

In the reporting periods ended on 30 June 2012 and 30 June 2013 the value of trade related to sales to the following subsidiaries: Łęczyńska Energetyka Sp. z o.o. in Bogdanka, EkoTRANS Bogdanka Sp. z o.o. in Bogdanka, RG Bogdanka Sp. z o. o. in Bogdanka and MR Bogdanka Sp. z o. o. in Bogdanka, and the balance of the Company's receivables from these related entities as at subsequent balance-sheet dates were as follows:

	30 Jun. 2014	31 Dec. 2013	30 Jun. 2013
Sales in period	15,507	9,364	6,561
Dividend	3,411	-	-
Total receivables at end of period including VAT	3,482	1,704	307

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

23. Information on remuneration of the Management Board and the Supervisory Board members and of the commercial proxies

	30 Jun. 2014	31 Dec. 2013	30 Jun. 2013
Remuneration of Management Board members and commercial proxies	2,624	4,386	2,247
Remuneration of Supervisory Board members	387	843	351

24. Events after the balance-sheet date

The presented financial results for the first half of 2014 refer to the events, identified by the Company that occurred in this period. After the balance-sheet date no events affecting the financial results occurred that would not be disclosed in these condensed interim financial statements.

From the publication date of these condensed interim financial statements, the following material events affecting the Company's operations in 2014, have occurred:

- On 31 July 2014, the Company's Management Board concluded an Agreement on Sale/Purchase of Power Coal with PGNIG Termika S.A., with registered office in Warsaw. The Agreement concerns coal supplies provided by the Company in 2013-2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A. Following the conclusion of the Annex, the condition subsequent has been changed:
  a) If supply price for 2015 is not agreed by 30 September 2014, the Agreement shall be automatically terminated as at 31 December 2014.

- On 1 August 2014, Bank Polska Kasa Opieki S.A. (Guarantor) and Bank Gospodarstwa Krajowego (Guarantor), jointly acquired two series of bonds issued on 1 August 2014 under the Bond Issue Programme established under the Agreement with the Guarantors. In pursuance of the Programme, the Guarantors acquired in total 300 registered bonds, with a nominal value of PLN 1,000,000 (one million zlotys) each, and in total 100 registered bonds, with a nominal value of PLN 1,000,000 (one million zlotys) each. The amount of all bonds acquired by the Guarantors is PLN 400,000,000. Bonds maturity date is 30 June 2015.
- On 1 August 2014, the Company used the funds obtained from the bonds issue described above for earlier repayment of its loans in the total amount of PLN 281,000,000, of which PLN 181,000,000 referred to a loan granted by PKO BP S.A. and PLN 100,000,000 referred to a loan granted by PEKAO S.A. (information on the amount of loans as at 30 June 2014 was provided in Note 10).

25. Approval of the Condensed Interim Financial Statements

The Management Board of Lubelski Węgiel Bogdanka S.A. declares that as of 27 August 2014, it approves these condensed interim financial statements of the Company for the period from 1 January to 30 June 2014 for publication.

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, Sales and Logistics
Roger de Bazelaire	Vice-President of the Management Board, Economic and Financial Affairs
Krzysztof Szlaga	Vice-President of the Management Board, Procurement and Investments
Urszula Piątek	Chief Accountant