THE LUBELSKI WĘGIEL BOGDANKA GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the financial year from 1 January 2016 to 31 December 2016

BOGDANKA, MARCH 2017

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Notes presented on pages 10-76 constitute an integral part of these financial statements.

(IN PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	31 Dec. 2016	31 Dec. 2015
Assets			
Non-current assets			
Property, plant and equipment	4	2,760,196	2,889,484
Intangible assets	6	47,511	19,006
Investment properties	7	3,532	-
Deferred tax assets	26.3	2,117	2,405
Trade and other receivables	8	5,214	1,306
Cash and cash equivalents	10	111,218	90,872
Total non-current assets		2,929,788	3,003,073
Current assets			
Inventories	9	71,571	103,063
Trade and other receivables	8	244,070	240,179
Overpaid income tax	26.4	9,424	31,978
Non-current assets designated for sale	5	4,330	3,694
Cash and cash equivalents	10	541,106	262,037
Total current assets		870,501	640,951
TOTAL ASSETS		**3,800,289**	**3,644,024**
Equity			
Equity attributable to owners of the Parent			
Ordinary shares	11	301,158	301,158
Other capital	12	1,473,128	1,757,070
Retained profits	12	507,972	54,691
		2,282,258	2,112,919
Non-controlling interests	12	**10,149**	**9,703**
Total equity		2,292,407	2,122,622
Liabilities			
Non-current liabilities			
Loans and borrowings	15	20,002	18,267
Deferred income tax liabilities	26.3	56,059	37,839
Provisions for employee benefits	18	209,682	201,837
Provisions for other liabilities and charges	19	117,423	130,179
Grants	14	13,705	14,058
Financing liabilities on account of bond issue	16	300,000	700,000
Trade and other liabilities	13	43,201	15,104
		760,072	1,117,284
Current liabilities			
Loans and borrowings	15	3,273	3,036
Provisions for employee benefits	18	57,299	49,700
Provisions for other liabilities and charges	19	70,852	81,012
Grants	14	600	978
Financing liabilities on account of bond issue	16	300,080	92
Current income tax liabilities	26.4	18	8
Trade and other liabilities	13	315,688	269,292
		747,810	404,118
Total liabilities		1,507,882	1,521,402
TOTAL EQUITY AND LIABILITIES		**3,800,289**	**3,644,024**

Notes presented on pages 10-76 constitute an integral part of these financial statements.

(IN PLN '000)

CONSOLIDATED INCOME STATEMENT

	Note	For the financial year from 1 January to 31 December 2016	2015
Revenue	20	1,786,265	1,885,371
Costs of products, goods and materials sold	21	(1,429,011)	(2,054,790)
Gross profit/(loss)		357,254	(169,419)
Selling costs	21	(40,843)	(37,831)
Administrative expenses	21	(85,600)	(114,720)
Other income	22	17,866	2,831
Other costs	23	(2,145)	(2,017)
Other net loss	24	(9,525)	(5,065)
Operating profit/(loss)		237,007	(326,221)
Finance income	25	14,567	6,110
Finance costs	25	(27,929)	(22,938)
Profit/(loss) before taxation		223,645	(343,049)
Income tax	26.1	(41,653)	63,423
Net profit/(loss) for the period		**181,992**	**(279,626)**
including:			
- attributable to owners of the Parent		*181,536*	*(279,843)*
- attributable to non-controlling interests		*456*	*217*

Earnings per share attributable to owners of the Parent during the year (in PLN per share)			
- basic	27	5.34	(8.23)
- diluted	27	5.34	(8.23)

Notes presented on pages 10-76 constitute an integral part of these financial statements.

(IN PLN '000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the financial year from 1 January to 31 December 2016	2015
Net profit/(loss) for the reporting period		**181,992**	**(279,626)**
Other comprehensive income/(loss) for the financial period Items which never will be subject to reclassification to profit or loss for the current period:			
Actuarial gains/(losses) of defined benefit schemes	18	(7,771)	(5,283)
Income tax relating to non-transferrable items	26.1	1,477	1,004
Items which never will be subject to reclassification to profit or loss for the current period - total		(6,294)	(4,279)
Items which are or may be subject to reclassification to profit or loss for the current period:			
Cash flow hedges			
- Profit/(loss) for period	12	-	(2,993)
- Adjustments resulting from transferring amounts to initial values of hedged items	12	-	3,286
Income tax relating to transferrable items	26.1	-	(56)
Items which are or may be subject to reclassification to profit or loss for the current period - total		-	237
Other comprehensive net income/(loss) for the financial period		(6,294)	(4,042)
Other net comprehensive income/(loss) for the reporting period - total		**175,698**	**(283,668)**
including:			
- attributable to owners of the Parent		*175,252*	*(283,882)*
- attributable to non-controlling interests		*446*	*214*

Notes presented on pages 10-76 constitute an integral part of these financial statements.

(IN PLN '000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the Parent							
			Other capital						
	Note	Ordinary shares	Other capital – transfer of profit/(loss)	Other capital – issue of Management Options	Equity on valuation of cash flow hedges	Retained profits	Total equity	Non-controlling interests	Total equity
As at 1 January 2016		**301,158**	**1,747,318**	**9,752**	**-**	**54,691**	**2,112,919**	**9,703**	**2,122,622**
Total net comprehensive income for the reporting period:		-	-	-	-	175,252	175,252	446	175,698
- net profit		-	-	-	-	181,536	181,536	456	181,992
- other comprehensive income		-	-	-	-	(6,284)	(6,284)	(10)	(6,294)
Coverage of loss for 2015	28	-	(278,029)	-	-	278,029	-	-	-
Management Options Issue	12	-	-	(5,913)	-	-	(5,913)	-	(5,913)
As at 31 December 2016		**301,158**	**1,469,289**	**3,839**	**-**	**507,972**	**2,282,258**	**10,149**	**2,292,407**

As at 1 January 2015		**301,158**	**1,585,859**	**8,241**	**(237)**	**619,317**	**2,514,338**	**9,489**	**2,523,827**
Total net comprehensive income for the reporting period:		-	-	-	237	(284,119)	(283,882)	214	(283,668)
- net profit/(loss)		-	-	-	-	(279,843)	(279,843)	217	(279,626)
- other comprehensive income		-	-	-	237	(4,276)	(4,039)	(3)	(4,042)
Dividends concerning 2014	28	-	-	-	-	(119,048)	(119,048)	-	(119,048)
Transfer of the retained profit		-	161,459	-	-	(161,459)	-	-	-
Management Options Issue	12	-	-	1,511	-	-	1,511	-	1,511
As at 31 December 2015		**301,158**	**1,747,318**	**9,752**	**-**	**54,691**	**2,112,919**	**9,703**	**2,122,622**

Notes presented on pages 10-76 constitute an integral part of these financial statements.

(IN PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the financial year from 1 January to 31 December 2016	2015
Cash flow from (used in) operating activities			
Cash inflow from operating activities*		695,068	760,324
Interest received		6,065	7,682
Income tax paid		(25,342)	(38,431)
Net cash flow from (used in) operating activities		**675,791**	**729,575**
Cash flow from (used in) investing activities			
Acquisition of property, plant and equipment		(262,818)	(435,358)
Interest paid regarding investing activities	17.1	(3,412)	(8,090)
Acquisition of intangible assets		(6,182)	(1,595)
Inflow from the sale of property, plant and equipment		54	3,044
Interest received		7,340	3,359
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund	10	(20,346)	(2,040)
Net cash flow from (used in) investing activities		**(285,364)**	**(440,680)**
Cash flow from (used in) financing activities			
Proceeds from loans and borrowings	15	4,984	7,673
Bond redemption	16	(100,000)	-
Repayments of loans and borrowings	15	(3,036)	(99,514)
Interest and commissions paid regarding financing activities	17.1	(13,306)	(11,450)
Dividend paid	28	-	(119,048)
Net cash flow from (used in) financing activities		**(111,358)**	**(222,339)**
Net increase / (decrease) in cash and cash equivalents		279,069	66,556
Cash and cash equivalents at beginning of period		262,037	195,481
Cash and cash equivalents at end of period		**541,106**	**262,037**

*Cash inflows from operating activities are detailed in table on page 9.

Notes presented on pages 10-76 constitute an integral part of these financial statements.

(IN PLN '000)

CONSOLIDATED CASH INFLOW FROM OPERATING ACTIVITIES

	Note	For the financial year from 1 January to 31 December 2016	2015
Profit/(loss) before taxation		223,645	(343,049)
- Depreciation of non-current assets	4	359,452	384,974
- Amortisation of intangible assets	6	2,644	2,773
- Depreciation of investments in real property	7	84	-
- Profit on sale of property, plant and equipment		(51)	(310)
- Profit/(loss) on liquidation of plant, property and equipment		15,894	13,139
- Use and making impairment charges for non-current assets		6,105	624,821
- Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	18	(7,771)	(5,283)
- Change in provisions for employee benefits	18	15,444	24,813
- Changes in provisions		(3,352)	20,265
- Other flows		(23)	(122)
- Management Options	12	(5,913)	1,511
- Change in inventories	9	31,492	29,425
- Change in trade and other receivables	8	(7,799)	60,635
- Change in trade and other liabilities		65,217	(53,268)
Cash inflow from (used in) operating activities		**695,068**	**760,324**
Balance-sheet change in liabilities and grants		73,762	(188,776)
Set-off of income tax overpaid with other taxes payable	26.4	26,225	-
Change in investment liabilities		(34,770)	135,508
Change in liabilities for the purposes of the consolidated statement of cash flows		**65,217**	**(53,268)**
Increase in non-current assets	4	277,936	311,363
Disclosure of non-current assets		(1,405)	-
Acquisition of intangible assets*		-	(1,595)
Other non-cash adjustments		(374)	(1,828)
Interest paid regarding investing activities		(3,412)	(8,090)
Change in investment liabilities		(9,927)	135,508
Acquisition of property, plant and equipment		**262,818**	**435,358**
Increase in intangible assets	6	31,156	1,595
Other non-cash adjustments		(131)	-
Change in investment liabilities		(24,843)	-
Acquisition of intangible assets		**6,182**	**1,595**

*In 2015 increases of all investments in non-current assets (property, plant and equipment and intangible assets) were initially recognised through the increases in construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Notes

1. GENERAL INFORMATION

1.1. The composition of the Group and the object of the Group's business

Lubelski Węgiel "Bogdanka" S.A. Group

The Lubelski Węgiel Bogdanka Group (hereinafter referred to as the "Group") is composed of the following companies:

Parent - Lubelski Węgiel BOGDANKA S.A., with registered office in Bogdanka, 21-013 Puchaczów.

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.

On 26 March 2001, Lubelski Węgiel Bogdanka Spółka Akcyjna was registered in the Register of Entrepreneurs of the National Court Register, under KRS No. 0000004549. At present the register is maintained by the District Court Lublin-Wschód in Lublin, with the seat in Świdnik, VI Commercial Division of the National Court Register.

The shares of LW Bogdanka S.A. are listed on the Warsaw Stock Exchange in Warsaw.

The Company's core business activities, pursuant to the Polish Classification of Activity (PKD 0510Z), are mining and agglomeration of hard coal.

The subsidiary - Łęczyńska Energetyka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów.

As at 31 December 2016, the Parent held 88.70% of shares in the capital of the subsidiary, Łęczyńska Energetyka Sp. z o.o.

Łęczyńska Energetyka Sp. z o.o. provides services to mines involving supplying heat energy, finishing the central air conditioning system, and conducts water/wastewater management. In addition, the Company supplies heat energy to third parties like housing estates and other facilities in Łęczna. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations.

The company prepares its balance sheet as at 31 December.

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

As at 31 December 2016, the Parent held 100.00% of shares in the capital of the subsidiary, EkoTRANS Bogdanka Sp. z o.o.

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

The company prepares its balance sheet as at 31 December.

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

As at 31 December 2016, the Parent held 100.00% of share in capital of its subsidiary RG Bogdanka Sp. z o.o.

RG Bogdanka Sp. z o.o. provides services to the mine mainly with respect to the works in the mine and reconstruction works.

The company prepares its balance sheet as at 31 December.

The subsidiary - MR Bogdanka Sp. z o.o., with registered office in Bogdanka, 21-013 Puchaczów.

As at 31 December 2016, the Parent held 100.00% of share in the capital of the subsidiary, MR Bogdanka Sp. z o.o.

MR Bogdanka Sp. z o.o. provides services to the mine with respect to renovation, repair and construction services, works in underground machinery departments, regeneration and production of steel constructions.

The company prepares its balance sheet as at 31 December.

A breakdown characterising the Group's subsidiaries is presented below:

Name of the subsidiary	Balance-sheet total [PLN '000]	Equity [PLN '000]	% of shares held	Non-controlling interests	Restrictions in control; restrictions in consolidated assets and equity & liabilities	Consolidation method
Companies subject to consolidation in the current and previous periods:						
Łęczyńska Energetyka sp. z o.o.	120,527	89,791	88.70	Non-controlling interests amount to 11.30% and are held by: Łęczna Municipality 11.29% Puchaczów Commune 0.01%	none	full
RG Bogdanka Sp. z o.o.	10,047	6,727	100.00	none	none	full
EkoTRANS Bogdanka Sp. z o.o.	4,261	771	100.00	none	none	full
MR Bogdanka Sp. z o.o.	5,345	2,221	100.00	none	none	full

Lubelski Węgiel Bogdanka S.A. is the Parent in the Lubelski Węgiel Bogdanka Group. The Group prepares consolidated financial statements compliant with the IFRS as approved by the European Union.

Entering the structure of the ENEA Group

On 14 September 2015, ENEA S.A. announced a tender offer for the shares of the Parent, Lubelski Węgiel Bogdanka S.A., and it declared its intention to acquire up to 64.57% of the total vote at the General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. The transaction settlement took place on 29 October 2015. As a result of the transaction, ENEA S.A. along with its subsidiary acquired the total of 66% of shares in the Parent, as a result of which the Parent with its subsidiaries became a part of the ENEA Group of which ENEA S.A. with registered office in Poznań is the parent.

1.2. Assumption of the Company going concern

The consolidated 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 Group's activities.

If, after the preparation of the consolidated financial statements, the Group'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 Group, the Management Board of the Parent is authorised to make amendments to the consolidated financial statements until the date of their approval. This does not preclude a possibility to make amendments to the consolidated 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.

2. DESCRIPTION OF KEY ACCOUNTING PRINCIPLES (POLICIES) APPLIED

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

2.1. Basis of preparation

These consolidated financial statements of the Group 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, as approved by the European Union.

The consolidated financial statements were prepared according to the historical cost principle except for derivative instruments measured at fair value as well as share-based payments, 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.

Historical cost is calculated on the basis of fair value of the payment made for goods or services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a customary transaction in the principal (or most advantageous) market at the measurement date under current market conditions, regardless whether such price is directly observable or estimated using other valuation technique. In the fair value measurement of an asset or liability, the Group takes into account the characteristics of the given asset or liability if the market participants take them into account when pricing assets or liabilities at the measurement date. Fair value for the purpose of measurement and / or disclosure in the condensed interim consolidated financial statements of the Group is determined in accordance with the above principle, except for share-based payments which are covered by the scope of IFRS 2, lease transactions which are covered by the scope of IAS 17, and measurements which are in a certain way similar to fair value but are not defined as fair value, such as net realisable value according to IAS 2 or value in use according to IAS 36.

The consolidated financial statements were prepared using the same accounting principles for the current and comparative periods.

2.1.1. Material values based on professional assessment and estimates

Accounting estimates as well as the professional judgement of the Management Board regarding current and future events in individual fields are required for the preparation the consolidated financial statements on the basis of the International Financial Reporting Standards and in accordance with the accounting policies.

The main 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 Group 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 value of assets and liabilities in the following financial year are discussed in this section.

Moreover, the Group estimated the recoverable value of cash-flow generating units for the purpose of analysing impairment losses as at 31 December 2015. Note 4.3 contains detailed information on the estimates and assumptions made for the analysis carried out as at the end of 2015.

Detailed information on the assumptions is presented in the relevant notes of these consolidated financial statements, as indicated in the table below.

Below are the items of the consolidated financial statements which pose a risk of adjustment to the carrying value of assets and liabilities.

	Value of the items related to the estimate made in the consolidated financial statements in PLN '000		Accounting policy	Details of the assumptions and calculations of the material estimate
	2016	2015		
Property, plant and equipment	2,760,196	2,889,484	note 2.4 and 2.7	note 4
Provision for employee benefits	266,981	251,537	note 2.18	note 18
Intangible assets	47,511	19,006	note 2.5 and 2.7	note 6
Provision for mining plant decommissioning and land reclamation	117,423	130,179	note 2.19	note 19
Deferred tax assets	2,117	2,405	note 2.17	note 26.3
Deferred income tax liabilities	56,059	37,839	note 2.17	note 26.3
Management Options Issue	3,839	9,752	note 2.18	note 12

As compared to information provided in the most recent annual consolidated financial statements for 2015, the estimated life of the mine has changed. The period was extended from 2034 to 2043 and was estimated on the basis of available coal resources with an account taken of an average level of extraction.

Estimate concerning the mine's life and the size of coal reserves

The mine's life is estimated to extend to 2043 (previously - 2034). The estimate is made on the basis of operating coal resources covered with the licence and the estimated production capacities (at an annual average level of approx. 8.5 million tonnes - the value equivalent to the value included in the baseline scenario of the Parent's strategy for 2017-2025, as announced on 9 February 2017). However, the actual date of the mine closure may differ from the Group's estimates. This follows from the fact that the length of the mine's life has been estimated using the current coal reserves only, available as at the balance-sheet date. The drop in demand for the Parent's coal will cause a decrease in mining below its production capacity, which will translate into extending the mine's life. In 2014 the Group obtained a mining licence for the K-3 area. The Group also took up efforts to extend the mining area in the coming years by joining the "Ostrów" and "Orzechów" deposits. The Group has already acquired licenses for prospecting the "Ostrów" and "Orzechów" deposits, and started work aiming at the acquisition of mining licences necessary to add these reserves to the mining area; the Parent expects to obtain the mining licence for the "Ostrów" deposit in the course of 2017. Obtaining mining licences for the above areas is very likely to significantly prolong the mine's life. The Group continues its efforts aiming at obtaining mining licences for the K-6 and K-7 deposits.
The change in the mine's life materially affected actuarial valuation of provisions for employee benefits, amortisation/depreciation and, to a smaller extent, the provision for the costs of mine closure and land reclamation.

- Impact of the change in the mine's life on depreciation

It is estimated that extending the mine's life to 2043 resulted in a reduction of depreciation cost during the first 12 months of 2016 by approx. PLN 17.0 million. The impact on net profit disclosed in the consolidated income statement was approx. PLN 13.8 million.

- Impact of the change in the mine's life on valuation of provisions for employee benefits

It is estimated that extending the mine's life to 2043 resulted in an increase in the provisions for retirement and post-employment benefits, death benefits, long-service awards and coal allowances in total by approx. PLN 8.7 million, of which approx. PLN 2.4 million was included in the consolidated income statement, and approx. PLN 6.3 million - in the consolidated statement of comprehensive income. The total impact on the consolidated equity (after deferred tax) was approx. PLN 7 million.

(IN PLN '000)

- Impact of the change in the mine's life on the provision for mine closure and land reclamation

It is estimated that extending the mine's life to 2043 resulted in a decrease in the provisions for costs of mine closure and land reclamation by approx. PLN 6.9 million, of which PLN 1.05 million was included in the consolidated income statement, and approx. PLN 5.85 million - in the statement of financial position as a reduction of "Property, plant and equipment".

Valuation of provisions for employee benefits

- Change in assumptions regarding the pension age

Given that the Act on Changing the Pension Age was passed by the Sejm (lower house of the Polish Parliament) on 16 November 2016, signed by the President on 19 December 2016, the assumption regarding the pension age was modified; as a consequence of the change, the pension age assumed for calculating provisions for employee benefits as at 31 December 2016 is 60 (women) and 65 (men), while previously assumed pension age for all employees was 67 years. It is estimated that lowering of the pension age resulted in the value of provisions for employee benefits going down by approx. PLN 1.8 million - the change was treated as "Costs of past employment". The total impact of this change on the consolidated net financial profit/(loss) and on the consolidated equity was approx. PLN 1.5 million.

- 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 as well as the indicator of growth of the given benefit's basis. Key assumptions regarding provisions for employee benefits are presented in Note 18. Any changes to these assumptions affect the carrying value of the provisions for employee benefits.

As at 31 December 2016 and 31 December 2015, 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 p.p. to +1 p.p.

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

As at 31 December 2016:

Provision	Carrying amount	Financial discount rate		Planned increases in bases	
		-1 p. p.	+1 p. p.	-1 p. p.	+1 p. p.
Pays upon retirement due to old age	33,710	36,663	31,171	31,043	36,995
Pays upon retirement due to disability	282	304	262	262	307
Long-service award	82,512	88,608	77,117	76,993	89,507
Death benefits	2,792	3,037	2,576	2,573	3,067
Coal allowance benefits	114,876	136,303	98,281	97,833	137,931
	234,172	**264,915**	**209,407**	**208,704**	**267,807**

As at 31 December 2015:

Provision	Carrying amount	Financial discount rate		Planned increases in bases	
		-1 p. p.	+1 p. p.	-1 p. p.	+1 p. p.

(IN PLN '000)

Pays upon retirement due to old age	27,164	29,193	25,397	25,367	29,473
Pays upon retirement due to disability	294	316	274	274	319
Long-service award	82,260	88,142	77,016	76,905	89,017
Death benefits	2,697	2,931	2,491	2,487	2,960
Coal allowance benefits	111,927	132,792	95,711	96,262	132,985
	224,342	**253,374**	**200,889**	**201,295**	**254,754**

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

As at 31 December 2016:

Provision	Carrying amount	Deviations			
		Financial discount rate		Planned increases in bases	
		-1 p. p.	+1 p. p.	-1 p. p.	+1 p. p.
Pays upon retirement due to old age	33,710	2,953	(2,539)	(2,667)	3,285
Pays upon retirement due to disability	282	22	(20)	(20)	25
Long-service award	82,512	6,096	(5,395)	(5,519)	6,995
Death benefits	2,792	245	(216)	(219)	275
Coal allowance benefits	114,876	21,427	(16,595)	(17,043)	23,055
	234,172	**30,743**	**(24,765)**	**(25,468)**	**33,635**

As at 31 December 2015:

Provision	Carrying amount	Deviations			
		Financial discount rate		Planned increases in bases	
		-1 p. p.	+1 p. p.	-1 p. p.	+1 p. p.
Pays upon retirement due to old age	27,164	2,029	(1,767)	(1,797)	2,309
Pays upon retirement due to disability	294	22	(20)	(20)	25
Long-service award	82,260	5,882	(5,244)	(5,355)	6,757
Death benefits	2,697	234	(206)	(210)	263
Coal allowance benefits	111,927	20,865	(16,216)	(15,665)	21,058
	224,342	**29,032**	**(23,453)**	**(23,047)**	**30,412**

The results of balance-sheet valuation as at 31 December 2016, 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	Coal allowance benefits	Total
2017*	9,029	34	11.105	230	4.092	**24,490**
2018	1,429	27	6,693	204	4,168	**12,521**
2019	919	25	6,155	202	4,129	**11,430**
2020	860	22	5,323	196	4,075	**10,476**
2021	1,335	20	5,620	187	4,027	**11,189**
Remainder	20,138	154	47,616	1,773	94,385	**164,066**
	33,710	**282**	**82,512**	**2,792**	**114,876**	**234,172**

* Value of benefits for payment in 2017 includes payments resulting from the acquired retirement rights and long-service awards for persons who achieved retirement age, but remain in the employment relationship.

- Generation Change Programme - Voluntary Redundancy Programme (Stage 1)

In order to address the personnel needs in connection with a significant risk of a substantial outflow of employee competences, on 30 December 2016 the Management Board of the Parent adopted a resolution on implementing the Generation Change Programme and announced it to the employees. An integral part of the Generation Change Programmes is the Voluntary Redundancy Programme. In accordance with its Terms and Conditions, the Generation Change Programme is addressed to the following groups of Employees:

Group I - Employees who:

- have acquired or will acquire pension rights by 31 December 2016 and have not terminated their employment contracts due to retirement.
- will acquire pension rights by 31 December 2017 (upon achievement of the general retirement age, upon achievement of the age which gives a right to the mineworkers pension regardless of age and due to age).

Group II - Employees who will acquire pension rights in the period from 1 January 2018 to 31 December 2022 (upon achievement of the general retirement age, upon achievement of the age which gives a right to the mineworkers pension regardless of age and due to age).

Group III - Employees who will acquire pension rights after 31 December 2022.

Employees who meet the following conditions may join the Generation Change Programme:

- are employed on the basis of an employment contract for an indefinite term regardless of the nature of the work performed, and
- as at the date of the decision referred to in Article 7.5 of the Terms and Conditions, their notice period is not pending, and they have not concluded an agreement on termination of the employment contract outside of the Programme with a future termination date of the employment contract,
- are not, as at the date of termination of the employment contract within the Programme, employed under any other employment contract or a civil law agreement with another company in which the Parent LW Bogdanka S.A. or ENEA S.A. has invested capital.

The Programme has been in effect since 30 December 2016, and shall continue until 31 December 2017, and the Management Board of the Parent is entitled to refuse participation of an employee in the Programme if it finds it justified by the functioning of a given unit.

An evaluation of benefits on account of terminating an employment relationship as a result of the Voluntary Redundancy Programme is based on the expected number of employees of the Parent within individual groups who will accept a proposal to terminate the employment relationship, and the estimated amount of the severance pay, calculated with the use of an average monthly pay per one employee of the Parent. All those assumptions were applied, and the value of the provision for the Voluntary Redundancy Programme as at 31 December 2016 was estimated at PLN 21,688,000.

If the assumptions regarding the number of people interested in the Programme are changed by 10% or if the assumed pay base is changed by 10%, the provision for Voluntary Redundancy Programme would be higher by PLN 2,169,000 (if the number of interested employees is higher, or the pay base is increased by 10%), or lower by PLN 2,169,000 (if the number of interested employees goes down, or the pay base is decreased by 10%), resulting in a decrease or increase, respectively, of the net financial profit/(loss) by PLN 1,757,000.

Provision for mining plant decommissioning and land reclamation

(IN PLN '000)

Estimated provision for mining plant decommissioning and land reclamation

The Group creates a provision for costs of mining plant liquidation and land reclamation, which it is obliged to incur under current laws. The main assumptions used to determine the amount of expenses related to the closure of a mining plant and land reclamation include assumptions regarding the mine's life, expected inflation rate and long-term discount rates. Any changes to these assumptions affect the carrying value of the provision.

- Sensitivity to changes regarding the life of the mine.

Assumptions regarding the life of the mine have been described above. In the case that the life of the mine assumed as at 31 December 2016 was extended by 1 year, the carrying value of the provision for the cost of mine closure (Mine Closure Fund) and land reclamation would be lower by PLN 796,000, and in the case that the life of the mine was extended by 10 years, the carrying value of the provision would be lower by PLN 7,725,000. At the same time, in the case that the life of the mine was shortened by 1 year, the carrying value of the provision for the cost of mine closure (Mine Closure Fund) and land reclamation would be higher by PLN 802,000, and in the case that the life of the mine was shortened by 10 years, the carrying value of the provision would be higher by PLN 8,270,000.

- Sensitivity to changes of inflation and discount rates

The adopted inflation ratios for 2017-2043 range from 1.5% for 2017 to 2.5% for the years 2018-2043 (as at 31 December 2015 inflation ratios were 1.0% for 2016, 2.0% for 2017 and 2.5% for the years 2018-2034).

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 and as at 31 December 2016 it amounted to 3.20% (as at 31 December 2015: 2.80%).

If the adopted inflation rates departed from the Management Board's estimates by 1 p.p., the carrying amount of provisions would be PLN 35,207,000 higher (in the event of inflation rates higher by 1 p.p.) or PLN 27,317,000 lower (in the event of inflation rates lower by 1 p.p.).

The impact of changing the financial discount on the carrying amount of the provisions for the Mine Closure Fund and land reclamation as at 31 December 2016 and 31 December 2015 is presented in the table below:

As at 31 December 2016:

Change in the financial discount	-0.25 p. p.	0 p. p.	+0.25 p. p.	+1 p. p.
Value of the provision for Mine Closure Fund and costs of land reclamation	125,370	117,423	109,997	90,506

As at 31 December 2015:

Change in the financial discount	-0.25 p. p.	0 p. p.	+0.25 p. p.	+1 p. p.
Value of the provision for Mine Closure Fund and costs of land reclamation	136,328	130,179	124,321	108,354

The analysis indicates that when the financial discount rate goes up as at 31 December 2016 by 0.25 p.p., the provision for the Mine Closure Fund and land reclamation is lower by PLN 7,426,000, and the financial discount rate is higher by 1 p.p., the provision for the Mine Closure Fund and land reclamation goes down by PLN 26,917,000. When the financial discount rate goes down as at 31 December 2016 by 0.25 p.p., the provision for the Mine Closure Fund and land reclamation is higher by PLN 7,947,000. At the same time, no impact of the financial rate going down by 1 p.p. is presented, because it would mean that the discount rate falls beneath the assumed inflation level, which is groundless in the Group's opinion.

Other key estimates and judgements have not changed since the publication of the annual consolidated financial statements for 2015.

2.1.2. New standards and interpretations

Standards and interpretations applied for the first time in 2016

The following standards, amendments to the existing standards as well as interpretations published by the International Accounting Standards Board (IASB) and endorsed for application by the European Union came into force for the first time in 2016:

- Amendments to various standards "Improvements to IFRS (2010-2012 cycle)" – endorsed by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 January 2015); published on 12 December 2013.
- Amendments to IAS 19 "Employee benefits" - Defined Benefit Plans: Employee Contributions; endorsed by the European Union on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015), published by the International Accounting Standards Board on 21 November 2013.
- Amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants - endorsed by the European Union on 23 November 2015 (applicable to annual periods beginning on or after 1 January 2016), published by the International Accounting Standards Board on 30 June 2014.
- Amendments to IFRS 11 "Joint Arrangements" - Acquisition of interest in a joint operation - endorsed by the European Union on 4 November 2015 (applicable to annual periods beginning on or after 1 January 2016), published by the International Accounting Standards Board on 6 May 2014.
- Amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible Assets" - Explanations regarding acceptable methods of depreciation and amortisation - endorsed by the European Union on 2 December 2015 (applicable to annual periods beginning on or after 1 January 2016), published by the International Accounting Standards Board on 12 May 2014.
- Amendments to various standards "Improvements to IFRS (2012-2014)" - amendments made under the annual IFRS improvements project (IFRS 5, IFRS 7, IAS 19, and IAS 34), primarily oriented at eliminating inconsistencies and specifying terminology, endorsed by the European Union on 15 December 2015 (applicable to annual periods beginning on or after 1 January 2016), published on 25 September 2014.
- Amendments to IAS 1 "Presentation of Financial Statements" - an initiative regarding disclosures endorsed by the European Union on 18 December 2015 (applicable to annual periods beginning on or after 1 January 2016), published on 18 December 2014.
- Amendments to IAS 27 "Separate Financial Statements" equity method in separate financial statements - endorsed by the European Union on 18 December 2015 (applicable to annual periods beginning on or after 1 January 2016), published by the International Accounting Standards Board on 12 August 2014.
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception, published on 18 December 2014, endorsed by the European Union on 22 September 2016 (applicable to annual periods beginning on or after 1 January 2016).

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

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

When approving these consolidated financial statements, the Group was not applying the following standards, standard amendments or interpretations which were published by the International Accounting Standards Board and endorsed by the European Union for use within the European Union but which were not effective yet:

- IFRS 9 – "Financial Instruments" - published on 24 July 2014 replaces IAS 39 "Financial Instruments: Recognition and Measurement". The standard was approved by the European Union on 22 November 2016, and is applicable to annual periods beginning on or after 1 January 2018.
- IFRS 15 "Revenue from Contracts with Customers", published by the International Accounting Standards Board on 28 May 2014 - was approved by the European Union on 22 September 2016, and is applicable to annual periods beginning on or after 1 January 2018.

The Group carries out a detailed analysis of the impact of the above standards on accounting policies applied by the Group. The application of those standards, in particular IFRS 15 "Revenue from Contracts with Customers" is likely to translate primarily into the scope of disclosures in the consolidated financial statements, and to a lesser extent, shall affect the recognition of disclosed operations. Therefore, the Group believes that the application of these amendments will not have a material impact on the consolidated financial statements.

Standards and interpretations adopted by IASB, but not yet 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 29 March 2017 were not adopted for use in the European Union (the effective dates below refer to standards in full versions):

- IFRS 14 "Regulatory Deferral Accounts" - was published by IASB on 30 January 2014.
- IFRS 16 "Leases" - was issued by IASB on 13 January 2016.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (applicable to annual periods beginning on or after 1 January 2016), published on 11 September 2014.
- Amendments to IAS 12 "Income taxes" – disclosure of deferred tax assets for unrealised losses, issued by IASB on 19 January 2016.
- Amendments to IAS 7 "Statement of Cash Flows" - an initiative with respect to disclosures, issued by IASB on 29 January 2016.
- Amendments to IFRS 2 "Share-Based Payments" - classification and measurement of the share-based payments, issued by the IASB on 20 June 2016.
- Amendments to IFRS 4 "Insurance Contracts" – Application of IFRS 9 "Financial Instruments" along with IFRS 4 "Insurance Instruments" - issued by the IASB on 12 September 2016.
- Amendments to various standards "Amendments to IFRS (2014-2016 Cycle)" - issued by IASB on 8 December 2016.
- IFRIC 22 Interpretation "Foreign Currency Transactions and Advance Consideration" - issued by IASB on 8 December 2016.

- Amendments to IAS 40 "Investment Property" - Transfers of Investment Properties - issued by IASB on 8 December 2016.

The Group is analysing the impact of new standards on the consolidated financial statements, however it estimates that the application of IFRS 14, amendments to IFRS 12, IFRS 4, IFRS 10, and to IFRS 2 shall have no impact on the accounting policies applied so far. IFRS 16 will only result in recognition of additional assets and liabilities in the consolidated balance-sheet, however given a relatively small scope and number of agreements currently treated as operational lease, the final impact of this standard will be small. Amendments to IAS, IFRIC 22 Interpretation as well as amendments to IAS 40 will affect the consolidated financial statements, however the Group believes it should be relatively small.

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 Group's estimates, the application of hedge accounting to the portfolio of financial assets and liabilities in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" would not have any adverse impact on the consolidated financial statements if it was adopted for application at the balance-sheet date.

2.2. Principles of consolidation

The consolidated financial statements cover the financial statements of Lubelski Węgiel Bogdanka S.A. and the entities controlled by it. The Parent has control, if it has:

- power over the entity concerned,
- exposure or right to variable returns from its involvement with the entity concerned,
- the ability to use its power to affect the level of returns generated from the entity.

If Lubelski Węgiel Bogdanka S.A. has less than the majority of voting rights in the entity concerned but the voting rights held are sufficient to enable its unilateral direction of relevant activities of that entity, it means that it has power over the entity. For the assessment whether the voting rights held in the entity are sufficient to give power, the Company analyses all material circumstances, including:

- the volume of voting rights package held in comparison to the volume of shares and the extent of dispersion of voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders or other parties;
- rights under other contractual arrangements; and
- additional circumstances which may prove that the Company has the ability or not to direct relevant activities at the time of decision making, including voting patterns observed at previous general shareholders meetings.

Additional information on subsidiary entities included in the consolidated financial statements is provided in Note 1.1.

Consolidation of a subsidiary is commenced upon the acquisition of control over that subsidiary by the Company and ended upon the loss of control. Income and costs of a subsidiary acquired or disposed of during a year are recognised in the consolidated income statement and in the consolidated statement of other comprehensive income over the period from the date of control acquisition over the subsidiary by the Company to the date of loss of such control. Profit or loss and other elements of comprehensive income are attributed to the Company's owners and non-controlling interests. Comprehensive income of the subsidiaries is attributed to the Company's owners and non-controlling interests, even if it results in a deficit on the part of non-controlling interests.

Individual entities comprising the Group were established in perpetuity. The financial statements of all subordinated entities were prepared for the same reporting period as the financial statements of the Parent with the use of consistent accounting standards. The Parent's and the Group companies' financial year is the calendar year.

Consolidation adjustments

If necessary, financial statements of the subsidiaries are adjusted so as to adapt the accounting principles applied by the subsidiaries to the Group's accounting policies. During consolidation, all intercompany assets, liabilities, equity, revenues, costs and cash flows relating to transactions effected between the Group members are fully eliminated.

Unrealised losses are excluded from the consolidated financial statements in accordance with the same principle as unrealised gains, but only if there are no indications of impairment.

Loss of control

Changes of the Group's share in the equity of the subsidiaries which do not result in the loss of control over such entities by the Group are accounted for as equity transactions. The carrying amount of the Group's interests and non-controlling interests is adjusted in order to take into account changes of the share in the subsidiaries. Any differences between the adjustment of non-controlling interests and the fair value of payment made or received are recognised directly under equity and attributed to the Company's owners.

Upon loss of control, the Company no longer recognises assets and liabilities of the subsidiary, non-controlling interests and other equity components connected with the subsidiary. Any surplus or deficiency, if any, arising from loss of control is recognised under profit or loss for the current period. If the Group retains any interests in its previous subsidiary, they are measured at fair value at the date of loss of control. Following initial recognition, they are treated as investments measured by equity method or as financial assets available for sale, depending on the level of influence retained by the Group on the activities of the entity.

Non-controlling interests cover shares in Łęczyńska Energetyka, which are not owned by the Group. These shares are held by Łęczna Municipality and by Puchaczów Commune.

Acquisition of entities

Acquisitions of other entities are accounted for using the acquisition method at the acquisition date, which is the date when the Group obtains control over the acquire (target company).

The Group recognises goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- accounting for pre-existing relationships, and
- the recognised value of non-controlling interests in the acquiree; plus the fair value
- of equity interest previously held in the acquiree if the combination is achieved in stages; less
- the recognised net value (fair value) of the identifiable assets acquired and the liabilities assumed.

If the difference is negative, a bargain purchase gain is recognised in profit or loss for the current period at the acquisition date.

Cost associated with acquisition, other than costs of issuing debt or equity instruments, which are incurred by the Group in connection with business combinations, are expensed in the period when incurred. For each acquisition the Group recognises non-controlling interests in the acquiree at fair value or at the non-controlling interests' proportionate share of identifiable net assets of the acquiree measured at fair value.

2.3. Measurement of items expressed in foreign currencies

Functional currency and presentation currency

These consolidated financial statements have been prepared in Polish zloty (PLN). Polish zloty is the Group's functional and reporting currency. Data in the consolidated financial statements is presented in PLN '000, unless specified as an exact figure in specific situations.

Transactions and balances

Transactions expressed in foreign currencies are translated into the functional currency as at initial recognition, at the exchange rate prevailing on the transaction date. As at the balance-sheet date:

- cash items are translated by applying the closing exchange rate (i.e. mid-rate quoted for the given foreign currency by the Polish National Bank for that date),
- non-cash items measured at historical cost expressed in a foreign currency are translated by applying the exchange rate from the first transaction date (exchange rate applied by the entity),
- non-cash items measured at fair value expressed in a foreign currency are translated by applying the exchange rate from the fair value date,

Foreign exchange differences resulting from translation are disclosed accordingly in the consolidated income statement, with the foreign exchange differences are recognised under "Other profit/(loss) - net", and those referring to financial activity - under "Finance income / costs" or, in cases defined in the accounting policies, 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 (Note 4)

Property, plant and equipment are non-current assets:

- which are held by the Group 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 is initially recognised at acquisition (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 Group 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 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 decommissioning 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 decommissioning plan for groups of structures under the estimated mine decommissioning schedule.

As at the balance-sheet date, items of non-current assets 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 Group in future and the value of that item can be measured reliably. Any other outlays on repair and maintenance are recognised in the consolidated income statement in the accounting period in which they are incurred.

Land is not depreciated. Depreciation of an item of non-current assets starts when that item is available to be placed in service. Other items of non-current assets are depreciated using the straight-line method beginning from a month following the month when the asset was put into service or the cost-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 (in metres)
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 non-current assets	3-20 years, but not longer than until the estimated date of mine closure

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

The value of a tangible 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 item of non-current assets, 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 items of 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 consolidated 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 consolidated income statement under "Other profit/(loss) - net."

2.5. Intangible assets (Note 6)

Geological information

Purchased geological information is recognised in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources" at the value arising from the agreement concluded with the Ministry of Environment. The concession is not amortised until its receipt. Next, capitalised costs are written off during the concession lifetime.

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 period for which the agreement for mining use has been concluded.

Intangible assets are amortised using the straight-line method beginning from a month following the month when the asset was put into service. As at the balance-sheet date, intangible assets are carried at acquisition or production cost less accumulated amortisation and accumulated impairment charges.

2.6. Investment properties (Note 7)

Investment properties are properties which bring benefits for the Group on account of lease revenues, the increase in their value, or both of these reasons, the increase in the value of capital (these also include properties under construction designed for investment purposes). These properties are initially measured at cost with account taken of the transaction cost. Once initially recognised, the investment properties are measured at acquisition cost (production cost).

Investment properties are amortised using the straight-line method. The amortisation starts when an investment property is accepted for use. The estimated useful life is as follows:

Buildings 25-40 years

Revenue from the lease of investment property is recognised in the consolidated income statement on a straight-line basis over the whole term of a lease agreement.

2.7. Impairment of non-financial assets (Note 4.3)

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 units, CGU). 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.

The creation, releasing and using the impairment losses of non-financial non-current assets are disclosed in the consolidated income statement under costs by function, in line with the function allocated to the given non-current asset (i.e. under "Cost of products, goods and materials sold", "Selling costs" or "Administrative expenses") or under "Other profit/(loss) - net".

2.8. Financial assets (Note 17)

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 Group.

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 Group has transferred substantially all risks and rewards of ownership.

The Group 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 (Note 9)

Inventories are recognised at acquisition or production cost, which however cannot exceed their net selling price possible to obtain. 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.

The electricity certificates acquired by the Group for retirement are disclosed under inventories.

2.10. Trade debtors (Note 8)

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 Group 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 value 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 consolidated income statement under selling costs. When a trade debtors become uncollectible, it is written off against the provision for trade receivables. Subsequent collection of amounts previously written off is credited against "Selling cost" (as a decrease in costs) in the consolidated income statement.

2.11. Cash and cash equivalents (Note 10)

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 consolidated statement of financial position as an item of current loans and borrowings under current liabilities.

Cash and cash equivalents gathered on a separate Mine Closure Fund's account as well as the 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 designated for sale (Note 5)

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 Group's Management Board intends to make the sale transaction within one year from the date of changing classification. The Group 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 (Note 11)

Ordinary shares are classified as the equity.

Expenditures 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 (Note 13)

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

2.15. Financial liabilities measured at amortised cost (Notes 15 and 16)

The category of financial liabilities measured at amortised cost includes liabilities under loans and borrowings and liabilities under issued bonds.

At initial recognition, liabilities in this group are measured at fair value less transaction expenses which are directly attributable to the acquisition or issue of a financial liability.

At the balance sheet date, liabilities in this group are measured at amortised cost using the effective interest rate method. In determination of the adjusted purchase price the costs connected with obtaining a loan or borrowing and discounts or bonuses received at settlement of the liability are to be taken into account. The difference between net inflows and the value of repurchase is disclosed in revenue or finance costs during the period when the loan or the borrowing are used.

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer repayment of the liability for at least 12 months as from the balance-sheet date. Bonds issued with an original redemption date of up to 12 months following the balance-sheet date, for which the Group has the right to issue further bond series (under the granted tranche) for refinancing of a previous issue (the roll-up), are charged to non-current liabilities, unless the final redemption date under the whole tranche falls within the period shorter than 12 months following 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 (Note 17)

The Group enters into derivative contracts in order to manage its currency exchange risk. They include forward contracts. 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 consolidated statement of comprehensive income under item "Finance income / costs" or in the consolidated statement of comprehensive income (in the portion constituting efficient cash flow hedge) as a cash flow hedge and in the consolidated statement of financial position (balance sheet) under – depending on measurement – "Financial instruments" or in equity and liabilities under "Financial liabilities."

2.17. Current income tax and deferred tax (Note 26)

Tax Group

An agreement for the Tax Group of Lubelski Węgiel BOGDANKA (PGK LWB) for the period 2017-2019 was signed on 28 September 2016. The PGK LWB was registered by the Head of the Lublin Tax Office in Lublin under Tax Reg. No. (NIP): 1030000927 by virtue of a decision dated 25 October 2016. Since 2017 the PGK LWB has comprised the following companies: The Parent - Lubelski Węgiel Bogdanka S.A., and the subsidiaries - MR Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o., and EkoTrans Bogdanka sp. z o.o.

The Representing Company of the PGK LWB is the Parent - Lubelski Węgiel Bogdanka S.A.

Current 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 Group operates and generates taxable income. The Group's 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

Deferred tax liability resulting from the temporary differences between the tax value of assets and liabilities and their carrying value shown in the consolidated 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 (Note 18)

Retirement and other employee benefits

Pursuant to the Company Collective Bargaining Agreements and applicable provisions of law, the Group's undertakings 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 Group recognises liabilities under the above stated benefits in the consolidated statement of financial position at the current value of the liability, taking into account actuarial gains or losses. The Group'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 Group is obliged to pay out to a given employee under internal rules, particularly under the Company Collective Bargaining Agreements, as well as applicable provisions of law.

The forecast 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 Group'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 Group 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 Group 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 Group'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 consolidated 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 consolidated statement of comprehensive income.

Profit-sharing programmes and bonus programmes

The Group 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.

Share-based payments

The fair value of share options granted is recognised as payroll costs in correspondence with the increase in equity. The fair value is determined at the grant date of share options to the employees and spread over the period in which the employees will acquire the unconditional right to exercise the options (as the fair value of employee benefits cannot be assessed directly, it is determined based on the fair value of the equity instruments granted). The amount charged to costs is adjusted in order to reflect the current number of granted options for which service conditions and non-market vesting conditions are met.

2.19. Provisions (Note 19)

Provision for legal claims, other claims or removal of mining damage

A provision for legal claims, other claims and removal of mining damage is recognised when the Group 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 a mine closure and land reclamation

A provision for future cost of closure of a mining plant and land reclamation 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 liquidation of mining workings 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 and land reclamation is calculated by an independent consultancy company (The Mineral and Energy Economy Research Institute of the Polish Academy of Sciences) 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), with respect to the provision for the closure of a mining plant, is recognised as adjustment to the value of property, plant and equipment for which a closure obligation exists, while with respect to the provision for land reclamation as "Costs of products, goods and materials sold".

2.20. Recognition of revenue

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

When recognising the revenue, the Group follows IAS 18 "*Revenue*". The Group recognises revenue when the amount of revenue can be measured reliably and when it is probable that the economic benefits will flow to the undertaking and when certain criteria for each type of the Group'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 Group makes estimates on the basis of historical information, taking into account the customer and transaction type and details of agreements.

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 Group supplies products to a customer. The supply is deemed to occur when the Group 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. Revenue is recognised based on the prices specified in sales agreements, net of estimated rebates and other sales reductions.

Interest income

Interest income is recognised proportionately to the lapse of time at the effective interest rate method. Whenever a receivable is impaired, the Group 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 (Note 14)

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 Group presents grants related to assets in its consolidated financial statements as follows:

- In its consolidated statement of financial position (balance sheet) under "Liabilities" and "Grants";
- In its consolidated 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.

(IN PLN '000)

2.22. Lease (Note 31)

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 Parent's shareholders is disclosed as a liability in the consolidated financial statements in the period in which the dividend payment is approved by the Parent's shareholders.

3. INFORMATION ON SEGMENTS OF OPERATION

Key reporting structure - industry segments

The Group's core business is production and sale of coal. In 2016, revenue from sales of other products and services amounted to PLN 61,849,000 (in 2015: PLN 76,567,000), representing, 3.46% in 2016 and 4.06% in 2015, respectively, of total revenue.

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

Supplementary reporting structure - geographical segments

The Group operates primarily in Poland. In 2016, revenue from foreign sales amounted to PLN 31,225,000 (in 2015: PLN 2,743,000), representing, 1.75% and 0.15%, respectively, of total revenue in each of the years. The Group does not hold related assets or liabilities outside Poland.

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

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

Division into mining fields

The Parent carries out its activities within the area of three mining fields: Bogdanka, Nadrybie and Stefanów. The production assets are concentrated in the registered office of the Parent, in the centre of the Bogdanka Field, and are related to the remaining locations. For this reason, the Nadrybie and the Stefanów Fields cannot function separately. Due to the above-mentioned relations between the fields and departments, as well as the organisational system in place at the mine, all the assets of the Parent are treated as a single cash generating unit (CGU).

Key coal customers

In 2016 and 2015 key customers for the Group's coal, whose share in sales exceeded 10% of the total revenue on sales, were:

	2016	2015
Enea Wytwarzanie Sp. z o.o.	46%	42%
ENGIE Energia Polska S.A.	22%	20%
ENERGA Elektrownie Ostrołęka S.A.	6%	11%

4. NON-CURRENT ASSETS

	Land	Buildings and structures	Vehicles	Total

		total	including excavations	Plant and equipment		Other property, plant and equipment	Construction in progress	
As at 1 Jan. 2016								
Cost or assessed value	5,870	2,740,599	1,899,097	2,009,819	94,737	22,898	143,215	5,017,138
Depreciation	-	(1,165,142)	(868,947)	(893,917)	(54,067)	(14,528)	-	(2,127,654)
Net book value	**5,870**	**1,575,457**	**1,030,150**	**1,115,902**	**40,670**	**8,370**	**143,215**	**2,889,484**
As at 31 Dec. 2016								
Net book value at beginning of year	5,870	1,575,457	1,030,150	1,115,902	40,670	8,370	143,215	2,889,484
Increases	-	13	-	1,371	316	-	276,236	277,936
Transfer from construction in progress	3,200	173,407	141,415	70,505	5,617	1,522	(254,251)	-
Reclassification to assets held for sale	-	(13)	-	(896)	(21)	-	-	(930)
Reclassification to investment properties	(40)	(11,215)	-	(103)	-	(143)	-	(11,501)
Decreases	(121)	(43,049)	(22,303)	(377)	(24)	(4)	(109)	(43,684)
Amortisation/depreciation	-	(212,576)	(184,986)	(139,041)	(6,192)	(1,643)	-	(359,452)
Impairment loss	139	15,556	6,563	-	-	-	(7,352)	8,343
Net book value	9,048	1,497,580	970,839	1,047,361	40,366	8,102	157,739	2,760,196
As at 31 Dec. 2016								
Cost or assessed value	9,048	2,808,779	1,959,506	2,073,693	95,815	24,046	157,739	5,169,120
Amortisation	-	(1,311,199)	(988,667)	(1,026,332)	(55,449)	(15,944)	-	(2,408,924)
Net book value	**9,048**	**1,497,580**	**970,839**	**1,047,361**	**40,366**	**8,102**	**157,739**	**2,760,196**

As at 1 Jan. 2015								
Cost or assessed value	5,403	2,927,282	1,950,646	2,010,085	115,541	21,674	428,081	5,508,066
Amortisation	-	(1,068,589)	(814,902)	(749,092)	(64,127)	(13,090)	-	(1,894,898)
Net book value	**5,403**	**1,858,693**	**1,135,744**	**1,260,993**	**51,414**	**8,584**	**428,081**	**3,613,168**
As at 31 Dec. 2015								
Net book value at beginning of year	5,403	1,858,693	1,135,744	1,260,993	51,414	8,584	428,081	3,613,168
Increases	-	-	-	1	-	-	311,362	311,363
Transfer from construction in progress	516	335,448	287,927	251,889	3,737	1,314	(592,904)	-
Reclassification to assets held for sale	-	-	-	-	(4,908)	-	-	(4,908)
Decreases	-	(18,775)	(12,472)	(222)	(2,120)	(4)	(3,324)	(24,445)
Amortisation/depreciation	-	(223,455)	(180,658)	(153,666)	(6,329)	(1,524)	-	(384,974)
Impairment loss	(49)	(376,454)	(200,391)	(243,093)	(1,124)	-	-	(620,720)
Net book value	5,870	1,575,457	1,030,150	1,115,902	40,670	8,370	143,215	2,889,484
As at 31 Dec. 2015								
Cost or assessed value	5,870	2,740,599	1,899,097	2,009,819	94,737	22,898	143,215	5,017,138
Amortisation	-	(1,165,142)	(868,947)	(893,917)	(54,067)	(14,528)	-	(2,127,654)
Net book value	**5,870**	**1,575,457**	**1,030,150**	**1,115,902**	**40,670**	**8,370**	**143,215**	**2,889,484**

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

	2016	2015
Costs of products, goods and materials sold	(352,407)	(376,043)
Selling costs	(467)	(385)
Administrative expenses	(6,578)	(8,546)
	(359,452)	**(384,974)**

Borrowing costs (interest and commission on liabilities incurred), activated in 2016 in the value of the property, plant and equipment amounted in total PLN 3,412,000 (PLN 8,090,000 in 2015).

(IN PLN '000)

No collateral was established on property, plant and equipment.

4.1. Property, plant and equipment - workings

The tables below present short characteristics of galleries and other PPP items, disclosed under "excavations".

As at 31 December 2016:

Item	Quantity [items]	Length [m]	Initial value	Depreciation	Impairment losses	Net value as at the balance-sheet date	Depreciation level in the given group
Walls disclosed in non-current assets, depreciated with the cost-of-production method, including:	31	27,599	590,159	412,195	39,859	138,105	77%
- depreciated until December 2016	*20*	*7,014*	*481,401*	*412,195*	*29,547*	*39,659*	*92%*
Walls disclosed in non-current assets, depreciated with the use periods	235	94,649	1,264,530	455,134	124,666	684,730	46%
Other items depreciated with the use periods (shafts, shaft towers, barrages, tanks etc.)	32	-	298,681	121,338	29,339	148,004	50%
Total as at 31 December 2016	**298**	**122,248**	**2,153,370**	**988,667**	**193,864**	**970,839**	**55%**

As at 31 December 2015:

Item	Quantity [items]	Length [m]	Initial value	Depreciation	Impairment losses	Net value as at the balance-sheet date	Depreciation level in the given group
Walls disclosed in non-current assets, depreciated with the cost-of-production method, including:	31	38,891	591,007	308,828	46,179	236,000	60%
- depreciated until December 2015	*18*	*16,815*	*443,876*	*308,828*	*22,018*	*113,030*	*75%*
Walls disclosed in non-current assets, depreciated with the use periods	238	97,813	1,213,445	445,397	124,873	643,175	46%
Other items depreciated with the use periods (shafts, shaft towers, barrages, tanks etc.)	32	-	295,036	114,722	29,339	150,975	49%
Total as at 31 December 2015	**301**	**136,704**	**2,099,488**	**868,947**	**200,391**	**1,030,150**	**51%**

4.2. Property, plant and equipment – construction in progress

The most important investment tasks disclosed under "Construction in progress" are presented below:

	31 Dec. 2016	31 Dec. 2015
Excavations (galleries)	126,831	72,437
Modernisation of the longwall systems lining	11,803	-
Development of the central air-conditioning system in the Bogdanka Field	-	39,940
Purchase and assembly of panel winning machines	-	7,281
Expansion of the waste storage yard in Bogdanka	6,317	1,799
Construction of new mining fields	5,531	2,093
Reinforcement of shaft 1.3 lining	3,431	3,322
Extension of the Mechanical Coal Processing Plant (ZPMW)	762	1,216
Other	3,064	15,127

(IN PLN '000)

	157,739	**143,215**

4.3. Impairment losses on the property, plant and equipment

The last impairment test for cash-flow generating units was carried out at the end of 2015. The test revealed that the total amount of the impairment losses on non-current assets was PLN 624,772,000. At the end of 2016, the Management Board of the Parent conducted an analysis of the premises indicating a possible impairment losses on non-current assets. The analysis indicated that there were no premises (other than those included in the model and the impairment test carried out as at 31 December 2015) that would show continued impairment losses on non-current assets. The above analysis and the estimates made by the Group did not point to the necessity of conducting an impairment test as at 31 December 2016.

Impairment test as at 31 December 2015

On the basis of external circumstances indicating a likelihood for a change in the recoverable value of the non-current assets held by the Parent, such as, in particular:

- dramatic drop in prices observed on the hard coal market;
- oversupply on the hard coal market as well as strong price competition on the part of some domestic coal suppliers;
- balance-sheet value of the Parent's net assets being higher than their market capitalisation.

The Parent's Management Board deemed necessary to carry out a test for impairment for cash-flow generating centres as at 31 December 2015.

Considering that it was not possible to determine the fair value for a very large group of assets for which no active market exist, neither are comparable transactions available, the recoverable value of the tested assets was determined in the process of estimating their usable value by employing the discounted cash flow method on the basis of financial projections for 2016-2043 prepared by the Parent.

As at 31 December 2015 key assumptions used for estimating the usable value of the assets subject to the test were as follows:

- given that individual departments and the internal mine organisation are interrelated, all Parent's assets were deemed as one CGU;
- average annual sales volume was set during the forecast period at a level of 8.5 million tonnes;
- the forecast period from 2016 to 2043 – was estimated on the basis of current coal resources available for use, held by the Parent as at the balance-sheet date, with the account taken of the average annual extraction level of 8.5 million tonnes;
- the assumption regarding the price of coal in 2016-2021 was made on the basis of available price paths prepared by RolandBerger; as from 2022 the assumption regarding the price of coal takes account of inflation;
- starting from 2021, the model takes account of average annual inflation of 2.5% (the assumption compliant with a long-term inflation target set by the National Bank of Poland);
- WACC of 8,05% during the whole period of the forecast, estimated on the basis of the latest economic data (with the risk-free rate of 3.1% and beta 1.1) was taken as a discount rate;
- the average annual level of CAPEX during the forecast period of PLN 265,156,000.

The total value of the Parent's assets subject to testing as at 31 December 2015 amounted to PLN 2,905,429,000, while the value of discounted cash flow estimated on the basis of the forecast made (usable value) was PLN 2,280,657,000. As a result of the test carried out as at 31 December 2015, a PLN 624,772,000 impairment of value was found, and out of this amount the impairment loss of PLN 620,671,000 was allocated to property, plant and equipment, and the impairment loss of PLN 4,101,000 was allocated to intangible assets.

With respect to to the model described above and to the assumptions for the purpose of the impairment test carried out at the end of the previous year, as at 31 December 2016 neither the assumptions nor market circumstances changed, therefore no material change in the recoverable value of non-current assets occurred.

Analysis of model sensitivity for 2015 to a change in the price and the discount

If the assumptions regarding the coal price during the forecast period increase by 1%, the value of the discounted cash flow, based on the model, would amount to PLN 2,443,792,000, while in the event of a 1% drop of the coal price assumptions during the forecast period, the value of the discounted cash flow would amount to PLN 2,117,328,000. This means that in the event of an increase or a decrease of the discount rate by 1 p.p., as assumed for the impairment test model prepared as at the end of 2015, the impairment loss would be lower by approx. PLN 163,165,000 or lower by PLN 163,329,000, respectively.

If the discount rate higher by 1 p.p. is applied in the above model, the value of the discounted cash flow, based on the model, would amount to PLN 2,029,459,000, while in the event of the discount rate lower by 1 p.p. being applied, the value of the discounted cash flow would amount to PLN 2,578,086,000. This means that in the event of an increase or a decrease of the discount rate by 1 p.p., as assumed for the impairment test model prepared as at the end of 2015, the impairment loss would be higher by approx. PLN 251,198,000 or lower by PLN 297,429,000, respectively.

Other impairment losses

In 2016, in connection with a change in the plans of the Management Board of the Parent, as confirmed in the strategy, some of the investment projects with a total value of PLN 7,352,000 which were already started will not be continued in the nearest future (expenditure disclosed under "Construction in progress"). Therefore, the Management Board of the Parent decided to create an impairment loss. The remaining changes to the impairment losses in the period were connected with the use of the impairment losses created previously for the purpose of liquidating property, plant and equipment, as well as the reduction due to reclassification from property, plant and equipment to investment properties.

(IN PLN '000)

The status of impairment losses on property, plant and equipment is presented in the table below:

	Land	Buildings and structures total	Buildings and structures including excavations	Plant and equipment	Vehicles	Construction in progress	Total
As at 1 Jan. 2016	4,533	385,447	200,391	246,280	1,124	2,110	639,494
Creating impairment losses	-	-	-	-	-	7,352	7,352
Reclassification to investment properties	-	(7,885)	-	-	-	-	(7,885)
Using the impairment loss created	(139)	(7,671)	(6,563)	-	-	-	(7,810)
As at 31 Dec. 2016	**4,394**	**369,891**	**193,828**	**246,280**	**1,124**	**9,462**	**631,151**
As at 1 Jan. 2015	4,484	8,993	-	3,187	-	2,110	18,774
Creating impairment loss	49	376,454	200,391	243,093	1,124	-	620,720
As at 31 Dec. 2015	**4,533**	**385,447**	**200,391**	**246,280**	**1,124**	**2,110**	**639,494**

The creation of the impairment losses in 2016 was disclosed in the consolidated income statement under "Other net losses". The use of the impairment losses in 2016 was disclosed under "Costs of products, goods and materials sold".

In 2015 the creation and use of the impairment losses was disclosed in the consolidated income statement under the following items: "Cost of products, goods and materials sold" in the amount of PLN 599,885,000, "Selling costs" in the amount of PLN 754,000 and in "Administrative expenses" in the amount of PLN 20,081,000.

5. NON-CURRENT ASSETS HELD FOR SALE

	Buildings and structures	Plant and equipment	Vehicles	Total
As at 1 Jan. 2016	-	-	3,694	3,694
Reclassification to assets held for sale	13	896	21	930
Adjustment to the value of assets previously held for sale	-	-	(294)	(294)
As at 31 Dec. 2016	**13**	**896**	**3,421**	**4,330**
As at 1 Jan. 2015	-	-	-	-
Reclassification to assets held for sale	-	-	4,908	4,908
Sale of assets held for sale	-	-	(1,214)	(1,214)
As at 31 Dec. 2015	**-**	**-**	**3,694**	**3,694**

In June 2016, the Group classified for sale non-current assets related to the Building Ceramics Plant, worth PLN 930,000. Sale agreement was signed on 13 June 2016, and it is expected to be finalised in the course of 2017.

The remaining amount refers to 100 Eaos series, four-axis coal wagon carts type CFR/E and type 464W, which were allocated for sale in 2015, of a total net value of PLN 3,400,000.

On 10 August 2015 the Group has made a decision on the sale of 100 Eaos series, four-axis coal wagon carts type CFR/E and type 464W, of a net value of PLN 3,694,000. On 3 November 2015 a decision was made on the sale of further 30 Eaos series, four-axis coal wagon carts type CFR/E and type 464W, of a net value of PLN 997,000. The attempts of selling of the abovementioned assets were made in September 2015 by publishing press announcements (including in the trade press). The transaction was partly executed - on 18 January 2015, 30 items were sold under Agreement No. 1136/O/2015, the selling price for the assets (30 items) stood at PLN 1,937,000.

(IN PLN '000)

During 2016 tender procedures were carried out for the purpose of selling the remaining 100 wagons. The procedure was eventually finished in February 2017, and the sale transaction will have been completed by the end of March 2017.

6. INTANGIBLE ASSETS

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 Jan. 2016					
Cost or assessed value	5,479	6,328	24,032	866	36,705
Amortisation	(4,029)	(2,284)	(10,939)	(447)	(17,699)
Net book value	**1,450**	**4,044**	**13,093**	**419**	**19,006**
As at 31 December 2016					
Net book value at beginning of year	1,450	4,044	13,093	419	19,006
Increases	1,877	903	27,604	772	31,156
Decreases	(3)	(4)	-	-	(7)
Amortisation/depreciation	(433)	(639)	(527)	(1,045)	(2,644)
Net book value	2,891	4,304	40,170	146	47,511
As at 31 Dec. 2016					
Cost or assessed value	7,332	7,231	51,636	1,193	67,392
Amortisation	(4,441)	(2,927)	(11,466)	(1,047)	(19,881)
Net book value	**2,891**	**4,304**	**40,170**	**146**	**47,511**

As at 1 Jan. 2015					
Cost or assessed value	5,244	6,746	26,709	582	39,281
Amortisation	(3,599)	(1,726)	(9,652)	(13)	(14,990)
Net book value	**1,645**	**5,020**	**17,057**	**569**	**24,291**
As at 31 December 2015					
Net book value at beginning of year	1,645	5,020	17,057	569	24,291
Increases	581	718	-	296	1,595
Decreases	(2)	(4)	-	-	(6)
Amortisation/depreciation	(432)	(608)	(1,287)	(446)	(2,773)
Impairment loss	(342)	(1,082)	(2,677)	-	(4,101)
Net book value	1,450	4,044	13,093	419	19,006
As at 31 Dec. 2015					
Cost or assessed value	5,479	6,328	24,032	866	36,705
Amortisation	(4,029)	(2,284)	(10,939)	(447)	(17,699)
Net book value	**1,450**	**4,044**	**13,093**	**419**	**19,006**

(IN PLN '000)

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

	2016	2015
Costs of products, goods and materials sold	(2,592)	(2,713)
Selling costs	(4)	(9)
Administrative expenses	(48)	(51)
	(2,644)	**(2,773)**

Impairment losses for intangible assets are made when occurring circumstances indicate that the Group will not obtain economic benefits from the intangible assets held.

In 2016 no impairment losses were created for intangible assets, as the impairment test showed a surplus of usable value over a total net book value of non-current assets. The analysis of premises indicating a possible impairment of non-current assets showed that there were no premises (other than those included in the model and the impairment test carried out as at 31 December 2015) that would show continued impairment losses on non-current assets. The above analysis and the estimates made by the Group did not point to the necessity of conducting an impairment test as at 31 December 2016. Making impairment losses in 2015 of PLN 4,101,000 is a result of allocating the entire impairment loss for non-current assets to intangible assets.

Key assumptions regarding the test for impairment as at the end of 2016 and 2015 as well as the findings thereof are described in greater detail in Note 4.3.

The impairment losses for intangible assets are presented in the table below:

	Computer software	Fees, licences	Geological information	Total
As at 1 Jan. 2016	342	1,082	4,457	5,881
As at 31 Dec. 2015	**342**	**1,082**	**4,457**	**5,881**
As at 1 Jan. 2015	-	-	1,780	1,780
Creating impairment losses	342	1,082	2,677	4,101
As at 31 Dec. 2015	**342**	**1,082**	**4,457**	**5,881**

The creation of the impairment losses as at 31 December 2015 was disclosed in the consolidated income statement under the following items: "Cost of products, goods and materials sold" of PLN 3,551,000 and in "Administrative expenses" of PLN 550,000.

7. INVESTMENT PROPERTIES

	Total
As at 1 Jan. 2016	-
Reclassification to investment properties	3,616
Amortisation/depreciation	(84)
As at 31 Dec. 2016	**3,532**

(IN PLN '000)

Investment properties relate to a holiday resort Kalnica, located in the Bieszczady mountains, owned by Łęczyńska Energetyka Sp. z o.o., the Parent's subsidiary. The reclassification from property, plant and equipment to investment properties was made (according to net value) as at 30 June 2016, for the manner of deriving profits from the given real property in future (in the form of lease rent), as expected by the subsidiary's Management Board, has changed.

The table below shows revenue and costs connected with investment properties:

	2016	2015
Revenue on investment properties	45	-
Operating expenses related to investment properties	(122)	-

The fair value of the investment properties estimated as at the balance-sheet date is higher from the net book value and amounts to approx. PLN 5,474,000. The Group's investment properties' fair value was calculated by an independent expert by comparing to market prices of transactions covering similar real properties.

8. TRADE AND OTHER RECEIVABLES

	31 Dec. 2016	31 Dec. 2015
Trade debtors	204,635	203,844
Less: impairment losses of accounts receivable	(7,389)	(2,304)
Net trade debtors	197,246	201,540
Accruals and deferrals	31,782	24,018
Other accounts receivable	15,042	14,621
current	244,070	240,179
Accruals and deferrals	4,782	852
Other accounts receivable	432	454
non-current	5,214	1,306
Total trade and other receivables	**249,284**	**241,485**

Fair value of trade debtors and other accounts receivable does not differ significantly from their carrying value.

All receivables of the Group are expressed in PLN.

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

	2016	2015
As at 1 January	2,304	999
Creating impairment loss	5,231	1,432
Receivables written down during the year as uncollectible	-	(79)
Reversal of unused amounts	(146)	(48)
As at 31 December	**7,389**	**2,304**

(IN PLN '000)

Creation and release of impairment losses was disclosed in the consolidated income statement under "Selling cost". Other categories of trade debtors and other accounts receivable do not included items of reduced value.

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

	31 Dec. 2016	31 Dec. 2015
Up to 1 month	1,385	55
3 to 6 months	73	-
6 to 12 months	3	5
above 12 months	5,928	2,244
	7,389	**2,304**

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. 2016	31 Dec. 2015
Up to 1 month	875	228
1 to 3 months	22	167
3 to 6 months	25	364
6 to 12 months	1	62
above 12 months	26	-
	949	**821**

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 with the total value of PLN 91,577,000 as at 31 December 2016 (31 December 2015: PLN 126,119,000) constitute collateral of bank loans and liabilities under the bond issue, as well as bank guarantees issued.

9. INVENTORIES

	31 Dec. 2016	31 Dec. 2015
Materials	51,779	68,179
Finished goods	19,931	35,408
Impairment loss to the sale price, likely to achieve, of the finished goods	(139)	(524)
	71,571	**103,063**

Cost of inventories in the consolidated income statement was disclosed under "Cost of products, goods and materials sold" totalling PLN 1,429,011,000 in 2016 (2015: PLN 2,054,790,000).

(IN PLN '000)

Changes in the impairment losses to the sale price, likely to achieve, and for impairment of inventories are presented below:

	2016	2015
As at 1 January	524	188
Creating impairment losses of the sale price, likely to achieve, of finished goods	139	524
Use of impairment losses of the sale price, likely to achieve, of the finished goods	(524)	(188)
As at 31 December	**139**	**524**

Creating and use of impairment losses of inventories was presented in the consolidated income statement in "Cost of products, goods and materials sold".

No collateral was established on inventories.

10. CASH AND CASH EQUIVALENTS

	31 Dec. 2016	31 Dec. 2015
Cash in banks and at hand	20,287	23,151
Bank deposits	632,037	329,758
	652,324	**352,909**
Including:		
*Non-current**	*111,218*	*90,872*
Current	*541,106*	*262,037*
	652,324	352,909

*cash with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 116,718,000 as at 31 December 2016, including PLN 111,218,000 (as at 31 December 2015: PLN 90,872,000) of the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine. Cash held by the Group is denominated in PLN as well as EUR and USD. As at 31 December 2016, the value of cash held in EUR and USD, translated into PLN, totalled PLN 2,831,000.

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 value. Interest rates are based on WIBID rates and were as follows:

2016 – 0.4% - 1.7%

2015 – 0.8% - 2.1%

11. SHARE CAPITAL

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 Jan. 2016	34,014	170,068	131,090	301,158
As at 31 Dec. 2016	34,014	170,068	131,090	301,158
As at 1 Jan. 2015	34,014	170,068	131,090	301,158
As at 31 Dec. 2015	34,014	170,068	131,090	301,158

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

12. OTHER CAPITAL

Pursuant to the Articles of Association, the Parent 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 (partially deemed an efficient hedge).

Other capital – issue of Management Options

On 30 September 2013 the Supervisory Board of the Parent 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 Parent'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. As at the allocation date, the valuation of the scheme was made using the Black – Scholes – Merton model, the calculated value of bonds as at the allocation date amounted to PLN 23,657,000. The valuation model employed the following assumptions:

- - option allocation date (valuation date) was set to fall on 30 September 2013 for each of the tranches.
- - current price for calculation purposes was a 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 Parent 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.

As at 30 December 2016, the number of allocated options under the whole Scheme was 1,143,863, and the total value of the Management Option Scheme amounted to PLN 3,839,000 (31 December 2015: PLN 13,642,000). Within this pool, the number of allocated rights (for 2013-2014) to be exercised under the above options is 335,199. In the current period, on the basis of analyses performed, it was determined that there is no possibility of achieving non-market parameters required under the Scheme. Therefore, options valued at PLN 5,913,000 were found to be forfeit, and consequently, derecognised. As a result, the total cost of the Scheme disclosed as at 31 December 2016 under "Other capitals" amounted to PLN 3,839,000 (31 December 2015: PLN 9,752,000). The amount PLN 5,913,000 was disclosed in 2016 in the consolidated income statement under "Administrative expenses" – as a reduction of costs (in the analogous period of 2015: PLN 1,511,000, as an increase of costs).

Equity on valuation of cash flow hedges

Other capitals include also derivatives used as cash flow hedges (in the part deemed the efficient hedge) after tax effect. In 2016 the Group held no financial instruments hedging cash flows.

The loss on cash flow hedges in 2015 amounted in total to PLN 2,993,000 (PLN 2,424,000 after tax effect). The aggregate losses suffered (by 31 December 2015) were recognised under the following items in the statement of financial position and in the consolidated statement of comprehensive income:

- the loss attributable to 12 months of 2015 in the amount of PLN 2,993,000 (PLN 2,424,000 after tax effect) together with the loss disclosed at the end of 2014 in the amount of PLN 293,000 (PLN 237,000 after tax effect) in relation to forward contracts concluded in 2013 and settled in 2015 – in aggregate PLN 3,286,000 (PLN 2,661,000 after tax effect) – was disclosed in the consolidated statement of comprehensive income in section cash flow hedges under "Adjustments from transferring amounts to original values of hedged items" and was taken to the initial value of non-current assets disclosed in the consolidated statement of financial position (balance sheet) under "Property, plant and equipment".

In total, the consolidated statement of comprehensive income for 2015 shows an increase in comprehensive income related to cash flow hedges of PLN 237,000.

Non-controlling interests

Non-controlling interests relate exclusively to the subsidiary Łęczyńska Energetyka Sp. z o.o., and are owned by the Łęczna Municipality (11.29%) and by the Puchaczów Commune (0.01%) - 11.30% in total. In 2016 comprehensive income attributable to non-controlling interests amounted to PLN 446,000, and consisted of the following items: net profit attributable to non-controlling interests in the amount of PLN 456,000 and other comprehensive income concerning actuarial losses on defined benefit schemes in the amount of PLN 10,000.

Retained profits

Apart from net earnings for the current year attributable to shareholders of the Parent, the amount of retained profits consists of retained earnings, non-transferrable actuarial gain/(loss) on defined benefit schemes attributable to shareholders of the Parent, and capital arising from fair value measurement of property, plant and equipment as at the date on which the IAS/IFRS were first applied. The increase of PLN 453,281,000 achieved in 2016 results from the recognition in the current year of the net profit attributable to the shareholders of the Parent in the amount of PLN 181,536,000, actuarial losses on defined benefit schemes attributable to the shareholders of the Parent in the amount of PLN 6,284,000, and the fact that the loss for the previous year in the amount of PLN 278,029,000 was covered in full from the reserve capital.

(IN PLN '000)

Components of equity not subject to distribution

Under Article 396.1 of the Commercial Companies Code applicable to the Parent and its subsidiaries, a supplementary fund must be created to cover possible losses; at least 8% of profit for the given financial year must be transferred to the supplementary fund until it amounts to at least a third of the share capital. This portion of the supplementary fund is not available for distribution for the benefit of shareholders. As at 31 December 2016 and 31 December 2015, this value was PLN 100,386,000.

Also actuarial gains/(losses) relating to provisions for post-employment benefits recognised through comprehensive income, are not included in the distribution.

13. TRADE AND OTHER LIABILITIES

	31 Dec. 2016	31 Dec. 2015
Trade creditors	112,131	77,936
Other liabilities, including:	195,018	145,529
Company Social Benefits Fund	12,540	10,667
Liabilities due security deposit	2,816	4,449
Investment liabilities	69,354	37,663
Salaries payable	38,978	37,882
Other liabilities	71,330	54,868
Total financial liabilities	307,149	223,465
Liabilities - social security and other tax payable	51,740	60,931
Trade and other liabilities	**358,889**	**284,396**
Including:		
Non-current	*43,201*	*15,104*
Current	*315,688*	*269,292*
	358,889	284,396

Fair value of trade and other receivables does not differ significantly from their carrying value.

14. GRANTS

	31 Dec. 2016	31 Dec. 2015
Non-current liabilities		
Grants	13,705	14,058
Current liabilities		
Grants	600	978
	14,305	**15,036**

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.

(IN PLN '000)

15. CREDITS AND LOANS

	31 Dec. 2016	31 Dec. 2015
Long-term:	20,002	18,267
Special purpose loans	20,002	18,267
- Regional Environmental Protection Fund	20,002	18,267
Short-term:	3,273	3,036
Special purpose loans	3,273	3,036
- Regional Environmental Protection Fund	3,273	3,036
	23,275	**21,303**

In 2014 the subsidiary Łęczyńska Energetyka received from the Regional Environmental Protection Fund in Lublin a special purpose loan intended for financing an investment "Construction of a water treatment facility in Bogdanka along with technological connections". The loan will be repaid in equal monthly instalments starting as of November 2015. The due date for payment of the last instalment is 31 March 2024. The loan bears interest of 0.7 of the rediscount rate of bills of exchange set by the Monetary Policy Council (however not less than 4% annually). The loan is secured with a blank promissory note to the amount of PLN 34,554,000 as well as assignment of receivables under a heat sale agreement concluded with the Parent. In 2016 Łęczyńska Energetyka took out an additional amount of capital of PLN 4,984,000 as part of the above loan. In the course of 2016 the company repaid PLN 3,036,000.

On 16 December 2016 the Parent concluded with mBank S.A. an agreement for an overdraft facility with a limit of up to PLN 100,000,000. The company may use the overdraft until 29 November 2018. The final date on which the overdraft must be repaid is 30 November 2018. Interest on the loan amounted to 1M WIBOR + bank margin. As at the balance-sheet date the limit was not used.

The facility is secured with:

- Parent's declaration on submission to execution under Article 777.1.4 and 777.1.5 of the Polish Code of Civil Procedure in the form of a notary deed;
- Power of attorney, granted by the Parent to the Bank, to accounts kept by the Bank for the Parent.

As at the end of the previous year, the Parent had a revolving overdraft facility agreement with the limit of PLN 150,000,000, entered with mBank S.A. on 21 May 2014. The credit line was granted until 22 May 2016, and expired on that day.

The fair value of loans and borrowings does not significantly differ from their carrying value. Loans and borrowings received by the Group are denominated in Polish zlotys.

(IN PLN '000)

16. FINANCIAL LIABILITIES ON ACCOUNT OF BOND ISSUE

	31 Dec. 2016	31 Dec. 2015
Long-term:	300,000	700,000
Issuance of bonds	300,000	700,000
- PEKAO S.A.	*300,000*	*500,000*
- BGK	*-*	*200,000*
Short-term:	300,080	92
Issuance of bonds	300,000	-
- PEKAO S.A.	*150,000*	-
- BGK	*150,000*	-
Interest on bonds:	80	92
- PEKAO S.A.	*61*	*66*
- BGK	*19*	*26*
	600,080	**700,092**

Financial liabilities on account of bond issue refer to two scheme agreements. Under the first Scheme Agreement concluded by the Parent on 23 September 2013 with Bank Polska Kasa Opieki S.A., 3,000 bonds in the aggregate amount of PLN 300,000,000 were issued, to be redeemed by 31 December 2018. The redemption date of bonds in the amount of PLN 75 million in each case is 30 March 2018, 30 June 2018, 30 September 2018, and 30 December 2018. Interest on the bonds is based on WIBOR 3M plus a fixed margin.

Under the second Program Agreement concluded by the Parent on 30 June 2014 with Bank Polska Kasa Opieki S.A. (200 bonds) and Bank Gospodarstwa Krajowego (200 bonds), 400 bonds in the aggregate amount of PLN 400,000,000 were initially issued with the redemption date on 30 June 2016. The issue scheme provides for the Parent's right to issue further series of bonds within a given tranche in order to roll over the previous issue of this tranche, which justifies the long-term nature of this bond issue Scheme. 30 June 2016 was the maturity date of two bond series covering bonds issued within a given tranche for the total amount of PLN 400,000,000 on 30 June 2015. In order to refinance the issue of bonds subject to redemption on 30 June 2016, the Parent issued the total of 300 new series registered bonds under Tranche 1, with the total value amounting to PLN 300,000,000. Additionally, on the same date the Parent redeemed the remaining 100 bonds with the total value amounting to PLN 100,000.

The initial maturity date for the new series of bonds was 30 June 2017. An annex to the Scheme Agreement of 30 June 2014 amends the Term of the Scheme with respect to Tranche 1 from 31 December 2019 to 30 March 2017. As a consequence, all the bonds issued under Tranche 1 in the total amount of PLN 300,000,000 will be redeemed on 30 March 2017.

Interest on the bonds is based on WIBOR 3M plus a fixed margin.

The Parent established collateral in favour of the Banks in the following forms: agreements for assignment of receivables under a contract with one of the Parent's customers, statements on submission to execution under Article 777.1.5 of the Civil Procedure Code and powers of attorney to designated bank accounts of the Parent.

The fair value of financial liabilities resulting from bond issue does not differ significantly from the carrying value.

(IN PLN '000)

17. FINANCIAL INSTRUMENTS

17.1. Financial instruments by category

	Loans and receivables	Total
31 December 2016		
Assets as disclosed in the consolidated statement of financial standing		
Trade debtors	197,246	197,246
Cash and cash equivalents	652,324	652,324
Total	**849,570**	**849,570**

	Other financial liabilities	Total
Liabilities as disclosed in the consolidated statement of financial standing		
Loans and borrowings	23,275	23,275
Liabilities doe to bond issue	600,080	600,080
Trade creditors and other financial liabilities	185,182	185,182
Total	**808,537**	**808,537**
Interest and commissions paid		
Interest		16,461
Fees and commissions		257
Total		16,718

	Loans and receivables	Total
31 December 2015		
Assets as disclosed in the consolidated statement of financial standing		
Trade debtors	201,540	201,540
Cash and cash equivalents	352,909	352,909
Total	**554,449**	**554,449**

	Other financial liabilities	Total
Liabilities as disclosed in the consolidated statement of financial standing		
Loans and borrowings	21,303	21,303
Liabilities doe to bond issue	700,092	700,092
Trade creditors and other financial liabilities	223,465	223,465
Total	**942,249**	**942,249**
Interest and commissions paid		
Interest		19,200
Fees and commissions		340
Total		19,540

(IN PLN '000)

17.2. Hierarchy of financial instruments

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,
- 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 2016 and 31 December 2015 the Group held no financial instruments valued at fair value.

17.3. Financial risk factors

The Group 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, currency risk, and liquidity risk. The Group's general programme for risk management focuses on ensuring sufficient liquidity to enable the Group to implement its investment projects and secure the Group's operating activity. The interest rate risk is managed in order to restrict the negative influence of market change in interest rates on cash flows to the extent that would be acceptable for the Group, and to minimise finance costs.

17.3.1. Risk of a change in cash flows resulting from a change in interest rates

Given that the Group holds a significant amount of interest-bearing assets, the Group's revenue and cash flows are affected by changes in market interest rates.

The Group is also exposed to interest rate risk in connection with its current and non-current debt instruments. Loans, borrowings and bonds bearing interest at variable rates result in the Group's exposure to a change in cash flows resulting from changes in interest rates. Both in 2016 and in 2015 the Group used external financing denominated in the złoty.

Current debt of the Group under loans and borrowings amounts to PLN 23 million (as at 31 December 2015 – PLN 21 million) and under bond issue – PLN 600 million (as at 31 December 2015 – PLN 700 million). The total debt of the Group as at 31 December 2016 amounts to PLN 623 million (as at 31 December 2013 – PLN 721 million). Based on simulations, it was determined that a 1 p.p. change in interest rates would increase or decrease, as applicable, the Group's gross profit by an amount lower or equal to PLN 6.23 million (as at 31 December 2015 – PLN 7.21 million) and increase or decrease, as applicable, the net profit by an amount lower or equal to PLN 5.05 million (as at 31 December 2015 – PLN 5.84 million).

Based on the 2016 and 2015 data concerning the Group'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 2016 with respect to bank deposits of free cash amounts to PLN 541,106,000 (as at 31 December 2015 – PLN 262,037,000), and with respect to Mine Closure Fund assets – PLN 111,218,000 (as at 31 December 2015 – PLN 90,872,000). The change in finance income is presented in the table below:

Impact of changes of interest rates on finance income from deposits as at 31 December 2016:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(5,411)	(2,706)	2,706	5,411

Impact of changes of interest rates on finance income from deposits as at 31 December 2015:

(IN PLN '000)

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(2,620)	(1,310)	1,310	2,620

The analysis of data as at 31 December 2016 indicates that when interest rate of deposits goes up by 1 p.p., finance income under deposits increases by PLN 5,411,000 (up by PLN 2,620,000 as at 31 December 2015), and so does net profit - by PLN 4,383,000 (up by PLN 2,122,000 as at 31 December 2015). Analogously, when interest rate of deposits goes down by 1 p.p., finance income under deposits is lower by PLN 5,411,000 (decrease by PLN 2,620,000 as at 31 December 2015), and so is net profit - by PLN 4,383,000 (decrease by PLN 2,122,000 as at 31 December 2015).

The value of assets relating to Mine Closure Fund exposed to interest rate risk amounts to PLN 111,218,000 as at 31 December 2016 (decrease by PLN 90,872,000 as at 31 December 2015).

Impact of changes in interest rates on finance income under funds deposited to the Mine Closure Fund as at 31 December 2016:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(1,112)	(556)	556	1,112

Impact of changes in interest rates on finance income under funds deposited to the Mine Closure Fund as at 31 December 2015:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(909)	(454)	454	909

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 1,112,000 (increase by PLN 909,000 as at 31 December 2015), and net profit is higher by PLN 901,000 (increase by PLN 736,000 as at 31 December 2015). 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 1,112,000 (decrease by PLN 909,000 as at 31 December 2015), and so is net profit - by PLN 901,000 (decrease by PLN 736,000 as at 31 December 2015).

17.3.2. Foreign currency risk

The Group enters into specific transactions denominated in foreign currencies, which brings about a risk of exchange rate fluctuations. The Group is exposed mostly to a risk of changes in EUR/PLN and USD/PLN exchange rates. In 2016 no material currency exchange transactions were concluded, however the value of USD and EUR denominated sales was higher than before. Key foreign exchange transactions were concluded in previous years before 2015 in relation to the purchase of specialised equipment and machinery, however due to the completion of an intensified investment process such transaction are not considered in the nearest future.

The risk is managed within the approved procedures using forward currency contracts. The Group applies hedge accounting for future cash flows. The objective of measures hedging against changes in EUR/PLN and USD/PLN exchange rates is to ensure a specific level in PLN of future expenses in EUR which will be incurred in connection with investment works and to guarantee a specified level of future proceeds in USD to be obtained in relation to the sales.

The fair value measurement 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.

As at 31 December 2016 the Group held no instruments hedging the currency exchange risk (all currency forwards being the instruments hedging future cash flows have been settled by the end of 2015). In connection with the applied hedging policy, in 2015 the total of realised foreign exchange gains/(losses) of PLN 3,287,000 were included in the initial value of non-current assets.

As at 31 December 2016 financial assets exposed to the currency risk totalled PLN 6,074,000, and consisted of cash and trade debtors with a value of PLN 2,831,000 and PLN 3,243,000, respectively. On the other hand, the value of financial instruments exposed to the currency risk amounted to PLN 2,541,000 (as at 31 December 2015: PLN 7,991,000) and related to liabilities on account of a purchase of equipment and intangible assets. An increase or decrease in a currency exchange rate by 1% would cause a respective improvement or deterioration of pre-tax earnings by about PLN 35,000. The influence of the currency risk is therefore insignificant.

17.3.3. Credit risk

The Group 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 Group's customers. When selecting banks and financial institutions, the Group only accepts highly credible entities. In addition, the Group pursues a policy limiting credit exposure connected with particular financial institutions. As far as customers are concerned, the Group mainly sells its products to regular customers whose credibility is based on the experience gained in the course of mutual cooperation.

(IN PLN '000)

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

	31 Dec. 2016	31 Dec. 2015
Cash in hand and bank deposits	652,324	352,909
Current trade debtors	197,246	201,540
Total exposure to credit risk	**849,570**	**554,449**
Receivables from 7 key customers	183,398	189,958
Concentration of credit risk under receivables from 7 key customers	93%	94%
Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits)	80%	63%
Cash deposited at Banku Gospodarstwa Krajowego S.A. (expressed as % of total cash and bank deposits)	14%	20%
Cash deposited at mBank S.A. (formerly BRE Bank S.A.) (expressed as % of total cash and bank deposits)	3%	4%
Cash deposited at PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	1%	5%
Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits)	1%	4%
Cash deposited at BZ WBK S.A. (expressed as % of total cash and bank deposits)	1%	1%
Cash deposited at BOŚ S.A. (expressed as % of total cash and bank deposits)	0%	2%
Cash deposited at ING S.A. (expressed as % of total cash and bank deposits)	-	1%

The ability of the Group's main customers to make payments for goods is good, therefore the credit risk is assessed as low. The Group has worked with these customers for quite a long time and to date no problems with payments have occurred. Sales to new customers (in particular from Ukraine) are performed on the basis of prepayments. The share of receivables from other customers in total trade debtors is not significant.

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

- - Bank BZ WBK S.A. - long-term Fitch rating (IDR): BBB+ (stable)
- - Bank Millennium S.A. - long-term Fitch rating (IDR): BBB- (stable)
- - Bank PEKAO S.A. – long-term Fitch rating (IDR): A- (stable)
- - PKO Bank Polski S.A. - no Fitch support rating (and no long-term Fitch rating); deposits long-term Moody's rating: A2 (negative)
- - Bank Gospodarstwa Krajowego – long-term Fitch rating (IDR): A- (stable)
- - mBank S.A. - long-term Fitch rating: BBB (stable)
- - Bank Ochrony Środowiska S.A. - long-term Fitch rating (IDR): B+ (stable)
- - ING Bank Śląski S.A. – long-term Fitch rating: A (stable)

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17.3.4. 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 Group'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.

At the end of last year, in order to hedge the Group's current financing and to optimise cash management, the Parent had the possibility to issue bonds within the unused limit of PLN 200 million under a Scheme Agreement of 30 June 2014 concluded with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego, providing for the issue of bonds by the Parent up to the aggregate amount of up to PLN 600 million. As at the balance-sheet date, under the above agreement, 300 bonds in the aggregate amount of PLN 300 million were issued; the Parent is not entitled to any additional limit for the issue of new bond series exceeding PLN 300 million.

In addition, on 16 December 2016, the Management Board of the Parent entered into a revolving overdraft facility up to PLN 100 million with mBank S.A. (previous revolving overdraft facility dated 21 May 2014 with a limit of up to PLN 150 million expired on 22 May 2016). As at 31 December 2016 the available limit was not used.

The table below presents an analysis of the Group'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 increased by interest (if any).

Balance as at 31 December 2016	less than 1 year	1 up to 2 years	2 up to 5 years	more than 5 years
Loans and borrowings	4,138	3,780	10,613	8,278
Financing liabilities on account of bond issue	309,238	304,680	-	-
Trade and other liabilities	149,663	5,097	13,985	20,320

Balance as at 31 December 2015	less than 1 year	1 up to 2 years	2 up to 5 years	more than 5 years
Loans and borrowings	3,834	3,711	10,405	6,379
Financing liabilities on account of bond issue	16,926	16,880	722,339	-
Trade and other liabilities	269,292	2,777	6,680	10,328

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.

17.3.5. Sensitivity analysis of the financial result with respect to coal prices changes

Based on the 2016 data concerning the Group's core business, the sensitivity of the financial result to changes in market risk factors (prices of coal) has been assessed.

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 (gross profit - administrative expenses - selling costs) by 7.47%. Similarly, a 1% decrease in the coal price reduces the result on sales (gross financial result – administrative expenses – selling costs) by 7.47%.

The table below shows changes in the result in other analysed ranges (assuming that other factors remain unchanged).

(IN PLN '000)

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in result	-112.07%	-74.71%	-37.36%	-14.94%	-7.47%	0.00%	7.47%	14.94%	37.36%	74.71%	112.07%

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

17.4. Managing capital risk

The Group's objective in the area of managing capital/financial risk is to protect the Group's ability to continue as going concern, in particular ensuring financing for investments being made as well as ensuring relevant funding for on-going activities to allow the liabilities to be paid on due dates. The Group's objective in the area of managing financial risk includes maintaining the optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group 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 Group focuses on managing cash and cash equivalents, and debts under contracted loans and borrowings, and the bond issue.

The Group has contracted bank loans and borrowings, 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. 2016	31 Dec. 2015
Total loans and borrowings	23,275	21,303
Financing liabilities on account of bond issue	600,080	700,092
Net of cash and cash equivalents	(652,324)	(352,909)
Net debt	**(28,969)**	**368,486**
Total equity	2,292,407	2,122,622
Employed capital	2,263,438	2,491,108

18. PROVISIONS FOR EMPLOYEE BENEFITS

	31 Dec. 2016	31 Dec. 2015
Provisions as disclosed in the consolidated statement of financial position		
- Retirement and disability benefits	33,992	27,458
- Long service awards	82,512	82,260
- Coal allowances	114,876	111,927
- Voluntary Redundancy Programme	21,688	-
- Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	13,913	29,892
	266,981	**251,537**

	2016	2015
Costs recognised in the consolidated income statement:		

- Retirement and disability benefits	2,319	2,264
- Long service awards	9,950	14,914
- Coal allowances	6,479	5,179
- Voluntary Redundancy Programme	21,688	-
- Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	17,047	42,116
	57,483	**64,473**

An increase in the provisions for employee benefits by PLN 15,444,000 despite the simultaneous growth in the financial discount rate from 2.80% to 3.20% as compared to 31 December 2015 is mainly a consequence of creating a provision for the Voluntary Redundancy Programme (the assumptions for the Voluntary Redundancy Programme are described in detail in Note 2.1.1) in the amount of PLN 21,688,000 (in connection with the fact that the Voluntary Redundancy Programme, which is the first stage of the Generation Change Programme, was announced at the Parent on 30 December 2016), as well as changing the projected rises in remuneration base. In the case of provisions for the remaining employee benefits, such a significant decrease primarily results from the fact that a provision for remuneration in the amount of PLN 16,924,000 was used at the beginning of 2016.

	2016	2015
Costs recognised in the consolidated 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	7,294	(7,257)
- Coal allowances	64	12,849
- Other benefits for employees (death benefits)	413	(309)
	7,771	**5,283**

Change in provisions for employee benefits liabilities:

	2016	2015
As at 1 January	251,537	226,724
Costs of current employment (unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	52,789	54,663
Costs of past employment	(8,162)	-
Interest expense	6,348	5,782
Actuarial gains/(losses) as recognised in the consolidated income statement	6,508	4,028
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	7,771	5,283
Recognised in the comprehensive income, total	65,254	69,756
Benefits paid	(49,810)	(44,943)
As at 31 December	**266,981**	**251,537**
Including:		
- non-current	*209,682*	*201,837*
- current	*57,299*	*49,700*

- Costs of past employment recognised in the consolidated income statement result from:

(IN PLN '000)

- changes to the Programme caused by the Act on Changing the Pension Age passed by the Sejm (lower house of the Polish Parliament) on 16 November 2016 and signed by the President on 19 December 2016;
- changes to the Programme introduced as a result of recognising the effects of the Voluntary Redundancy Programme, which is the first stage of the Generation Change Programme announced by the Parent on 30 December 2016.

Amounts disclosed in the consolidated income statement and in the consolidated statement of comprehensive income in 2016 are as follows:

	Benefits during employment	Post-employment benefits	Total
Liabilities as at 1 January	109,455	142,082	251,537
Costs of current employment (unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	47,444	5,345	52,789
Costs of past employment	(7,311)	(851)	(8,162)
Interest expense	2,252	4,096	6,348
Actuarial gains/(losses) as recognised in the consolidated income statement	6,508	-	6,508
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	-	7,771	7,771
Recognised in the consolidated statement of comprehensive income, total	**48,893**	**16,361**	**65,254**

Amounts disclosed in the consolidated income statement and in the consolidated statement of comprehensive income in 2015 are as follows:

	Benefits during employment	Post-employment benefits	Total
Liabilities as at 1 January	87,903	138,822	226,724
Costs of current employment (unused holidays, salaries and wages, death benefits and other)	50,858	3,805	54,663
Interest expense	2,144	3,638	5,782
Actuarial gains/(losses) as recognised in the consolidated income statement	4,028	-	4,028
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	-	5,283	5,283
Recognised in the consolidated statement of comprehensive income, total	**57,030**	**12,726**	**69,756**

(IN PLN '000)

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

	2016	2015
Costs of products, goods and materials sold	46,047	53,297
Selling costs	312	317
Administrative expenses	4,776	5,077
Finance costs	6,348	5,782
Recognised in the consolidated income statement, total:	**57,483**	**64,473**
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	7,771	5,283
Recognised in the consolidated statement of comprehensive income, total	**65,254**	**69,756**

Main actuarial assumptions made:

	31 Dec. 2016	31 Dec. 2015
Discount rate	3.20%	2.80%
Employee mobility	1.20%	1.40%
Increase in salaries and wages in the subsequent year	1.50%	1.00%
Increase in salaries and wages in 2018–2026 (2015: 2017-2025)	2.50%	2.00%
Increase in salaries and wages after 2026 (2015: after 2025)	2.50%	2.00%

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. 2016	31 Dec. 2015
Men	15.71	14.64
Women	18.61	18.61

Weighted average term of the liability under given benefits schemes (in years):

	31 Dec. 2016	31 Dec. 2015
Retirement and disability benefits	12.54	10.08
Length-of-service awards	9.86	9.00
Coal allowances	18.43	17.81

(IN PLN '000)

19. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Provision for a mine closure and land reclamation	Mining damage	Legal claims	Real property tax	ZUS claims – contribution for accident insurance	Other	Total
As at 1 Jan. 2016	130,179	8,497	26,866	23,881	18,727	3,041	211,191
Including:							
Non-current	*130,179*	*-*	*-*	*-*	*-*	*-*	*130,179*
Current	*-*	*8,497*	*26,866*	*23,881*	*18,727*	*3,041*	*81,012*
Recognition in the consolidated statement of financial position							
- Update of the provision created	(17,737)	-	-	-	-	-	(17,737)
Recognition in the consolidated income statement							
- Creation of additional provisions	1,336	915	48	6,580	-	3,034	11,913
- Use of the created provision	-	(4,972)	-	-	-	(3,031)	(8,003)
- Release of an unused provision	-	-	(16,590)	-	-	-	(16,590)
- Interest	-	-	546	1,995	1,315	-	3,856
- Discount settlement	3,645	-	-	-	-	-	3,645
As at 31 Dec. 2016	**117,423**	**4,440**	**10,870**	**32,456**	**20,042**	**3,044**	**188,275**
Including:							
Non-current	*117,423*	*-*	*-*	*-*	*-*	*-*	*117,423*
Current	*-*	*4,440*	*10,870*	*32,456*	*20,042*	*3,044*	*70,852*
As at 1 Jan. 2015	123,585	9,155	25,295	23,258	15,901	-	197,194
Including:							
Non-current	*123,585*	*-*	*-*	*-*	*-*	*-*	*123,585*
Current	*-*	*9,155*	*25,295*	*23,258*	*15,901*	*-*	*73,609*
Recognition in the consolidated statement of financial position							
- Update of the provision created	(2,543)	-	-	-	-	-	(2,543)
Recognition in the consolidated income statement							
- Creation of additional provisions	5,738	4,377	700	7.577	239	3,041	21,672
- additional charge	-	-	-	-	1,299	-	1,299
- Use of the created provision	-	(5,035)	(282)	(7,926)	-	-	(13,243)
- Release of an unused provision	-	-	-	(127)	-	-	(127)
- Interest	-	-	1,153	1,099	1,288	-	3,540
- Discount settlement	3,399	-	-	-	-	-	3,399
As at 31 Dec. 2015	**130,179**	**8,497**	**26,866**	**23,881**	**18,727**	**3,041**	**211,191**
Including:							
Non-current	*130,179*	*-*	*-*	*-*	*-*		*130,179*
Current	*-*	*8,497*	*26,866*	*23,881*	*18,727*	*3,041*	*81,012*

Mine closure and land reclamation

The Group creates a provision for costs of mining plant liquidation and land reclamation, which it is obliged to incur under current laws. The value of mining plant closure and land reclamation calculated as at 31 December 2016 amounts to: PLN 117,423 including provision for a mine closure of PLN 110,188 and provision for land reclamation of PLN 7,235,000. The change in provision compared to 31 December 2015 is PLN (12,756,000); the increase resulting from creating an additional provision of PLN 1,336,000 and an increase resulting from the discount write-off of PLN 3,645,000 were recognised in the consolidated income statement under "Costs of products, goods and materials sold" and "Finance costs", respectively, while a decrease caused by update of assumptions, totalling PLN 17,737,000, was recognised in the consolidated statement of financial position as a decrease in "Property, plant and equipment".

Removing mining damage

Given the need of removing mining damage, the Group creates a provision for mining damage. The estimated value of works necessary to remove damage as at 31 December 2016 amounts to PLN 4,440,000, and covers predominantly planned costs which will have to be incurred in connection with removal of damage in buildings, buy-out of developed properties (where damage appeared) and compensations for damage to agricultural land. In 2016 the amount of the unused provision totalled PLN 4,972,000 (PLN 5,035,000 in 2015).

Legal claims

The amount disclosed constitutes a provision for certain legal claims filed against the Group by customers and suppliers. The value of made/released provisions in the current period is disclosed in the consolidated income statement under other income/expenses. 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 2016. The significant fall of the value for legal claims compared to the end of the previous financial year (31 December 2015) is primarily a result of releasing the unused provision for possible claims of the Consortium of BUDIMEX S.A., Ferrovial Agroman S.A. and Mostostal Kraków, totalling PLN 16,590,000 in relation to a ruling issued on 12 April 2016 by the Court of Appeals in Lublin, which was advantageous for the Parent. The decision to release the provision followed a lapse - on 29 June 2016 - of a statutory time frame for submitting, to the Court of Appeals, a cassation appeal from the abovementioned ruling.

The total amount of the provision is comprised of a principal amount of the claims amounting to PLN 10,125,000 and disclosed in the consolidated income statement under "Other income", and interests charged from 2 November 2010 in the amount of PLN 6,465,000 disclosed in the consolidated income statement under "Finance income".

Real property tax

The amount disclosed constitutes a provision for real property tax. While preparing statements for real property tax, the Parent (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 uniform position to that extent in a line of decisions given by administrative courts.

In 2015 the Supreme Administrative Court issued a ruling where it dismissed a cassation appeal of a mining enterprise and shared the position of tax authorities and the Provincial Administrative Court to the effect that linings of underground mining excavations constitute structures in the form retaining walls. Nevertheless, it is not possible to state unequivocally based on this ruling that a uniform position has been already formulated by administrative courts in this respect. It must be noted that in cases regarding real property tax due for 2008 under cassation appeals filed by the Parent, the Supreme Administrative Court failed to provide in its verbal justifications for the rulings any substantive reasoning to support the position that the infrastructure located in underground mining excavations is subject to real property tax, and limited itself to the issue of the Provincial Administrative Court in Lublin breaching procedural provisions, mainly in respect of the factual circumstances of the case, which resulted in overturning the rulings issued by the Provincial Administrative Court in Lublin.

In connection with decisions issued by the Commune Heads and the Local Government Appellate Court in Lublin, determining real property tax of the Parent for 2008-2012 with respect to all communes, the amounts of real property tax calculated for 2013-2016 were adjusted. The adjustment of the tax provision calculated for the above years was supported by a risk that in tax proceedings relating to these years, the tax authorities will decide in the same way as in relation to 2008-2012. Having taken the above into account, the provision disclosed in the Parent's books as at 31 December 2016 (disclosed in the consolidated statement of financial position under "Provisions for other liabilities and charges") in the amount of PLN 32,456,000 (31 December 2015: PLN 23,881,000) represents a provision for real property tax liabilities, if any, and interest thereon for 2013-2016 with respect to all communes, should the tax authorities determine that mining excavations of the Parent contain objects constituting structures on which real property tax is chargeable. The values connected with real property tax are disclosed in the consolidated income statement under "Cost of products, goods and materials sold."

At the end of 2014 decisions issued by the Commune Heads and determining real property tax for the Parent for 2009 (Ludwin and Puchaczów Communes) and for 2009-2012 (Cyców Commune) were upheld by the Local Government Appellate Court, and so it was decided to make the settlement of real property tax receivables and liabilities. As a result of the settlement, a provision, created earlier, was used in the amount of PLN 11,640,000 (mainly using the amount was in a set-off with overpayments made by the Parent between 2005 and 2007). In 2015 a similar settlement was made for the period 2010-2012 for the Puchaczów Commune and 2010-2012 for the Ludwin Commune. As a result of the settlement, a provision, created earlier, was used in the amount of PLN 7,926,000 (using the whole amount in a set-off with overpayments made by the Parent between 2005 and 2007). In 2016 such settlements were not effected. Real property tax liabilities arising from settled decisions were in exactly the same amount as the provision created by the Parent.

It should be stressed that the Parent takes all legal steps in order to challenge effectively the grounds for the fact of assessing by tax authorities the real property tax in relation to the infrastructure situated in underground mining excavations. The Parent is going to filing appeals against the decisions of tax authorities to the Regional Administrative Court and next, if necessary, to the Supreme Administrative Court.

Concurrently with the made provision, based on the above, in connection with the payments of the real property tax made in 2014 and 2015 (overpayments charged to liabilities) on account of mining excavations for 2010-2012 with respect to the Puchaczów Commune and Ludwin Commune, as at 31 December 2016 the Parent calculated income due for those years for an excess payment of the real property tax, in the amount of PLN 7,423,000 (as at 31 December 2015: PLN 6,708,000). They are disclosed in the consolidated statement of financial position as current assets under "Trade debtors and other receivables".

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 Parent, 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 Parent. 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 Parent 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 Parent 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 Parent 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. On 20 January 2015, the first hearing in the case was held, during which the Court admitted all evidence from documents as requested by the Parent, adjourned the case without stating any date of the adjourned hearing, and informed that the Parent's request for admitting evidence from opinions of expert doctors would be analysed at a hearing in camera. The hearing took place on 6 February 2015, when the Court decided to admit evidence in the form of a joint opinion of court expert physicians.

(IN PLN '000)

On 7 February 2017 the Regional Court in Lublin issued a ruling in the case against the Social Insurance Institution Lublin Branch for cancelling or changing the decision issued by the Social Insurance Institution Lublin Branch with respect to determining the percentage rate of the contribution for accident insurance for the settlement period from 1 April 2013 to 31 March 2014, and from 1 April 2014 to 31 March 2015, and imposing sanctions on the Parent in the form of punitive increase of the above-mentioned rate by 50%. By virtue of the above ruling, the Regional Court amended the challenged decision in such a way that the Parent is not obliged to pay the percentage rate of the contribution for accident insurance in the amount increased by 50%, and the rate of the contribution for accident insurance corresponds to the amount initially determined by the Parent. The judgment is not final and legally binding. The Management Board of the Parent believes that, given a complex nature of the case, as long as the dispute is not finally resolved, the risk of outflow of economic benefits is high. The expected date for resolution of this dispute will not take place earlier than at the beginning of 2018.

After taking the above into account, the provision disclosed in the Parent's books as at 31 December 2016 and amounting to PLN 20,042,000 represents a provision for claims of the Social Security Institution related to a contribution for accident insurance (PLN 3,046,000), the increased percentage rate of that contribution by 50% (PLN 13,352,000) and interest (PLN 3,644,000).

Other

Other provisions refer primarily to a provision, created by the Parent, for the cost of purchase of green certificates in the amount of PLN 2,013,000, which were necessary for filing for redemption in relation to the purchase and using electrical energy in 2016. In 2016 the Parent used the provision for the purchase of green certificates for 2015, in the amount of PLN 2,926,000.

20. REVENUE

	1 Jan. 2016-31 Dec. 2016	1 Jan. 2015-31 Dec. 2015
Sale of coal	1,724,416	1,808,804
Other activities	50,180	63,770
Sale of goods and materials	11,669	12,797
Total revenue	**1,786,265**	**1,885,371**

21. COSTS BY TYPE

(IN PLN '000)

	1 Jan. 2016 - 31 Dec. 2016	1 Jan. 2015 - 31 Dec. 2015
Amortisation/depreciation	362,180	387,747
Materials and energy consumption	435,764	406,995
External services	448,720	419,730
Employee benefits	576,593	580,616
Entertainment and advertising costs	6,462	6,541
Taxes, fees and charges	39,358	36,637
Other costs by type	28,659	21,665
Total costs by type	1,897,736	1,859,931
Consolidation exclusions (intragroup transactions)	(114,465)	(102,783)
Activities for the Company's own needs	(195,985)	(185,000)
Accruals and deferrals	(11,699)	(8,824)
Value of coal obtained from excavations	(70,519)	(58,802)
Provisions and other presentation adjustments between costs by type and by function	23,498	46,409
Impairment losses on the property, plant and equipment and intangible assets as a result of test (Note 4.3)	-	624,772
Total production cost	1,528,566	2,175,703
Change in inventory of products	15,431	18,951
Costs of goods and materials sold	11,457	12,687
Own cost of sales, including:	**1,555,454**	**2,207,341**
Costs of products, goods and materials sold	1,429,011	2,054,790
Selling costs	40,843	37,831
Administrative expenses	85,600	114,720

22. OTHER INCOME

	1 Jan. 2016 - 31 Dec. 2016	1 Jan. 2015 - 31 Dec. 2015
Compensations and damages received	5,737	2,122
Release of unused provision for the claims of the consortium of BUDIMEX S.A., Ferrovial Agroman S.A., and Mostostal Kraków	10,125	-
Other, *including:*	2,004	709
- Release of used provisions for liabilities	*105*	*40*
- Release of impairment losses	*146*	*354*
- Other revenue	*1,753*	*315*
Total other income	**17,866**	**2,831**

23. OTHER COSTS

	1 Jan. 2016 - 31 Dec. 2016	1 Jan. 2015 - 31 Dec. 2015
Grants	(475)	(273)
Enforcement fees and penalties	(139)	(182)
Compensation	(1,375)	(1,427)
Other	(156)	(135)
Total other costs	**(2,145)**	**(2,017)**

(IN PLN '000)

24. OTHER NET LOSS

	1 Jan. 2016 - 31 Dec. 2016	1 Jan. 2015 - 31 Dec. 2015
(Profit)/(loss) on sale of non-current assets	51	310
Currency exchange differences	(112)	(441)
Liquidation of investment without effect	(41)	(1,549)
Impairment losses due to impairment of construction in progress	(7,352)	-
Provision for mining damage	-	658
Creation of provision for ZUS claims related to contribution for accident insurance, including:	-	(1,538)
- Creating provision for the contribution	*-*	*(239)*
- Creating provision for additional fine	*-*	*(1,299)*
Other, *including:*	(2,071)	(2,505)
- Creating other provisions	*(672)*	*(418)*
- Other	*(1,399)*	*(2,087)*
Total other net loss	**(9,525)**	**(5,065)**

25. FINANCE INCOME AND COSTS

	1 Jan. 2016 - 31 Dec. 2016	1 Jan. 2015 - 31 Dec. 2015
Interest income on short-term bank deposits	5,691	3,678
Release of unused provision for interest on claims of the consortium of BUDIMEX S.A., Ferrovial Agroman S.A., and Mostostal Kraków	6,465	-
Other income, including:	2,411	2,432
- Interest regarding the Mine Closure Fund	*1,832*	*1,945*
Total finance income	14,567	6,110
Interest on bank loans, commissions on loans and bonds	(13,392)	(11,041)
Interest expense on valuation of employee benefits	(6,348)	(5,782)
Settlement of discount on regarding provision for the Mine Closure Fund and land reclamation	(3,645)	(3,399)
Creation of a provision and impairment losses of interest	(2,285)	(1,405)
Provision for interest on claims of the Social Security Institution (ZUS) for contribution for accident insurance	(1,315)	(1,288)
Other cost	(944)	(23)
Total finance costs	(27,929)	(22,938)
Finance costs – net	**(13,362)**	**(16,828)**

26. INCOME TAX

26.1 Tax burden

	1 Jan. 2016 - 31 Dec. 2016	1 Jan. 2015 - 31 Dec. 2015
Current tax	21,668	12,053
Deferred tax charged into finance income	19,985	(75,476)
Deferred tax charged into other comprehensive income:		
- as cash flow hedge	-	56
- as actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income:	(1,477)	(1,004)
	40,176	**(64,371)**

(IN PLN '000)

26.2 Reconciliation of an effective tax rate

	1 Jan. 2016 - 31 Dec. 2016	1 Jan. 2015 - 31 Dec. 2015
Profit before taxation	223,645	(343,049)
Tax calculated at the rate of 19%	42,493	(65,179)
Tax effect of income permanently excluded from the taxable base, including:	(3,288)	(988)
- revenue due in respect of the real property tax	(136)	(245)
- reversal of the provision for legal claims	(3,152)	-
- other	-	(743)
Tax effect of costs permanently excluded from the taxable base	2,448	2,744
- payment to the National Fund for the Disabled	956	971
- provision for interest on real property tax	382	574
- impairment loss for interest receivable from the central budget and interest payable to the central budget	250	440
- other interest	145	132
- donations	90	51
- provision for ZUS claims related to contribution for accident insurance	-	247
- other	625	329
Decrease in financial result by the income tax	**41,653**	**(63,423)**

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 Group 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 Group for the purpose of corporate income tax in a way that differs from the classification presented by the Group, which could potentially result in adjustments in corporate income tax settlements and the payment of an additional amount of tax. Such amount could 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 consolidated financial statements can therefore be changed after their amount has been finally determined by the tax authorities.

(IN PLN '000)

26.3 Deferred income tax

Assets and liabilities regarding the deferred income tax mutually set-off is the Group 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 consolidated financial statements:

	31 Dec. 2016	31 Dec. 2015
Deferred tax assets		
- to be realised after 12 months	50,138	50,045
- to be realised within 12 months	19,227	16,926
	69,365	66,971
Deferred income tax liability		
- to be realised after 12 months	118,876	97,725
- to be realised within 12 months	4,431	4,680
	123,307	102,405
Deferred tax assets (net)	**2,117**	**2,405**
Deferred tax liabilities (net)	**56,059**	**37,839**

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:

Change in deferred income tax assets

Deferred tax assets	Provisions for employee benefits and similar	Unpaid remuneration and other benefits	Provision for real property tax	Other balance-sheet provisions	Provision for mining damage	Other	Total
As at 1 Jan. 2016	47,666	3,541	4,103	2,695	1,615	7,351	66,971
(Decrease)/increase of the financial result	3,107	1,200	1,250	2,925	(771)	(5,317)	2,394
- recognised in the consolidated income statement	1,630	1,200	1,250	2,925	(771)	(5,317)	917
- recognised in the consolidated statement of comprehensive income	1,477	-	-	-	-	-	1,477
As at 31 Dec. 2016	**50,773**	**4,741**	**5,353**	**5,620**	**844**	**2,034**	**69,365**
As at 1 Jan. 2015	43,082	4,873	3,908	2,000	1,739	6,754	62,356
(Decrease)/increase of the financial result, including:	4,584	(1,332)	195	695	(124)	597	4,615
- recognised in the consolidated income statement	3,580	(1,332)	195	695	(124)	653	3,667
- recognised in the consolidated statement of comprehensive income	1,004	-	-		-	(56)	948
As at 31 Dec. 2015	**47,666**	**3,541**	**4,103**	**2,695**	**1,615**	**7,351**	**66,971**

Projections prepared for the Group suggest that tax income will be generated in 2017 and in the subsequent years. Based on these projections, it was concluded that there is no risk of failure to realise deferred tax assets recognised in these consolidated financial statements.

Change in deferred income tax liability

Deferred tax liabilities	Valuation of non-current assets	Costs of panel strengthening	Provision for a mine closure and land reclamation, net*	Real property tax receivable	Other	Total
As at 1 Jan. 2016	90,966	4,083	6,000	802	554	102,405
(Decrease)/increase of the financial result, including:	18,732	(20)	1,503	-	687	20,902
- recognised in the consolidated income statement	18,732	(20)	1,503	-	687	20,902
As at 31 Dec. 2016	**109,698**	**4,063**	**7,503**	**802**	**1,241**	**123,307**
As at 1 Jan. 2015	160,026	2,167	6,915	2,758	2,348	174,214
(Decrease)/increase of the financial result, including:	(69,060)	1,916	(915)	(1,956)	(1,794)	(71,809)
- recognised in the consolidated income statement	(69,060)	1,916	(915)	(1,956)	(1,794)	(71,809)
As at 31 Dec. 2015	**90,966**	**4,083**	**6,000**	**802**	**554**	**102,405**

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

An increase in the deferred tax liability in relation to the earnings is primarily a result of the growth in temporary differences between the carrying value and the tax value of non-current assets.

26.4 Current income tax - receivables and liabilities

Receivables related to the overpayment of current income tax in the amount of PLN 9,424,000 which are disclosed in the consolidated statement of financial position are mainly a result of an overpayment of the Parent's corporate income tax due for 2016. Current income tax liabilities as disclosed in the consolidated statement of financial standing of PLN 18,000 refer only to the Parent's subsidiary, EkoTRANS Bogdanka Sp. z o.o.

In 2016 the Parent set off the overpayment of income tax due for 2015 with the liabilities on account of other taxes (VAT, PIT) in the amount of PLN 26,225,000.

27. EARNINGS/(LOSS) PER SHARE

Basic

Basic earnings/(loss) per share are calculated as the quotient of the profit/(loss) attributable to the shareholders of the Parent and the weighted average number of ordinary shares during the year.

	2016	2015
Earnings/(loss) attributable to owners of the Parent	181,536	(279,843)
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic profit/(loss) per share (in PLN)	**5.34**	**(8.23)**

Diluted

Diluted earnings/(loss) 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 2016, the Parent held instruments resulting in potential dilution of ordinary shares due to the introduction of the Management Options Scheme in 2013. As at 31 December 2016 dilution did not occur (the same situation was recorded as at 31 December 2015).

28. DIVIDEND PER SHARE

During the Annual General Shareholders Meeting held on 22 June 2016, the Shareholders of the Parent, Lubelski Węgiel Bogdanka S.A., did not adopt a resolution on payment of dividend. In compliance with Resolution No. 27 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A., the net loss of the Parent in the amount of PLN 278,029,000 has been fully covered from the Company's reserve capital.

The dividend rate due to the owners of the Parent is presented in the table below.

	2016	2015
Dividend paid	-	119,048
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
Dividend per share (in PLN)	**-**	**3.50**

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

The Management Board of the Parent is analysing the possibility of paying the dividend for 2016. On the date of these consolidated financial statements, the decision on the distribution of profit for 2016 was not yet taken. Recommendation of the Parent's Management Board regarding profit distribution for 2016 is expected to be issued at the turn of the first and the second quarter 2017.

29. CONTINGENT ITEMS

The Group has contingent liabilities on account of real property tax arrears as well as contingent liabilities and assets on account of legal claims arising in the normal course of its business activities.

Real property tax

The contingent liability concerning the value of mining excavations from which the Parent does not create a provision (provision for real property tax, in its parts deemed as probable by the Parent, amounts to PLN 32,456,000 and is presented in Note 19), may primarily result from the existing discrepancies between the position of the Parent 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 real property tax. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2015).

Patent claims

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 Parent from which the Parent does not create provision may primarily result from impossibility to assess whether the claim in question is justified and different positions taken by the Parent and the co-inventors of inventions covered with the abovementioned patents. The value of the possible liability as at the day of publishing these consolidated financial statements amounts to PLN 48 million. The Parent estimated a provision for remuneration for co-inventors to the best of its knowledge and in line with principles so far applied at the Parent 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 Parent. The amount of remuneration will be subject to analysis of court experts or experts accepted by both parties, to be made upon drafting a technical opinion regarding the patented inventions. On 24 March 2016 a court expert issued an opinion. Subsequently, during the course of 2016, both parties submitted a number of reservations to the opinion. In the next step, the court expert will be summoned to testify about the opinion. The date of the hearing has not yet been specified. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2015).

Liabilities and contingent assets regarding a dispute with a Consortium

By 31 December 2016 the Parent issued to the Consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. ("Consortium") debit notes in the total amount of PLN 34,592,000, on account of contractual damages, liquidated damages for delay in contract performance and lost profit damages. Further, on 7 April 2015, to Arbitration Court at the National Chamber of Commerce in Warsaw received an action filed by the Consortium against the Parent. The action mainly referred to claims for reimbursement of costs in relation to the extension of the contract term and liquidated damages for withdrawal from the contract by fault of the Parent, totalling PLN 27,232,000. In the Parent's Management Board's opinion both the imposed liquidated damages and the claim for additional costs incurred by the Consortium are groundless, all the more that the Consortium is the party responsible for the delay in contract performance.

The Parent's Management Board believes that the Consortium moved to the Arbitration Court as a response to being charged with liquidated damages, contractual damages and lost profit damages by the Parent. The Management Board finds that likelihood of resolving the dispute to the disadvantage of the Parent is small, so is the resulting necessity (if any) to pay the claims, and the final financial result of mutual claims should not be adverse to the Parent.

On 18 January 2016, Arbitration Court's Adjudication Panel issued a statement to the effect that it had no jurisdiction over a majority of claims pursued by the Consortium (the Arbitration Court has only decided to have jurisdiction for the recognition of the claim for the return of PLN 15 million being a bank guarantee paid to the Parent and issued on order of Mostostal Warszawa S.A.), at the same time issuing a decision, on 21 January 2016, obliging the parties to the arbitration proceedings to file a joint position regarding further course of the proceedings. On 10 June 2016, to Arbitration Court at the National Chamber of Commerce in Warsaw received an action filed by the Consortium regarding the bank guarantee described above; the Parent files a response to the action, and requested a dismissal of the Consortium's claims and presented an opinion drafted by experts appointed by the Parent. In the meantime, on 20 September 2016 the Parent filed a statement of claim against the Consortium with the Regional Court in Lublin. The Parent requested the court to determine that the alleged claims of the Consortium on account of the agreement did not exist. The claim aims to prove that the Consortium failed to duly perform the agreement, and therefore, the Parent was right to charge the Consortium the liquidated damages and withdraw from the agreement.

30. FUTURE CONTRACTUAL LIABILITIES

(IN PLN '000)

Investment liabilities

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

	31 Dec. 2016	31 Dec. 2015
Property, plant and equipment	7,063	44,884
Investment liabilities	**7,063**	**44,884**

31. OPERATING LEASE

Minimum future payments on operating lease agreements which cannot be revoked are as follows:

	31 Dec. 2016	31 Dec. 2015
Less than 1 year	2,605	4,490
From 1 year to 2 years	466	1,455
From 2 to 5 years	1,294	1,079
Over 5 years	30,153	24,690
Minimum future payments	**34,518**	**31,366**

The Group is a party to lease agreements of specialist plant and machinery and vehicles. They were classified as operating leases. The agreements are concluded for various terms. In part, they are short-term agreements with the objective to check the quality of manufacture and fitness for use of plant and machinery in the technological process. Agreements concluded for more than 2 years include a provision about possible indexation of the rate using a goods and services price index.

The lease agreement of "System of monitoring and control of printouts along with copying and printing equipment" includes, apart from a fixed fee for each piece of equipment, an additional fee calculated as the number of printouts made multiplied by the unit price of given printout type. In the calculation of minimum payments under irrevocable lease agreements, the variable value of rent depending on the number of printouts made has been neglected.

The Group also holds the perpetual usufruct right to use land classified as operating lease, therefore future payments on that account are included in this note. Payments referring to the period exceeding 5 years apply only to annual payments for the perpetual usufruct right.

During the period ended on 31 December 2008, the costs of the operating lease recognised in the consolidated income statement amounted to PLN 5,300,200 (during the period ended on 31 December 2015: PLN 4,114,000).

(IN PLN '000)

32. RELATED PARTY TRANSACTIONS

All transactions with related entities are concluded as part of regular operations of the Group and are performed on an arms' length basis.

Transactions with ENEA Group companies

As a result of purchasing the majority block of shares in the Parent, Lubelski Węgiel Bogdanka S.A., by ENEA S.A. (the Parent in the ENEA Group) which was accounted for on 29 October 2015, the Parent became a part of the ENEA Group.

Purchase transactions cover primarily the purchases of electrical energy from ENEA S.A. and materials from ENEA Logistyka Sp. z o.o.

	1 Jan. 2016 - 31 Dec. 2016	29 Oct. 2015 - 31 Dec. 2015*
Purchases in period	66,585	-
Total liabilities at end of period including VAT	13,459	-

Sale transactions cover solely the sales of thermal coal to ENEA Wytwarzanie Sp. z o.o.

	1 Jan. 2016 - 30 Dec. 2016	29 Oct. 2015 - 31 Dec.2015*
Sales in period	819,991	135,904
Total receivables at end of period including VAT	105,579	75,796

*ENEA Wytwarzanie Sp. z o.o., ENEA S.A. and ENEA Logistyka Sp. z o.o. became related companies upon the purchase by ENEA S.A. (the Parent in the ENEA Group) of the majority block of shares, which was accounted for on 29 October 2015, therefore the tables above, with respect to comparable data, show purchases and sales solely for the last two months of 2015.

Transactions with subsidiaries of the State Treasury of the Republic of Poland

The Group concludes commercial transactions with state administration and local self-government bodies as well as entities owned by the State Treasury of the Republic of Poland.

Key sale transactions include revenue on sales of thermal coal to the following companies: Zakłady Azotowe w Puławach S.A. (Azoty Group), PGNiG Termika S.A., Energa Elektrownie Ostrołęka S.A. and Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Chełm.

In the reporting periods ending on 31 December 2016 and 31 December 2015, the value of tradeover on account of sales with the above entities and the total receivables of the Group from those entities were as follows:

	1 Jan. 2016 - 30 Dec. 2016	29 Oct. 2015 - 31 Dec. 2015**
Sales in period	370,020	94,178
Total receivables at end of period including VAT	33,364	53,642

Key purchase transactions include: purchase of electrical energy from PGE Polska Grupa Energetyczna S.A., purchase of materials (mine lining) from Huta Łabędy S.A., purchase of transport services from PKP Cargo S.A., purchases of electrical energy from PGE Polska Grupa Energetyczna S.A. as well as payments for mining and prospecting licences.

(IN PLN '000)

In the reporting periods ending on 31 December 2015 and 31 December 2015, the value of purchases from the above entities and the total liabilities of the Group to those entities were as follows:

	1 Jan. 2016 - 31 Dec. 2016	29 Oct. 2015 - 31 Dec. 2015**
Purchases in period	109,790	29,527
Total liabilities at end of period including VAT	14,963	36,979

**the disclosed transactions refer to the period from purchasing by ENEA S.A. of the majority block of the Parent's shares accounted for on 29 October 2015.

33. INFORMATION ON REMUNERATION OF THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND THE COMMERCIAL PROXIES OF THE PARENT

	1 Jan. 2016 - 31 Dec. 2016	1 Jan. 2015 - 31 Dec. 2015
Remuneration of Management Board members and commercial proxies	**7,070**	**6,194**
Including:		
Annual award	498	1,415
Pay for termination of employment relationship	990	-
Pays upon retirement due to old age	-	125
Other benefits	1,354	494
Remuneration of the Supervisory Board members of the Parent	**123**	**812**

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Parent's Supervisory Board allocated a total of 1,143,863 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board (removed from the Management Board as of 31 March 2016), received 183,672 Options, and each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak (removed from the Management Board as of 31 March 2016), Roger de Bazelaire (removed from the Management Board as of 23 November 2015) and Krzysztof Szlaga (currently holding the position of the President of the Management Board) received 122,448 Options. The remaining 592,847 Options were allocated to senior management members of key importance for the Parent'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.

As at 31 December 2016, the number of allocated options under the whole Scheme was 1,143,863, and the total value of the Management Option Scheme amounted to PLN 3,839,000 (31 December 2015: PLN 13,642,000). Details regarding the Scheme are described in Note 12.

34. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT AND THE AUDITOR'S FEE

On 26 June 2015, the Supervisory Board of the Parent adopted a resolution on appointing Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, with registered office in Warsaw, al. Jana Pawła II 19, as an entity authorised to:

(IN PLN '000)

- review the financial statements and the Group's consolidated financial statements for the first halves of 2015, 2016 and 2017,
- audit the Parent's financial statements and the Group's consolidated financial statements for 2015, 2016 and 2017.

The agreement was signed on 13 August 2015.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa has been entered since 7 February 1995 into the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 73.

In addition to the services of auditing and reviewing the financial statements, the auditor provides other services to the Group, i.e. the examination of the correctness of calculations prepared by the Group with respect to indicators for the purpose of, among other things, bond programmes and the Energy Regulatory Office.

The auditor's remuneration for all services provided in 2016 and 2015 is as follows:

	2016	2015
Auditor's fee	**231**	**214**
Including:		
Audit of the annual financial statements	105	106
Review of the financial statements	70	69
Other attestation services	20	-
Other certification services (examination of indicators)	36	39

35. EVENTS AFTER THE BALANCE-SHEET DATE

On 7 February 2017 the Regional Court in Lublin issued a ruling in the case against the Social Insurance Institution Lublin Branch for cancelling or changing the decision issued by the Social Insurance Institution Lublin Branch with respect to determining the percentage rate of the contribution for accident insurance for the settlement period from 1 April 2013 to 31 March 2014, and from 1 April 2014 to 31 March 2015, and imposing sanctions on the Parent in the form of punitive increase of the above-mentioned rate by 50% (a detailed description is contained in Note 19 next to the description of the provision for the claim of the Social Insurance Institution regarding the accident contribution). By virtue of the above ruling, the Regional Court amended the challenged decision in such a way that the Parent is not obliged to pay the percentage rate of the contribution for accident insurance in the amount increased by 50%, and the rate of the contribution for accident insurance corresponds to the amount initially determined by the Parent. The ruling is not final and valid.

After the balance-sheet date, to the best of the Group's knowledge, no material event occurred, which could affect the financial result as at 31 December 2016, and were not disclosed in the Group's consolidated financial statements. Except for the events described above, by the publication date of these consolidated financial statements, no other material events affecting the Group's operations occurred in 2016.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 29 March 2017, it approves these consolidated financial statements of the Group for the period from 1 January to 31 December 2016.

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

Krzysztof Szlaga	President of the Management Board
Stanisław Misterek	Vice-President of the Management Board Economic and Financial Affairs
Sławomir Karlikowski	Vice-President of the Management Board Production – Head of Mining Supervision in Mining Facility
Adam Partyka	Vice-President of the Management Board Employee and Social Affairs
Marcin Kapkowski	Vice-President of the Management Board Procurement and Investments
Urszula Piątek	Chief Accountant