



**LUBELSKI WĘGIEL  
„BOGDANKA”  
SPÓŁKA AKCYJNA**



**THE LUBELSKI WĘGIEL BOGDANKA GROUP  
CONSOLIDATED FINANCIAL STATEMENTS**

**for the financial year from 1 January 2017 to 31 December 2017**

**BOGDANKA, MARCH 2018**



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## CONSOLID STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	As at 31 December	
		2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	3,240,307	2,760,196
Intangible assets	6	59,961	47,511
Investment properties	7	3,365	3,532
Deferred tax assets	26.3	2,024	2,117
Trade and other receivables	8	1,342	5,214
Cash and cash equivalents	10	121,806	111,218
<b>Total non-current assets</b>		<b>3,428,805</b>	<b>2,929,788</b>
<b>Current assets</b>			
Inventories	9	62,557	71,571
Trade and other receivables	8	209,078	244,070
Overpaid income tax	26.4	23,504	9,424
Non-current assets held for sale	5	-	4,330
Cash and cash equivalents	10	434,928	541,106
<b>Total current assets</b>		<b>730,067</b>	<b>870,501</b>
<b>TOTAL ASSETS</b>		<b>4,158,872</b>	<b>3,800,289</b>
<b>Equity</b>			
<b>Equity attributable to owners of the Parent</b>			
Ordinary shares	11	301,158	301,158
Other capitals	12	1,615,010	1,473,128
Retained profits	12	975,357	507,972
		2,891,525	2,282,258
<b>Non-controlling interests</b>	12	<b>10,002</b>	<b>10,149</b>
<b>Total equity</b>		<b>2,901,527</b>	<b>2,292,407</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	15	16,966	20,002
Deferred income tax liability	26.3	205,334	56,059
Provisions for employee benefits	18	119,532	209,682
Provisions for other liabilities and charges	19	114,448	117,423
Grants	14	13,148	13,705
Financing liabilities on account of bond issue	16	-	300,000
Trade and other liabilities	13	43,007	43,201
		512,435	760,072
<b>Current liabilities</b>			
Loans and borrowings	15	3,242	3,273
Provisions for employee benefits	18	37,489	57,299
Provisions for other liabilities and charges	19	85,770	70,852
Grants	14	560	600
Financing liabilities on account of bond issue	16	301,911	300,080
Current income tax liabilities		-	18
Trade and other liabilities	13	315,938	315,688
		744,910	747,810
<b>Total liabilities</b>		<b>1,257,345</b>	<b>1,507,882</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,158,872</b>	<b>3,800,289</b>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## CONSOLIDATED INCOME STATEMENT

	Note	For the financial year from 1 January to 31 December	
		2017	2016
Revenue	20	1,780,321	1,786,265
Costs of products, goods and materials sold	21	(859,161)	(1,429,011)
<b>Gross profit</b>		<b>921,160</b>	<b>357,254</b>
Selling costs	21	(41,115)	(40,843)
Administrative expenses	21	(33,903)	(85,600)
Other income	22	5,104	17,866
Other costs	23	(1,161)	(2,145)
Other net loss	24	(2,815)	(9,525)
<b>Profit on operating activities</b>		<b>847,270</b>	<b>237,007</b>
Finance income	25	7,253	14,567
Finance costs	25	(25,762)	(27,929)
<b>Profit before taxation</b>		<b>828,761</b>	<b>223,645</b>
Income tax	26.1	(160,836)	(41,653)
<b>Net profit for the period</b>		<b>667,925</b>	<b>181,992</b>
<i>including:</i>			
- attributable to the owners of the Parent		667,613	181,536
- attributable to non-controlling interests		312	456

### Earnings per share attributable to owners of the Parent during the year (in PLN per share)

- basic	27	19,63	5,34
- diluted	27	19,63	5,34

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the financial year from 1	
		January to 31 December	
		2017	2016
<b>Net profit for the financial year</b>		<b>667,925</b>	<b>181,992</b>
Other comprehensive income for the reporting 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	(30,043)	(7,771)
Income tax relating to non-transferrable items	26.1	5,708	1,477
Items which never will be subject to reclassification to profit or loss for the current period – total		(24,335)	(6,294)
Items which are or may be subject to reclassification to profit or loss for the current period:			
Cash flow hedges			
- Profit/(loss) for period		-	-
- Adjustments resulting from transferring amounts to initial values of hedged items		-	-
Income tax relating to transferrable items		-	-
Items which are or may be subject to reclassification to profit or loss for the current period - total		-	-
Other net comprehensive loss for the reporting period		(24,335)	(6,294)
<b>Other net comprehensive income for the reporting period - total</b>		<b>643,590</b>	<b>175,698</b>
<i>including:</i>			
- attributable to owners of the Parent		643,281	175,252
- attributable to non-controlling interests		309	446

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Ordinary shares	Other capitals – transfer of profit/(losses)	Other capital related to the Management Options Scheme	Retained profits	Total equity	Non-controlling interests	Total equity
<b>As at 1 January 2017</b>	<b>301,158</b>	<b>1,469,289</b>	<b>3,839</b>	<b>507,972</b>	<b>2,282,258</b>	<b>10,149</b>	<b>2,292,407</b>
Total net comprehensive income for the reporting period:	-	-	-	643,281	643,281	309	643,590
- net profit	-	-	-	667,613	667,613	312	667,925
- other comprehensive income	-	-	-	(24,332)	(24,332)	(3)	(24,335)
Dividend for 2016	-	-	-	(34,014)	(34,014)	(456)	(34,470)
Transfer of the result for 2016	28	141,882	-	(141,882)	-	-	-
<b>As at 31 December 2017</b>	<b>301,158</b>	<b>1,611,171</b>	<b>3,839</b>	<b>975,357</b>	<b>2,891,525</b>	<b>10,002</b>	<b>2,901,527</b>

<b>As at 1 January 2016</b>	<b>301,158</b>	<b>1,747,318</b>	<b>9,752</b>	<b>54,691</b>	<b>2,112,919</b>	<b>9,703</b>	<b>2,122,622</b>
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	-	-	-
Change in the value of the Management Options Scheme – derecognition of forfeited options	12	-	(5,913)	-	(5,913)	-	(5,913)
<b>As at 31 December 2016</b>	<b>301,158</b>	<b>1,469,289</b>	<b>3,839</b>	<b>507,972</b>	<b>2,282,258</b>	<b>10,149</b>	<b>2,292,407</b>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the financial year from 1 January to 31 December	
		2017	2016
Cash flow from (used in) operating activities			
Cash inflow from operating activities*		640,096	695,068
Interest received and paid		(1,531)	6,065
Income tax paid		(30,048)	(25,342)
<b>Net cash flow from (used in) operating activities</b>		<b>608,517</b>	<b>675,791</b>
Cash flow from (used in) investing activities			
Acquisition of property, plant and equipment		(368,174)	(262,818)
Interest paid regarding investing activities	17.1	(3,126)	(3,412)
Acquisition of intangible assets		(1,160)	(6,182)
Inflow from the sale of property, plant and equipment		3,924	54
Interest received		7,072	7,340
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund	10	(10,588)	(20,346)
<b>Net cash flow from (used in) investing activities</b>		<b>(372,052)</b>	<b>(285,364)</b>
Cash flow from (used in) financing activities			
Proceeds from loans and borrowings	15	-	4,984
Bond redemption	16	(300,000)	(100,000)
Repayments of loans and borrowings	15	(3,036)	(3,036)
Interest and commissions paid regarding financing activities	17.1	(5,137)	(13,306)
Dividend paid	28	(34,470)	-
<b>Net cash flow from (used in) financing activities</b>		<b>(342,643)</b>	<b>(111,358)</b>
Net increase / (decrease) in cash and cash equivalents		(106,178)	279,069
Cash and cash equivalents at beginning of period		541,106	262,037
<b>Cash and cash equivalents at end of period</b>		<b>434,928</b>	<b>541,106</b>

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

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.





## CONSOLIDATED CASH INFLOW FROM OPERATING ACTIVITIES

	Note	For the financial year from 1	
		January to 31 December	
		2017	2016
Profit before taxation		828,761	223,645
- Depreciation of non-current assets	4	354,591	359,452
- Amortisation of intangible assets	6	1,614	2,644
- Depreciation of investments in real property	7	167	84
- Profit/(loss) on sale of property, plant and equipment		460	(51)
- Profit/(loss) on liquidation of plant, property and equipment		10,522	15,894
- Creating and using impairment losses of property, plant and equipment		1,284	6,105
- Actuarial losses as recognised in the consolidated statement of comprehensive income	18	(30,043)	(7,771)
- Change in provisions for employee benefits	18	(109,960)	15,444
- Changes in provisions		21,082	(3,352)
- Other flows		1,073	(23)
- Reversal of impairment losses of current assets	4.3	(495,982)	-
- Change in the value of the Management Options Scheme – derecognition of forfeited options	12	-	(5,913)
- Change in inventories	9	9,014	31,492
- Change in trade and other receivables	8	38,864	(7,799)
- Change in trade and other liabilities		8,649	65,217
<b>Cash inflow from (used in) operating activities</b>		<b>640,096</b>	<b>695,068</b>
Balance-sheet change in liabilities and grants		(541)	73,762
Set-off of income tax overpaid with other taxes payable		10,187	26,225
Change in investment liabilities		(997)	(34,770)
<b>Change in liabilities for the purposes of the consolidated statement of cash flows</b>		<b>8,649</b>	<b>65,217</b>
Increase in non-current assets	4	363,733	277,936
Disclosure of non-current assets		-	(1,405)
Other non-cash adjustments		(1,781)	(374)
Interest paid regarding investing activities		(3,126)	(3,412)
Change in investment liabilities		9,348	(9,927)
<b>Acquisition of property, plant and equipment</b>		<b>368,174</b>	<b>262,818</b>
Increase in intangible assets	6	11,505	31,156
Other non-cash adjustments		-	(131)
Change in investment liabilities		(10,345)	(24,843)
<b>Acquisition of intangible assets</b>		<b>1,160</b>	<b>6,182</b>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 2017, 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 and conducts water/wastewater management. In the previous period Łęczyńska Energetyka Sp. z o.o. conducted works with a view to completing the construction of the central air conditioning station in the Bogdanka Field. 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 2017, 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 transport and utilisation 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 2017, 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 mining works, auxiliary works and run-of-mine services.

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.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



As at 31 December 2017, 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
<u>Companies subject to consolidation in the current and previous periods:</u>						
Łęczyńska Energetyka sp. z o.o.	117,257	88,488	88.70	Non-controlling interests amount to 11.30% and are held by: Łączna Municipality 11.29% Puchaczów Commune 0.01%	none	full
RG Bogdanka Sp. z o.o.	8,015	3,154	100.00	none	none	full
EkoTRANS Bogdanka Sp. z o.o.	3,776	501	100.00	none	none	full
MR Bogdanka Sp. z o.o.	5,532	1,856	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.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## 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 2017. Note 4.3 contains detailed information on the estimates and assumptions made for the analysis carried out as at the end of 2017.

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

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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 in PLN '000		Accounting policy	Details of the assumptions and calculations of the material estimate
	2017	2016		
Property, plant and equipment	3,240,307	2,760,196	note 2.4 and 2.7	note 4
Provision for employee benefits	157,021	266,981	note 2.18	note 18
Intangible assets	59,961	47,511	note 2.5 and 2.7	note 6
Provision for mining plant decommissioning and land reclamation	114,448	117,423	note 2.19	note 19
Deferred tax assets	2,024	2,117	note 2.17	note 26.3
Deferred income tax liability	205,334	56,059	note 2.17	note 26.3
Management Options Issue	3,839	3,839	note 2.18	note 12

As compared to information provided in the most recent annual consolidated financial statements for 2016, the estimated life of the mine has changed, which is a result of obtaining the mining licence for the "Ostrów" deposit. The period was extended from 2043 to 2051 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 currently estimated to extend to 2051 (previously 2043). The estimate is made on the basis of current resources of coal held, covered with the licence, and the estimated production capacities. 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.

On 17 November 2017 the Parent was granted a mining licence for the "Ostrów" deposit with the exploitable resources of approximately 186 million tonnes. Obtaining this licence is key for the plan to double the exploitable resources of LWB and means that the mine's life span will be extended to approx. 50 years (which entails the necessity to incur significant outlays for the construction of new infrastructure, including the construction of a new shaft).

The LWB Group pursues efforts to extend the mining area in the coming years by joining the "Orzechów" deposit (at the moment the Parent holds a prospecting licence for the "Orzechów" deposit). 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, 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 span up until 2051 did not affect materially the cost of depreciation in 2017 (the impact was approx. PLN 0.4 million). This change however will affect the cost of depreciation next year (according to the Group's estimates, the figure will be approx. PLN 4.5 million).

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



- 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 2051 resulted in an increase in the provisions for retirement and post-employment benefits, death benefits and long-service awards in total by approx. PLN 1.3 million, of which approx. PLN 0.8 million was included in the consolidated income statement, and approx. PLN 0.5 million - in the consolidated statement of comprehensive income. The total impact on the consolidated equity (after deferred tax) was approx. PLN 1.1 million.

- 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 2051 resulted in a decrease in the provisions for costs of mine closure and land reclamation by approx. PLN 7.0 million, of which PLN 0.6 million was included in the consolidated income statement, and approx. PLN 6.4 million - in the consolidated statement of financial position as a reduction of "Property, plant and equipment".

#### Valuation of provisions for employee benefits

- Change in assumptions regarding the coal allowance benefit

As far as the assumptions for the actuarial valuation of provisions for employee benefits during 2017 are concerned, the assumption regarding retail price of coal, which, in accordance with previous provisions of the Collective Bargaining Agreement applicable at the Parent, serves as a basis for the calculation of an equivalent for coal allowance, has changed significantly. As price increases and insufficient coal supply can be observed on the market, the price of commercial coal, included in the Parent's offer, increased significantly, which entailed a high rise of the provision for coal allowance benefits and was reflected in actuarial losses recognised in other comprehensive income (the total value of actuarial losses relating to the provision for coal allowance benefits amounted to PLN 28,632,000 in 2017 and primarily were a consequence of the change in the assumptions described above).

It should be added however, that on 17 October 2017, the Management Board of the Parent signed with the trade unions active at Lubelski Węgiel Bogdanka S.A. an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners of the Parent. As a result of signing the agreement, the existing retirees and pensioners, for whom the Parent was the last place of employment, have lost their right to free coal. Further, as a result of signing the agreement, the right to free coal after retirement was also lost by the current employees. Consequently, the provision for coal allowance benefits so far disclosed by the Parent, has been released in its entirety.



- 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 2017 and 31 December 2016, 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 2017:

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	42,996	47,178	39,407	39,807	46,957
Pays upon retirement due to disability	442	474	413	419	470
Long-service award	92,276	99,417	85,974	85,659	100,429
Death benefits	3,222	3,513	2,968	2,969	3,533
<b>Total</b>	<b>138,936</b>	<b>150,582</b>	<b>128,762</b>	<b>138,854</b>	<b>151,389</b>

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 allowances	114,876	136,303	98,281	97,833	137,931
<b>Total</b>	<b>234,172</b>	<b>264,915</b>	<b>209,407</b>	<b>208,704</b>	<b>267,807</b>

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 2017:

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	42,996	4,182	(3,589)	(3,189)	3,961
Pays upon retirement due to disability	442	32	(29)	(23)	28
Long-service award	92,276	7,141	(6,302)	(6,617)	8,153

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



Death benefits	3,222	291	(254)	(253)	311
<b>Total</b>	<b>138,936</b>	<b>11,646</b>	<b>(10,174)</b>	<b>(10,082)</b>	<b>12,453</b>

As at 31 December 2016:

Provision	Carrying amount	Deviations			
		Financial discount rate -1 p. p.	+1 p. p.	Planned increases in bases -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 allowances	114,876	21,427	(16,595)	(17,043)	23,055
<b>Total</b>	<b>234,172</b>	<b>30,743</b>	<b>(24,765)</b>	<b>(25,468)</b>	<b>33,635</b>

The results of balance-sheet valuation as at 31 December 2017, 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	Total
2018*	9,244	55	9,855	250	<b>19,404</b>
2019	1,338	47	7,651	244	<b>9,280</b>
2020	1,207	42	6,643	235	<b>8,127</b>
2021	1,813	37	6,997	224	<b>9,071</b>
2022	1,531	32	7,443	218	<b>9,224</b>
Remainder	27,863	229	53,687	2,051	<b>83,830</b>
<b>Total</b>	<b>42,996</b>	<b>442</b>	<b>92,276</b>	<b>3,222</b>	<b>138,936</b>

\* Value of benefits for payment in 2018 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 Programmes - Stage 1: *Voluntary Redundancy Programme - updating the number and structure of people participating in the Programme*

At the end of 2016, in order to address the personnel needs in connection with a significant risk of a substantial outflow of employee competences, the Parent's Management Board made a decision to launch a Generation Change Programme. An integral part of the Generation Change Programmes was the Voluntary Redundancy Programme addressed to the Parent's employees. The value of the Programme as at 31 December 2016 was estimated at PLN 21,688,000.

In the first half of 2017, after the final submission date for the interested employees at the Parent has lapsed, the provision for the Voluntary Redundancy Programme was subject to an update. An actual number and structure of the Parent's employees who enrolled to the Programme was largely different than the number and structure of the estimated figures used for making the valuation of the provision at the end of 2016. Therefore, as a result of the created differences, a portion of the provision for the Voluntary Redundancy Programme in the amount of PLN 8,021,000, was released.

Additionally, in the course of 2017 the Company paid under the Programme a total amount of PLN 8,524,000. The remainder of the provision of PLN 5,143,000 will be used during 2018 for a payment of the second installment of the benefit for the employees who participated in the Programme and terminated their employment contracts in 2017.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.





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 2017 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 843,000, 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 8,150,000. 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 848,000, 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 8,775,000.

- Sensitivity to changes of inflation and discount rates

The adopted inflation ratios for 2018-2051 range from 2.0% for 2018, 2.2% for 2019 and 2.5% for 2020-2051 (as at 31 December 2016 inflation ratios were 1.5% for 2017 and 2.5% for 2018-2043).

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 2017 it amounted to 3.26% (as at 31 December 2016: 3.20%).

If the adopted inflation rates departed from the Management Board's estimates by 1 p.p., the carrying amount of provisions would be PLN 44,773,000 higher (in the event of inflation rates higher by 1 p.p.) or PLN 32,450,000 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 2017 and 31 December 2016 is presented in the table below:

As at 31 December 2017:

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	124,280	114,448	105,414	82,471

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

The analysis indicates that when the financial discount rate goes up as at 31 December 2017 by 0.25 p.p., the provision for the Mine Closure Fund and land reclamation is lower by PLN 9,034,000, 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 31,977,000. When the financial discount rate goes down as at 31 December 2017 by 0.25 p.p., the provision for the Mine Closure Fund and land reclamation is higher by PLN 9,832,000. At the same time, no impact of the financial rate going down by 1 p.p. is

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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 2016.

## 2.1.2. New standards and interpretations

### **Amendments to the existing standards applied by the Group for the first time in 2017**

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and endorsed for application by the European Union came into force for the first time in 2017:

- Amendments to IAS 7 "Statement of Cash Flows" – initiative in relation to disclosures – endorsed by the EU on 6 November 2017 (applicable to annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" – disclosure of deferred tax assets on unrealised losses – endorsed by the EU on 6 November 2017 (applicable to annual periods beginning on or after 1 January 2017). The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- Amendments to various standards "Improvements to IFRS (2014-2016 Cycle)" – amendments made under the annual procedure of amending IFRS (IFRS 1, IFRS 12 and IAS 28), primarily oriented at eliminating inconsistencies and specifying terminology (amendments to IFRS 12 are applicable to annual periods beginning on or after 1 January 2017).

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

### **Standards and amendments to the existing standards which have been already published by the IASB and endorsed by the European Union, but not effective yet**

When approving these consolidated financial statements, the Group was not applying the following standards and standard amendments 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" - was issued by the IASB on 24 July 2014 and replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 sets forth the requirements for recognition and measurement, impairment, de-recognition, and hedge accounting.

**Classification and measurement** – IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements according to IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

**Impairment** – IFRS 9 introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.



**Hedge accounting** – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

**Own credit risk** – IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

- **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.
- **IFRS 16 "Leases"** - was issued by IASB on 13 January 2016. In accordance with IFRS 16 a lessee discloses the right to use an asset as well as the liability for the lease. The right to use an asset is treated similarly as other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessors continue to classify leases as operating or finance, with IAS 17's approach to lessor accounting. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.
- **Amendments to IFRS 4 "Insurance Contracts"** – application of IFRS 9 "Financial Instruments" along with IFRS 4 "Insurance Instruments" – endorsed by the EU on 3 November 2017 (applicable to annual periods beginning on or after 1 January 2018 or in the moment of the application of IFRS 9 "Financial Instruments" for the first time).
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – explanations to IFRS 15 "Revenue from Contracts with Customers" – endorsed by the EU on 31 October 2017 (applicable to annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRS (2014–2016 Cycle)"** – amendments made under the annual procedure of amending IFRS (IFRS 1, IFRS 12, and IAS 28), primarily oriented at eliminating inconsistencies and specifying terminology (amendments to IFRS 12 are applicable to annual periods beginning on or after 1 January 2017; amendments to IFRS 1 and IAS 28 are applicable to annual periods beginning on or after 1 January 2018).

The Group has decided not to consider the possibility to earlier apply the above new standards and amendments to the existing standards. The Group carries out a detailed analysis of the impact of the above standards on the applied accounting policies.

Amendments to IFRS 4 "Insurance Contracts" and amendments to various standards "Improvements to IFRS (2014–2016 Cycle)" will not affect the Group's consolidated financial statements.

**IFRS 15** will be applied by the Group starting as of 1 January 2018 using the retrospective method with the total effect of the first-time application of IFRS 15. The analysis carried out showed that such operation will not cause any need to adjust the balance of retained profits (no adjustments that would result in the adjustment of retained profits in the opening balance). Taking into account the type of transactions effected by the Group, the application of the above standard will not have a material impact on the accounting principles applied to date. The most significant effect will be a change in the presentation of revenue and costs in connection with the Group providing coal transport service – the so called "*przewoźne*". On the basis of the performed analysis it was determined that if the Group is an intermediary/agent (within the meaning of IFRS 15), the netting

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



of revenue (circa PLN 13.7 million per annum) and costs on that account (circa PLN 11.5 million per annum) will be necessary, which in the end will result in the disclosure under revenue of only the margin on the transaction in the amount of PLN 2.2 million. The consolidated statement of financial position of the Group to date will show new items of "Contract assets" and "Contract liabilities", however, because sale transactions are nearly in all cases accounted for on a monthly basis, the Group expects that significant balances in those items will be rare.

The application of the above standard will affect to the most extent the scope of disclosures made.

**IFRS 16** will be applied by the Group starting as of 1 January 2019 using the modified retrospective approach, which will not result in the need to adjust comparative data. The application of the above standard will have an impact on the accounting principles applied to date by the Group. After having performed the analysis of the type of concluded contracts, the Group is of the opinion on that basis that application of the standard will result in the recognition of additional lease assets and lease liabilities in the consolidated balance sheet. However, because of a relatively small scope and number of contracts treated at the moment as operating leases, the ultimate impact on the Group's consolidated financial statements will be limited. In the case of new contracts and the existing contracts classified as operating leases which after detailed analysis in accordance with the criteria of new IFRS 16 should reasonably be recognised as finance leases, new positions will appear in the Group's consolidated financial statements:

- If the Group is a lessor, "Finance lease receivables" will appear in the consolidated statement of financial position, and "finance lease revenue" will appear in the consolidated income statement;
- If the Company is a lessee, "Lease liabilities" will appear in the consolidated statement of financial position under equity and liabilities, and "Right-of-use assets" will appear under assets.

Lease payments will be shown as repayment of the principal (reduction of the lease liability in the balance sheet) and interest costs on lease liability, which will be recognised in the consolidated income statement. At the same time, the consolidated income statement will disclose depreciation of the right-of-use asset. Until now the entire lease instalment has been recognised in the consolidated income statement as the cost of external services (rental services).

**IFRS 9** will be applied by the Group starting as of 1 January 2018 using the retrospective method in accordance with interim provisions – the Group will not restate comparative data for prior periods (1 January 2017 and 31 December 2017) in order to reflect the requirements of IFRS 9 in terms of measurement.

*Item presentation in the balance sheet* – in connection with IFRS 9 entering into force and the resultant new classification of financial assets, the Group is considering a change in the presentation of financial assets and accordingly financial liabilities in the balance sheet. The presentation used to date is connected with categories distinguished for the purpose of IAS 39 "Financial Instruments: Recognition and Measurement". If such positions are kept in the balance sheet in subsequent periods, it could be misleading for the users. For that reason, in 2018 new categories of financial assets replacing the previous ones and a new category of financial liabilities will appear in the consolidated financial statements in 2018. Financial data for comparative periods will be restated only for the purpose of reflecting the new presentation.

*New principles of classification and measurement of financial assets* - IFRS 9 implements new principles of classification of financial assets and of related measurement of such items. New groups of financial assets may be distinguished:

- equity instruments measured through other comprehensive income,
- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss.

Derivatives used for the purpose of hedge accounting are analysed as a separate group.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



In the opinion of the Group, the new classification will not affect significantly the principles of measurement of financial assets. In terms of measurement, significant changes are connected with determination of impairment losses.

*IFRS 9 implements a new model for determination of impairment losses on debt financial assets, the so called model of expected credit losses.* Application of the model of expected credit losses means that in the course of estimation of a loss (allowance), the assumptions and expectations of the Group as to the occurrence of credit risk related future losses (debtor's default) have to be taken into account. The analysis carried out by the Group for the purpose of application of IFRS 9 shows that on 1 January 2018 there will be no need to recognise additional losses with respect to debt financial assets disclosed in the consolidated statement of financial position of the Group as at 31 December 2017.

IFRS 9 implements a new model of hedge accounting, the objective of which is to reflect the actual management of risk in the entity, however, in the opinion of the Group the new model will not have an impact on the recognition and settlement of hedging relationships because of high matching between hedged items and hedging instruments.

### **Standards, amendments to the existing 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 22 March 2018 were not adopted for use in the European Union (the effective dates below refer to standards in full versions):

- IFRS 14 "Regulatory Deferral Accounts" – the European Commission has decided to withhold the process of endorsing this temporary standard for use in the European Union until the final version of IFRS 14 is issued.
- IFRS 17 "Insurance Contracts" (applicable to annual periods beginning on or after 1 January 2021).
- 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, as well as later amendments (effective date of the amendments was deferred until research on the equity method is finished).
- Amendments to IAS 19 "Employee Benefits" – amendment, restriction or settlement of a plan (applicable to annual periods beginning on or after 1 January 2019). According to the amendments it is required that once the plan is amended, the updated assumptions for valuation should be applied in order to determine current costs of services and net interest for the remaining portion of the reporting period.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Non-current shares in associates and joint ventures (applicable to annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 2 "Share-Based Payments" – classification and measurement of the share-based payments (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (applicable to annual periods beginning on or after 1 January 2019).
- Amendments to various standards "Improvements to IFRS (2015–2017 Cycle)" – are applicable to annual periods beginning on or after 1 January 2019.
- IFRIC 22 Interpretation "Foreign Currency Transactions and Advance Consideration" (applicable to annual periods beginning on or after 1 January 2018).
- IFRIC 23 Interpretation "Uncertainty over Income Tax Treatments" (applicable to annual periods beginning on or after 1 January 2019).

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- Amendments to IAS 40 "Investment Properties" – transfers of investment properties (applicable to annual periods beginning on or after 1 January 2018).

The Group is analysing the impact of new standards on the consolidated financial statements, however it estimates of the Group that the application of IFRS 14, IFRS 17, amendments to IFRS 10 and IAS 28, amendments to IAS 40 and amendments to IFRS 2 shall have no impact on the accounting policies applied so far. Amendments to IFRS 9, amendments to various standards "Improvements to IFRS (2015–2017 Cycle)" as well as the IFRIC 22 and IFRIC 23 Interpretation 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 Group 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 acquiree (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

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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), and
- 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.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## 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.

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.

### No other categories of financial assets are carried by the Group.

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.

When the standard IFRS 9 "Financial Instruments" becomes effective, the existing classification of financial assets will change. The Group will apply the new standard as of 1 January 2018.

## 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

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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 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 at banks, 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 may enter 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 for the period 2017-2019 was signed on 28 September 2016. The LWB Tax Group 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 LWB Tax Group is represented by 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.

By 17 October 2017 the Parent paid to coal allowance benefits to its former employees (retirees/pensioners for whom Lubelski Węgiel Bogdanka S.A. was the last place of employment). On 17 October 2017, the Management Board of the Parent signed with the trade unions active at Lubelski Węgiel Bogdanka S.A. an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners. As a result of signing the agreement, the existing retirees and pensioners have lost their right to free coal. As a result of the agreement the right to free coal after retirement was also lost by the current employees of the Parent who in exchange have received an appropriate compensation.

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;

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



- 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 (Note 20)

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.

Two main groups in this category include coal sales agreements (with or without transport) primarily with commercial power plants.

### 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.

## 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 (Note 28)

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 2017, revenue from sales of other products and services amounted to PLN 55,100,000 (in 2016: PLN 61,849,000), representing, 3.09% in 2017 and 3.46% in 2016, 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 2017, revenue from sales of other products and services outside Poland amounted to PLN 31,225,000 (in 2016: PLN 31,225,000), representing, 1.44% in 2017 and 1.75% in 2016, respectively, of total revenue. The Group does not hold related assets or liabilities outside Poland.

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

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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 2017 and 2016 key customers for the Group's coal, whose share in sales exceeded 10% of the total revenue on sales, were:

	for the financial year from 1 January to 31 December	
	2017	2016
Enea Wytwarzanie Sp. z o.o.	56%	46%
ENEA Elektrownia Połaniec S.A. (formerly ENGIE Energia Polska S.A.)	22%	22%

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



#### 4. NON-CURRENT ASSETS

	Land	Buildings and structures including excavations	Plant and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total	
<b>As at 1 January 2017</b>								
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/depreciation	-	(1,311,199)	(988,667)	(1,026,332)	(55,449)	(15,944)	-	(2,408,924)
<b>Net book value</b>	<b>9,048</b>	<b>1,497,580</b>	<b>970,839</b>	<b>1,047,361</b>	<b>40,366</b>	<b>8,102</b>	<b>157,739</b>	<b>2,760,196</b>
<b>As at 31 December 2017</b>								
Net book value at beginning of year	9,048	1,497,580	970,839	1,047,361	40,366	8,102	157,739	2,760,196
Increases	-	2	-	-	-	1,159	362,572	363,733
Transfer from construction in progress	928	246,930	237,332	52,311	1,201	1,007	(302,377)	-
Reversal of impairment losses	-	352,852	176,825	242,985	1,124	-	-	596,961
(Creating)/use of impairment losses	-	17,039	17,003	108	-	-	1,195	18,342
Decreases	-	(36,745)	(27,534)	(279)	(60)	(4)	(2,717)	(39,805)
Amortisation/depreciation	-	(197,810)	(170,118)	(144,413)	(9,782)	(2,586)	-	(354,591)
Reclassification of impairment losses to depreciation	-	(51,495)	(32,095)	(52,820)	(214)	-	-	(104,529)
<b>Net book value</b>	<b>9,976</b>	<b>1,828,353</b>	<b>1,172,252</b>	<b>1,145,253</b>	<b>32,635</b>	<b>7,678</b>	<b>216,412</b>	<b>3,240,307</b>
<b>As at 31 December 2017</b>								
Cost or assessed value	9,976	3,185,992	2,159,920	2,361,274	97,420	25,994	216,412	5,897,068
Amortisation/depreciation	-	(1,357,639)	(987,668)	(1,216,021)	(64,785)	(18,316)	-	(2,656,761)
<b>Net book value</b>	<b>9,976</b>	<b>1,828,353</b>	<b>1,172,252</b>	<b>1,145,253</b>	<b>32,635</b>	<b>7,678</b>	<b>216,412</b>	<b>3,240,307</b>
<b>As at 1 January 2016</b>								
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/depreciation	-	(1,165,142)	(868,947)	(893,917)	(54,067)	(14,528)	-	(2,127,654)
<b>Net book value</b>	<b>5,870</b>	<b>1,575,457</b>	<b>1,030,150</b>	<b>1,115,902</b>	<b>40,670</b>	<b>8,370</b>	<b>143,215</b>	<b>2,889,484</b>
<b>As at 31 December 2016</b>								
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)
(Creating)/use of impairment losses	139	15,556	6,563	-	-	-	(7,352)	8,343
<b>Net book value</b>	<b>9,048</b>	<b>1,497,580</b>	<b>970,839</b>	<b>1,047,361</b>	<b>40,366</b>	<b>8,102</b>	<b>157,739</b>	<b>2,760,196</b>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



As at 31 December 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/depreciation	-	(1,311,199)	(988,667)	(1,026,332)	(55,449)	(15,944)	-	(2,408,924)
<b>Net book value</b>	<b>9,048</b>	<b>1,497,580</b>	<b>970,839</b>	<b>1,047,361</b>	<b>40,366</b>	<b>8,102</b>	<b>157,739</b>	<b>2,760,196</b>

Amortisation/depreciation of non-current assets is disclosed in the consolidated income statement as follows:

	for the financial year from 1 January to 31 December	
	2017	2016
Costs of products, goods and materials sold	(345,336)	(352,407)
Selling costs	(461)	(467)
Administrative expenses	(8,794)	(6,578)
<b>As at 31 December</b>	<b>(354,591)</b>	<b>(359,452)</b>

Borrowing costs (interest and commission on liabilities incurred), activated in 2017 in the value of the property, plant and equipment amounted in total PLN 4,523,000 (PLN 3,412,000 in 2016).

No collateral was established on property, plant and equipment.

#### 4.1. Property, plant and equipment - excavations

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

As at 31 December 2017:

Item	Quantity [items]	Length [m]	Initial value	Depreciation	Net value as at the balance-sheet date	Depreciation level in the given group
Galleries disclosed under non-current assets, depreciated by using a natural method, including:	38	25,071	524,917	379,816	145,101	72%
- depreciated until December 2017	25	13,152	472,614	379,816	92,798	80%
Galleries disclosed under non-current assets, depreciated according to useful life	245	93,114	1,336,590	477,497	859,093	36%
Other items, depreciated according to useful life (shafts, shaft towers, dams, reservoirs and other)	32	-	298,413	130,355	168,058	44%
<b>Total as at 31 December 2017</b>	<b>315</b>	<b>118,185</b>	<b>2,159,920</b>	<b>987,668</b>	<b>1,172,252</b>	<b>46%</b>

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
Galleries disclosed under non-current assets, depreciated by using a natural 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%

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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%
<b>Total as at 31 December 2016</b>	<b>298</b>	<b>122,248</b>	<b>2,153,370</b>	<b>988,667</b>	<b>193,864</b>	<b>970,839</b>	<b>55%</b>

#### 4.2. Property, plant and equipment – construction in progress

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

	As at 31 December	
	2017	2016
Excavations (galleries)	191,152	126,831
Modernisation of the longwall systems lining	-	11,803
Expansion of the waste storage yard in Bogdanka	9,290	6,317
Construction of new mining fields	5,607	5,531
Reinforcement of shaft 1.3 lining	3,708	3,431
Extension of the Mechanical Coal Processing Plant (ZPMW)	189	762
Other	6,466	3,064
<b>As at 31 December</b>	<b>216,412</b>	<b>157,739</b>

#### 4.3. Impairment losses on the property, plant and equipment

At the end of 2015, the Parent identified external premises showing the likelihood of impairment on non-current assets held and for this reason it recognised in the books an impairment loss in the total value of PLN 624,772,000.

The Management Board of the Parent have analysed the occurrence of premises indicating that the impairment loss of non-current assets created in previous years is not grounded or may have been reduced.

Following the analysis it has been found that currently such premises no longer exist, and the previously created impairment loss should be reduced or fully reversed.

In the assessment of the Management Board of the Parent, the existing premises have ceased to exist primarily due to:

- observed increase in prices of hard coal in the market;
- lower supply of coal from domestic producers;
- flexible development scenario adopted by the Parent assuming coal production at a level of approx. 9.2 million tonnes.

In the light of the above, the Parent, as required by IAS 36, should recalculate the recoverable value of assets that have previously been subject to the impairment loss.

##### Estimating the recoverable value as at 31 December 2017

In analogy to the process of estimating the recoverable value of non-current assets at the end of 2015, also now, 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 2018-2051 prepared by the Parent.

As at 31 December 2017 key assumptions used for estimating the usable value of the assets subject to the test were as follows:

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- given that individual departments and the internal mine organisation are interrelated, all Parent's assets were deemed as one CGU;
- an average annual level of coal sales volume was determined to amount to 9.2 million tonnes in 2018-2030;
- the forecast period from 2018 to 2051 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 resources in the "Ostrów" deposit joined on the basis of the licence obtained on 17 November 2017, available for use with the employment of the existing – as at the balance-sheet date – infrastructure, mainly with respect to shafts), considering the average annual extraction level of 9.2 million tonnes in 2018-2030 (in the subsequent years the average annual extraction level will gradually decrease, which is a consequence of the deposits in the Bogdanka Field beginning to run out and a result of the adopted assumption to use only the infrastructure which is currently available);
- the assumption regarding the price of coal in 2018-2040 was made on the basis of in-house research made for the needs of the Enea Group (the whole model is inflation-related); as from 2040 the assumption regarding the price of coal takes account of inflation at 2.5%;
- starting from 2020, 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 8,27% during the whole period of the forecast, estimated on the basis of the latest economic data (with the risk-free rate of 3.27% and beta 1.0) was taken as a discount rate;

The total value of the Parent's assets subject to testing as at 31 December 2017 amounted to PLN 2,205,429,000, while the value of discounted cash flow estimated on the basis of the forecast made (usable value) was PLN 3,166,201,000. As a result of the estimation, it was found as at 31 December 2017 that the estimated recoverable value exceeded the carrying amount of the tested assets by PLN 960,315,000. This amount is much in excess of the impairment losses of PLN 601,062,000 existing in the books of the Parent (and created at the end of 2015), where the amount of PLN 596,961,000 covered losses allocated to property, plant and equipment, while PLN 4,101,000 covered losses allocated to intangible assets.

It must be added however that the value of reversed impairment losses affecting the consolidated financial result should be adjusted by the value of depreciation/amortisation that would have been calculated between the day for which the impairment losses were created (31 December 2015) and the day on which they were reversed (31 December 2017) if there had been no impairment losses at all at 31 December 2015. According to the calculations made, depreciation/amortisation that would have been calculated in the above 2-year period amounted to PLN 105,080,000, out of which PLN 104,529,000 covered property, plant and equipment, while PLN 551,000 covered intangible assets. That amount was transferred to accumulated depreciation/amortisation in the presentation.

Thus the total amount of reversed impairment losses which affected the consolidated financial result of the period equalled 495,982,000.

#### ***Analysis of model sensitivity for 2017 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 3,357,138,000, 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 2,975,264,000. This means that in the event of an increase or a decrease of the coal price by 1 p.p., as assumed for the non-current assets recoverable value estimation model prepared as at the end of 2017, the existing impairment loss of assets would be further subject to entire reversal.

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 2,916,268,000, 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

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3,444,445,000. This means that in the event of an increase or a decrease of the discount rate by 1 p.p., as assumed for the non-current assets recoverable value estimation model prepared as at the end of 2017, the existing impairment loss of assets would be further subject to entire reversal.

#### Other impairment losses

In 2017, 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 1,284,000 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.

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

	Land	Buildings and structures		Plant and equipment	Vehicles	Constructi on in progress	Total
		total	including excavations				
As at 1 January 2017	4,394	369,891	193,828	246,280	1,124	9,462	631,151
Creating impairment loss	-	-	-	-	-	1,284	1,284
Reversal of unused impairment loss	-	(352,852)	(176,825)	(242,985)	(1,124)	-	(596,961)
Using the impairment loss created	-	(17,039)	(17,003)	(108)	-	(2,479)	(19,626)
<b>As at 31 December 2017</b>	<b>4,394</b>	<b>-</b>	<b>-</b>	<b>3,187</b>	<b>-</b>	<b>8,267</b>	<b>15,848</b>
As at 1 January 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)
<b>As at 31 December 2016</b>	<b>4,394</b>	<b>369,891</b>	<b>193,828</b>	<b>246,280</b>	<b>1,124</b>	<b>9,462</b>	<b>631,151</b>

The creation of the impairment losses in 2017 was disclosed in the consolidated income statement under "Other net losses". The use of the impairment losses in 2017 was disclosed under "Costs of products, goods and materials sold", where it was set off with the cost of liquidation of assets previously covered with the impairment loss.

The release (reversal) of the impairment losses of property, plant and equipment was disclosed in the consolidated income statement as a decrease in the following cost items: "Cost of products, goods and materials sold" in the amount of PLN 441,022,000, "Selling costs" in the amount of PLN 2,758,000 and in "Administrative expenses" in the amount of PLN 48,652,000. The remainder of the released and unused impairment loss of PLN 104,529,000 was recognised into depreciation and does not affect the achieved profit/loss of the reporting period.



## 5. NON-CURRENT ASSETS HELD FOR SALE

	Buildings and structures	Plant and equipment	Vehicles	Total
As at 1 January 2017	13	896	3,421	4,330
Sale of non-current assets held for sale	(13)	(896)	(3,421)	(4,330)
<b>As at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
As at 1 January 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)
<b>As at 31 December 2016</b>	<b>13</b>	<b>896</b>	<b>3,421</b>	<b>4,330</b>

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 was finalised in July 2017.

Moreover, in 2017 the Company finalised the sale of 100 Eaos CFR/R and 464 coal wagon carts with a net book value of PLN 3,400,000 classified to non-current assets held for sale in 2015.

As at 31 December 2017, the Group did not have any assets classified as non-current assets held for sale.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.





## 6. INTANGIBLE ASSETS

	Computer software	Fees, licences	Geological information	Other	Total
<b>As at 1 January 2017</b>					
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)
<b>Net book value</b>	<b>2,891</b>	<b>4,304</b>	<b>40,170</b>	<b>146</b>	<b>47,511</b>
<b>As at 31 December 2017</b>					
Net book value at beginning of year	2,891	4,304	40,170	146	47,511
Increases	36	10,435	30	1,004	11,505
Reversal of impairment losses	342	1,082	2,677	-	4,101
Decreases	-	-	-	(991)	(991)
Amortisation	(713)	(741)	(158)	(2)	(1,614)
Reclassification of impairment losses to amortisation	(175)	(250)	(126)	-	(551)
<b>Net book value</b>	<b>2,381</b>	<b>14,830</b>	<b>42,593</b>	<b>157</b>	<b>59,961</b>
<b>As at 31 December 2016</b>					
Cost or assessed value	7,682	18,874	54,217	2,197	82,970
Amortisation	(5,301)	(4,044)	(11,624)	(2,040)	(23,009)
<b>Net book value</b>	<b>2,381</b>	<b>14,830</b>	<b>42,593</b>	<b>157</b>	<b>59,961</b>
<b>As at 1 January 2016</b>					
Cost or assessed value	5,479	6,328	24,032	866	36,705
Amortisation	(4,029)	(2,284)	(10,939)	(447)	(17,699)
<b>Net book value</b>	<b>1,450</b>	<b>4,044</b>	<b>13,093</b>	<b>419</b>	<b>19,006</b>
<b>As at 31 December 2016</b>					
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	(433)	(639)	(527)	(1,045)	(2,644)
<b>Net book value</b>	<b>2,891</b>	<b>4,304</b>	<b>40,170</b>	<b>146</b>	<b>47,511</b>
<b>As at 31 December 2016</b>					
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)
<b>Net book value</b>	<b>2,891</b>	<b>4,304</b>	<b>40,170</b>	<b>146</b>	<b>47,511</b>

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

	for the financial year from 1 January to 31 December	
	2017	2016
Costs of products, goods and materials sold	(1,572)	(2,592)
Selling costs	(2)	(4)
Administrative expenses	(40)	(48)
<b>Total</b>	<b>(1,614)</b>	<b>(2,644)</b>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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

The release (reversal) of impairment losses of intangible assets in 2017 in the amount of PLN 4,101,000 is solely a result of discontinuance of the premises indicating impairment, which were applicable at the end of 2015, when the impairment loss was recognised.

Key assumptions regarding the estimation of the recoverable value as at the end of 2017 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 January 2017	342	1,082	4,457	5,881
Reversal of unused impairment loss	(342)	(1,082)	(2,677)	(4,101)
<b>As at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>1,780</b>	<b>1,780</b>
As at 1 January 2016	342	1,082	4,457	5,881
<b>As at 31 December 2016</b>	<b>342</b>	<b>1,082</b>	<b>4,457</b>	<b>5,881</b>

In 2017, the release (reversal) of the impairment losses of intangible assets was disclosed in the consolidated income statement as a decrease in the following cost items: "Cost of products, goods and materials sold" in the amount of PLN 3,179,000, "Selling costs" in the amount of PLN 20,000 and in "Administrative expenses" in the amount of PLN 351,000. The remainder of the released and unused impairment loss of PLN 551,000 was recognised into amortisation and does not affect the achieved profit/loss of the reporting period.

## 7. INVESTMENT PROPERTIES

	for the financial year from 1 January to 31 December	
	2017	2016
As at 1 January	3,532	-
Reclassification to investment properties	-	3,616
Depreciation	(167)	(84)
<b>As at 31 December</b>	<b>3,365</b>	<b>3,532</b>

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) in the middle of the previous year, i.e. 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:



	for the financial year from 1 January to 31 December	
	2017	2016
Revenue on investment properties	95	45
Operating expenses related to investment properties	(252)	(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

	As at 31 December	
	2017*	2016
Trade debtors	180,713	204,635
Less: impairment losses of accounts receivable	(7,970)	(7,389)
<b>Net trade debtors</b>	<b>172,743</b>	<b>197,246</b>
Accruals and deferrals	28,916	31,782
Other accounts receivable	7,419	15,042
<b>Current</b>	<b>209,078</b>	<b>244,070</b>
Accruals and deferrals	1,332	4,782
Other accounts receivable	10	432
<b>Non-current</b>	<b>1,342</b>	<b>5,214</b>
<b>Total trade and other receivables</b>	<b>210,420</b>	<b>249,284</b>

\*In 2017 the Group decided to change the manner in which the settlements related to the Social Benefits Fund are disclosed. In previous years, the liabilities regarding the funds collected in the Social Benefits Fund were disclosed separately from cash held on separate accounts and from receivables from the employees. More information is provided in Note 13.

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:

	for the financial year from 1 January to 31 December	
	2017	2016
As at 1 January	7,389	2,304
Creating impairment loss	3,583	5,231
Receivables written down during the year as uncollectible	(127)	-
Reversal of unused amounts	(2,875)	(146)
<b>Total</b>	<b>7,970</b>	<b>7,389</b>

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:

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



	As at 31 December	
	2017	2016
Up to 1 month	808	1,385
3 to 6 months	597	73
6 to 12 months	708	3
above 12 months	5,857	5,928
<b>Total</b>	<b>7,790</b>	<b>7,389</b>

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:

	As at 31 December	
	2017	2016
Up to 1 month	877	875
1 to 3 months	29	22
3 to 6 months	296	25
6 to 12 months	-	1
above 12 months	3	26
<b>Total</b>	<b>1,205</b>	<b>949</b>

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 25,645,000 as at 31 December 2017 (31 December 2016: PLN 91,577,000) constitute collateral of bank loans and liabilities under the bond issue, as well as bank guarantees issued.

## 9. INVENTORIES

	As at 31 December	
	2017	2016
Materials	54,200	51,779
Finished goods	8,361	19,931
Impairment loss to the sale price, likely to achieve, of the finished goods	(4)	(139)
<b>Total</b>	<b>62,557</b>	<b>71,571</b>

Cost of inventories in the consolidated income statement was disclosed under "Cost of products, goods and materials sold" totalling PLN 859,161,000 in 2017 (2016: PLN 1,429,011,000).

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

	for the financial year from 1 January to 31 December	
	2017	2016
As at 1 January	139	524
Creating impairment losses of the sale price, likely to achieve, of finished goods	12	139
Use of impairment losses of the sale price, likely to achieve, of the finished goods	(147)	(524)
<b>As at 31 December</b>	<b>(4)</b>	<b>139</b>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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 held by the Group.

## 10. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017*	2016
Cash in banks and at hand	17,742	20,287
Bank deposits	538,992	632,037
<b>Total</b>	<b>556,734</b>	<b>652,324</b>
<i>Including:</i>		
<i>Non-current**</i>	<i>121,806</i>	<i>111,218</i>
<i>Current</i>	<i>434,928</i>	<i>541,106</i>
	<b>556,734</b>	<b>652,324</b>

\*In 2017 the Group decided to change the manner in which the settlements related to the Social Benefits Fund are disclosed. In previous years, the liabilities regarding the Social Benefits Fund were disclosed separately from cash held on separate accounts and from receivables from the employees. More information is provided in Note 13.

\*\*cash with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 122,054,000 as at 31 December 2017, including PLN 121,806,000 (as at 31 December 2016: PLN 111,218,000) of the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine. Cash held by the Group are denominated in PLN and in EUR. As at 31 December 2017, the value of cash held in EUR, translated into PLN, totalled PLN 1,010,000.

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:

2017 – 0.4% - 1.85%

2016 – 0.4% - 1.7%

## 11. SHARE CAPITAL

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2017	34,014	170,068	131,090	301,158
As at 31 December 2017	34,014	170,068	131,090	301,158
As at 1 January 2016	34,014	170,068	131,090	301,158
As at 31 December 2016	34,014	170,068	131,090	301,158

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

## 12. OTHER CAPITAL

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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 related to the Management Options Scheme

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 Management Options Scheme's 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 31 December 2017, the number of allocated options under the whole Scheme was 1,143,863, and the total value of the Management Options Scheme amounted to PLN 3,839,000 (31 December 2016: PLN 8,389,000). Within this pool, the number of allocated rights (for 2013–2014) to be exercised under the above options is 335,199. In 2016, 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. The total cost of the Scheme disclosed as at 31 December 2017 under "Other capitals" amounted to PLN 3,839,000 (31 December 2016: PLN 3,839,000). The amount PLN 5,913,000 was disclosed in the consolidated income statement in 2016 under "Administrative expenses" – as a reduction of costs.

#### Equity on valuation of cash flow hedges

Other capitals may include also derivatives used as cash flow hedges (in the part deemed the efficient hedge) after tax effect. In 2017 and 2016 the Group held no financial instruments hedging cash flows.

#### 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%

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



in total. In 2017 comprehensive income attributable to non-controlling interests amounted to PLN 309,000, and consisted of the following items: net profit attributable to non-controlling interests in the amount of PLN 312,000 and other comprehensive income concerning actuarial losses on defined benefit schemes in the amount of PLN 3,000.

#### 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 in 2017 by PLN 467,385,000 results from the recognition of the net profit attributable to the owners of the Parent for the current year in the amount of PLN 667,613,000, actuarial losses on defined benefit schemes attributable to the owners of the Parent in the amount of PLN 24,332,000, transfer of 2016 profit/loss to reserve capital in the amount of PLN 141,882,000 and payment of dividend of PLN 34,014,000.

#### 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 2017 and 31 December 2016, 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

	As at 31 December	
	2017	2016
Trade creditors	120,442	112,131
Other liabilities, including:	174,979	195,018
<i>Company Social Benefits Fund*</i>	563	12,540
<i>Liabilities on security deposit</i>	2,578	2,816
<i>Investment liabilities</i>	90,488	69,354
<i>Salaries payable</i>	37,130	38,978
<i>Liabilities on advance payments</i>	6,905	3,697
<i>Other liabilities</i>	37,315	67,633
<b>Total financial liabilities</b>	<b>295,421</b>	<b>307,149</b>
Liabilities - social security and other tax payable	63,524	51,740
<b>Trade and other liabilities</b>	<b>358,945</b>	<b>358,889</b>
<i>Including:</i>		
<i>Non-current</i>	43,007	43,201
<i>Current</i>	315,938	315,688
<b>Total</b>	<b>358,945</b>	<b>358,889</b>

*\*In 2017 the Group decided to change the manner in which the settlements related to the Social Benefits Fund are disclosed. In previous years, the liabilities regarding the Social Benefits Fund were disclosed separately from cash held on separate accounts and from receivables from the employees (as a result of using the funds of the Social Benefits Fund, e.g. interest and principal amounts of borrowings made from the Fund). As at 31 December 2017 the liabilities regarding the Social Benefits Fund as disclosed in the note above were disclosed in net amount (i.e. net of cash of PLN 4,611,000 and receivables of PLN 7,341,000). If the liabilities regarding the Social Benefits Fund at the end of the previous year were also disclosed in net amount, then the value of these liabilities as at 31 December 2016 would amount to PLN 234,000 (i.e. net of cash of PLN 5,597,000 and receivables of PLN 6,574,000).*

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

### 14. GRANTS

	As at 31 December	
	2017	2016
Non-current liabilities		
Grants	13,148	13,705
Current liabilities		
Grants	560	600
<b>Total</b>	<b>13,708</b>	<b>14,305</b>

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.





## 15. CREDITS AND LOANS

	As at 31 December	
	2017	2016
Long-term:	16,966	20,002
Special purpose loans	16,966	20,002
- <i>Regional Environmental Protection Fund in Lublin</i>	<i>16,966</i>	<i>20,002</i>
Short-term:	3,242	3,273
Special purpose loans	3,242	3,273
- <i>Regional Environmental Protection Fund in Lublin</i>	<i>3,242</i>	<i>3,273</i>
<b>Total</b>	<b>20,208</b>	<b>23,275</b>

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 2017 Łęczyńska Energetyka, with respect to the above loan, repaid a principal amount of PLN 3,036,000.

Further, the Parent holds an agreement for an overdraft facility with a limit of up to PLN 100,000,000, concluded with mBank S.A. (agreement signed on 16 December 2016). 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.

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.



## 16. FINANCIAL LIABILITIES ON ACCOUNT OF BOND ISSUE

	As at 31 December	
	2017	2016
Long-term:	-	300,000
Issuance of bonds	-	300,000
- PEKAO S.A.	-	300,000
Short-term:	301,911	300,080
Issuance of bonds	300,000	300,000
- PEKAO S.A.	300,000	150,000
- BGK	-	150,000
Interest on bonds:	1,911	80
- PEKAO S.A.	1,911	61
- BGK	-	19
<b>Total</b>	<b>301,911</b>	<b>600,080</b>

Financial liabilities on account of bond issue currently refer to one programme agreement. Under the Programme 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.

Until 30 March 2017 the Group held bonds under the second Programme Agreement concluded by the Parent on 30 June 2014 with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego. On 10 March 2017 the Parent signed an annex to the abovementioned Programme Agreement. In accordance with that annex, the effective term of the Programme for Tranche I ended on 30 March 2017 and on that day the Parent redeemed Series LWB01C300617 bonds of a total value PLN 300,000,000. Therefore, on 30 March 2017, the Parent's liabilities under the Programme Agreement of 30 June 2014 were fully repaid and the Agreement expired. Interest on the bonds was 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.



## 17. FINANCIAL INSTRUMENTS

### 17.1. Financial instruments by category

	Loans and receivables	Total
Assets as disclosed in the consolidated statement of financial standing		
Trade debtors	172,743	172,743
Cash and cash equivalents	556,734	556,734
<b>As at 31 December 2017</b>	<b>729,477</b>	<b>729,477</b>

	Other financial liabilities	Total
Liabilities as disclosed in the consolidated statement of financial standing		
Loans and borrowings	20,208	20,208
Liabilities due to bond issue	301,911	301,911
Trade creditors and other financial liabilities	217,835	217,835
<b>Total</b>	<b>539,954</b>	<b>539,954</b>
Interest and commissions paid		
Interest		8,263
<b>Total</b>		<b>8,263</b>

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

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

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## 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 2017 and 31 December 2016 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 2017 and in 2016 the Group used external financing denominated in the złoty.

Current debt of the Group under loans and borrowings amounts to PLN 20 million (as at 31 December 2016 – PLN 23 million) and under bond issue – PLN 302 million (as at 31 December 2016 – PLN 600 million). The total debt of the Group as at 31 December 2017 amounts to PLN 322 million (as at 31 December 2016 – PLN 623 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 3.22 million (as at 31 December 2016 – PLN 6.23 million) and increase or decrease, as applicable, the net profit by an amount lower or equal to PLN 2.61 million (as at 31 December 2016 – PLN 5.05 million).

Based on the 2017 and 2016 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 2017 with respect to bank deposits of free cash amounts to PLN 434,928,000 (as at 31 December 2016 – PLN 541,106,000), and with respect to Mine Closure Fund assets – PLN 121,806,000 (as at 31 December 2016 – PLN 111,218,000). 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 2017:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(4,349)	(2,175)	2,175	4,349

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

The analysis of data as at 31 December 2017 indicates that when interest rate of deposits goes up by 1 p.p., finance income under deposits increases by PLN 4,349,000 (up by PLN 5,411,000 as at 31 December 2016), and so does net profit - by PLN 3,523,000 (up by PLN 4,383,000 as at 31 December 2016). Analogously, when interest rate of deposits goes down by 1 p.p., finance income under deposits is lower by PLN 4,349,000 (decrease by PLN 5,411,000 as at 31 December 2016), and so is net profit - by PLN 3,523,000 (decrease by PLN 4,383,000 as at 31 December 2016).

The value of assets relating to Mine Closure Fund exposed to interest rate risk amounts to PLN 121,806,000 as at 31 December 2017 (decrease by PLN 111,218,000 as at 31 December 2016).

Impact of changes in interest rates on finance income under funds deposited to the Mine Closure Fund as at 31 December 2017:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(1,218)	(609)	609	1,218

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

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 1,218,000 (increase by PLN 1,112,000 as at 31 December 2016), and net profit is higher by PLN 987,000 (increase by PLN 901,000 as at 31 December 2016). 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 1,218,000 (decrease by PLN 1,112,000 as at 31 December 2016), and so is net profit - by PLN 987,000 (decrease by PLN 901,000 as at 31 December 2016).



### 17.3.2. Foreign currency risk

The Group enters into transactions denominated in foreign currencies. It 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 2017 no material currency exchange transactions were concluded, a small amount of coal was sold with the USD as the transactional currency. Material currency exchange transactions may occur in the purchases of specialised equipment and machinery used for extraction operations.

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 2017 and 31 December 2016 the Group did not hold instruments hedging the currency exchange risk (all currency forwards being the instruments hedging future cash flows have been settled by the end of 2015).

As at 31 December 2017 financial assets exposed to the currency risk totalled PLN 1,010,000, and consisted solely of cash. Financial liabilities exposed to the currency risk had the same value (as at 31 December 2016: PLN 2,541,000) and related to liabilities on account of a purchase of materials. An increase or decrease in a currency exchange rate by 1% would not affect the pre-tax earnings in any manner.

### 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.



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

	As at 31 December	
	2017	2016
Cash in hand and bank deposits	556,734	652,324
Current trade debtors	172,743	197,246
<b>Total exposure to credit risk</b>	<b>729,477</b>	<b>849,570</b>
Receivables from 7 key customers	168,017	183,398
Concentration of credit risk under receivables from 7 key customers	97%	93%
Cash deposited at Banku Gospodarstwa Krajowego S.A. (expressed as % of total cash and bank deposits)	54%	14%
Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits)	41%	80%
Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits)	2%	1%
Cash deposited at BOŚ S.A. (expressed as % of total cash and bank deposits)	2%	0%
Cash deposited at mBank S.A. (formerly BRE Bank S.A.) (expressed as % of total cash and bank deposits)	1%	3%
Cash deposited at PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	-	1%
Cash deposited at BZ WBK 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 and other foreign entities) 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- (negative)
- 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)

#### 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

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



(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.

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). The company may use this overdraft until 29 November 2018. As at 31 December 2017 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).

<b>As at 31 December 2017</b>	<b>less than 1 year</b>	<b>1 up to 2 years</b>	<b>2 up to 5 years</b>	<b>more than 5 years</b>
Loans and borrowings	3,986	3,659	10,249	4,983
Financing liabilities on account of bond issue	306,572	-	-	-
Trade and other liabilities	174,828	5,381	14,825	34,172

<b>Balance as at 31 December 2016</b>	<b>less than 1 year</b>	<b>1 up to 2 years</b>	<b>2 up to 5 years</b>	<b>more than 5 years</b>
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

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 2017 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 7.25%. Similarly, a 1% decrease in the coal price reduces the result on sales (gross financial result – administrative expenses – selling costs) by 7.25%.

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

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in result	-108.81%	-72.54%	-36.27%	-14.51%	-7.25%	0.00%	7.25%	14.51%	36.27%	72.54%	108.81%

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 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:

	As at 31 December	
	2017	2016
Total loans and borrowings	20,208	23,275
Financing liabilities on account of bond issue	301,911	600,080
Net of cash and cash equivalents	(556,734)	(652,324)
<b>Net debt</b>	<b>(234,615)</b>	<b>(28,969)</b>
Total equity	2,901,527	2,292,407
Employed capital	2,266,912	2,263,438

## 18. PROVISIONS FOR EMPLOYEE BENEFITS

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



	As at 31 December	
	2017	2016
Provisions as disclosed in the consolidated statement of financial position		
Retirement and disability benefits	43,438	33,992
Long service awards	92,276	82,512
Coal allowances in kind	-	114,876
Voluntary Redundancy Programme	5,143	21,688
Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	16,164	13,913
<b>Total</b>	<b>157,021</b>	<b>266,981</b>

	for the financial year from 1 January to 31 December	
	2017	2016
Costs recognised in the consolidated income statement:		
Retirement and disability benefits	10,339	2,319
Long service awards	20,805	9,950
Coal allowances in kind	(139,663)	6,479
Voluntary Redundancy Programme	(8,021)	21,688
Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	22,181	17,047
<b>Total</b>	<b>(94,359)</b>	<b>57,483</b>

Such a significant decrease in provisions for employee benefits (by PLN 109,960,000) primarily results from releasing by the Parent the provision for coal allowance benefits. On 17 October 2017, the Management Board of the Parent signed with the trade unions active at Lubelski Węgiel Bogdanka S.A. an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners. As a result of signing the agreement, the existing retirees and pensioners, for whom the Parent was the last place of employment, have lost their right to free coal. Further, in consequence of the Act on the benefit to compensate for the loss of the right to free coal becoming effective on 12 October 2017, these persons may benefit from a one-off compensation in the amount of PLN 10,000.

As a result of signing the agreement, the right to free coal after retirement was also lost by the current employees of the Parent, in exchange for a right to receive a one-off additional severance pay for retirees and pensioners.

In view of the above it was necessary to recognise appropriate changes in the Parent's books. In connection with the loss of the right to coal allowances after retirement/disability pension, the Parent measured again the provision for coal allowance benefits as at 17 October 2017 (date of loss of the right). The updated provision amounted to PLN 145,564,000 and was subsequently fully released. At the same time, in accordance with the concluded agreement, the Parent recognised in the books a provision for additional severance pay for retirees and pensioners in the total amount of PLN 7,044,000. In addition, in 2017 compensation in the amount of PLN 23,589,000 was paid to the current employees of the Parent in connection with resignation of their right to free coal after retirement/disability pension.

The total consolidated effect of all operations connected with coal allowances and the agreement signed in this regard on the result of the Group amounted to circa PLN 114,931,000.

The existing retirees and pensioners who under the agreement lost their right to free coal pursuant to the Act on Compensation Benefit of 12 October 2017, could take advantage of a one-off compensation in the net amount of PLN 10,000 per one eligible person. The Act envisaged that the process of collection applications from retirees/pensioners and the targeted payment of compensation benefits will be carried out by indicated entities to which the Act was applicable,

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



including the Parent. The process of collecting applications from retirees/pensioners was carried out in October and November 2017. After the applications had been verified, a list was prepared and sent by the Parent to the Industrial Development Agency. Based on that list the Parent received funds for the purpose of paying out the compensation benefit. The Parent was in this process only an intermediary because a direct obligation for compensation was taken over by the State Treasury. For that reason the Parent does not disclose in the consolidated financial statements either costs connected with paid compensation or revenue from received subsidy for payment of funds.

	for the financial year from 1 January to 31 December	
	2017	2016
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	1,345	7,294
Coal allowances in kind	28,632	64
Other benefits for employees (death benefits)	66	413
<b>Total</b>	<b>30,043</b>	<b>7,771</b>

Change in provisions for employee benefits liabilities:

	for the financial year from 1 January to 31 December	
	2017	2016
As at 1 January	266,981	251,537
Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	28,297	52,789
Costs of past employment	(138,520)	(8,162)
Interest expense	6,843	6,348
Actuarial gains/(losses) as recognised in the consolidated income statement	9,021	6,508
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	30,043	7,771
Recognised in the comprehensive income, total	(64,316)	65,254
Benefits paid	(45,644)	(49,810)
<b>As at 31 December</b>	<b>157,021</b>	<b>266,981</b>
<i>Including:</i>		
- non-current	119,532	209,682
- current	37,489	57,299

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

- releasing by the Parent the provision for coal allowance benefits in relation to an agreement, signed on 17 October 2017, regarding changes in the existing Collective Bargaining Agreement – in the amount of PLN (145,564,000);
- creating by the Parent a provision for an additional severance pay for retirees and pensioners in relation to the abovementioned agreement – in the amount of PLN 7,044,000.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



Amounts disclosed in the consolidated income statement and in the consolidated statement of comprehensive income in 2017 are as follows:

	Benefits during employment	Post-employment benefits	Total
Liabilities as at 1 January	115,321	151,660	266,981
Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	22,709	5,588	28,297
Costs of past employment	-	(138,520)	(138,520)
Interest expense	2,659	4,184	6,843
Actuarial gains/(losses) as recognised in the consolidated income statement	9,021	-	9,021
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	-	30,043	30,043
<b>Recognised in the consolidated statement of comprehensive income, total</b>	<b>34,389</b>	<b>(98,705)</b>	<b>(64,316)</b>

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
<b>Recognised in the consolidated statement of comprehensive income, total</b>	<b>48,893</b>	<b>16,361</b>	<b>65,254</b>

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

	for the financial year from 1 January to 31 December	
	2017	2016
Costs of products, goods and materials sold	(90,636)	46,047
Selling costs	(567)	312
Administrative expenses	(9,999)	4,776
Finance costs	6,843	6,348
<b>Recognised in the consolidated income statement, total:</b>	<b>(94,359)</b>	<b>57,483</b>
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	30,043	7,771
<b>Recognised in the consolidated statement of comprehensive income, total</b>	<b>(64,316)</b>	<b>65,254</b>

Main actuarial assumptions made:

	As at 31 December	
	2017	2016
Discount rate	3.26%	3.20%
Employee mobility	1.10%	1.20%
Increase in salaries and wages in the subsequent year	2.00%	1.50%
Increase in salaries and wages in 2019 (2016: in 2018)	2.20%	2.50%
Increase in salaries and wages from 2020 (2016: from 2019)	2.50%	2.50%

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:

	As at 31 December	
	2017	2016
Men	16.00	15.71
Women	24.46	24.14

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

	As at 31 December	
	2017	2016
Retirement and disability benefits	13.32	12.54
Length-of-service awards	10.25	9.86
Death benefits	11.68	11.04
Coal allowances	-	18.43

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## 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 January 2017	117,423	4,440	10,870	32,456	20,042	3,044	188,275
<i>Including:</i>							
Non-current	117,423	-	-	-	-	-	130,179
Current	-	4,440	10,870	32,456	20,042	3,044	70,852
Recognition in the consolidated statement of financial position							
- Update of the provision created	(8,274)	-	-	-	-	-	(8,274)
Recognition in the consolidated income statement							
- Creation of additional provisions	1,541	4,434	641	6,896	-	4,959	18,471
- Use of the created provision	-	(1,801)	-	-	-	(2,164)	(3,965)
- Release of an unused provision	-	(2,639)	-	-	-	-	(2,639)
- Interest	-	-	293	3,001	1,298	-	4,592
- Discount settlement	3,758	-	-	-	-	-	3,758
<b>As at 31 December 2017</b>	<b>114,448</b>	<b>4,434</b>	<b>11,804</b>	<b>42,353</b>	<b>21,340</b>	<b>5,839</b>	<b>200,218</b>
<i>Including:</i>							
Non-current	114,448	-	-	-	-	-	114,448
Current	-	4,434	11,804	42,353	21,340	5,839	85,770
As at 1 January 2016	130,179	8,497	26,866	23,881	18,727	3,041	211,191
<i>Including:</i>							
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
<b>As at 31 December 2016</b>	<b>117,423</b>	<b>4,440</b>	<b>10,870</b>	<b>32,456</b>	<b>20,042</b>	<b>3,044</b>	<b>188,275</b>
<i>Including:</i>							
Non-current	117,423	-	-	-	-	-	117,423
Current	-	4,440	10,870	32,456	20,042	3,044	70,852

### 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 mine closure and land reclamation calculated as at 31 December 2017 amounts to PLN 114,448,000 including a provision for a mine closure of PLN 105,441,000 and a provision for land reclamation of PLN 9,007,000. The change in provision compared to 31 December 2016 is PLN (2,975,000); the increase resulting from creating an additional provision of PLN 1,541,000 and an increase resulting from the discount write-off of PLN 3,758,000 were recognised in the Consolidated Income Statement under "Costs of products, goods and materials sold" and "Finance cost", respectively, while a decrease caused by update of assumptions, totalling PLN 8,274,000, was recognised in the Consolidated Statement of Financial Position as a decrease in "Property, plant and equipment".

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### 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 2017 amounts to PLN 4,434,000, 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 2017 the amount of the unused provision totalled PLN 1,801,000 (PLN 4,972,000 in 2016).

### 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 appropriate legal opinions, 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 2017. The provision for legal claims has not changed significantly compared to the end of the prior financial year (31 December 2016).

### 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.

The issue of chargeability of real property tax on linings of underground mining excavations and other infrastructure elements included in those excavations, especially such as pipelines, mine railway tracks, suspended railway – has not been yet finally resolved in a line of decisions given by administrative courts, including the Supreme Administrative Court.

As regards the classification of underground mining excavation linings as structures chargeable with real property tax, although in 2015-2017 the Supreme Administrative Court issued rulings (including three relating to the Parent) finding such linings to be structures chargeable with real property tax, nevertheless there is no uniform line of decisions by administrative courts with respect to classification of the linings to specific types of structures. Namely, in the rulings given in relation to the Parent the linings were classified as tunnels, while in other rulings they were classified by the Supreme Administrative Court as retaining structures.

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While with respect to other infrastructure elements included in the underground mining excavations of the Parent, such as pipelines, mine railway tracks, suspended railway – numerous decisions were issued in this regard, mainly by Provincial Administrative Courts (especially the Provincial Administrative Court in Gliwice), though there were also several rulings by the Supreme Administrative Court, where those structures were found to be chargeable with real property tax as technical networks.

Nevertheless, also with respect to those facilities we cannot say with certainty that a clear and uniform position has been established in a line of decisions by administrative courts according to which those facilities constitute a specific type of structures chargeable with real property tax.

In addition, as the proceedings conducted in order to assess real property tax liabilities of the Parent are long lasting, with respect to at least some of them it may happen that real property tax liabilities will become time barred (such situation has already happened in the case of liabilities in that tax for 2008 – with respect to the Cyców and Ludwin Communes).

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 2013–2017 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 2017 (disclosed in the consolidated statement of financial position under "Provisions for other liabilities and charges") in the amount of PLN 42,353,000 (31 December 2016: PLN 32,456,000) represents a provision for real property tax liabilities, if any, and interest thereon for 2013-2017 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 2017 the provision was not settled, but a settlement was performed with respect to a portion of the amount of overpaid real property tax, available to the Parent, in the total amount of PLN 1,638,000 with current liabilities (monthly payments for 2017) on account of real property tax and the service charge.

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, 2015 and 2017 (overpayments charged to liabilities) on account of mining excavations, as at 31 December 2017 the Parent calculated income due for those years for the overpaid real property tax, in the amount of PLN 5,786,000 (as at 31 December 2016: PLN 7,423,000). They are disclosed in the consolidated statement of financial position as current assets under "Trade debtors and other receivables".

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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.

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 judgment, 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 Social Insurance Institution Lublin Branch appealed against the aforesaid judgement. On 21 November 2017 an appeal trial was held during which the Court of Appeals in Lublin recognised the appeal filed by the Social Insurance Institution from the judgment of 7 February 2017. The Court of Appeal issued a judgment in which it dismissed the appeal filed by the Social Insurance Institution. On 15 January 2018 a copy of the aforementioned ruling of the Court of Appeal was delivered to the Parent. On 12 March 2018 the Social Insurance Institution Lublin Branch filed a cassation appeal against the aforesaid judgement to the Supreme Court. At present, the judgment is not final and legally binding.

The Management Board of the Parent believes that given a complex nature of the case, the risk of outflow of economic benefits is high, before the above dispute is finally resolved, which however will not occur earlier than at the end of 2018 and the beginning of 2019.

After taking the above into account, the provision disclosed in the Parent's books as at 31 December 2017 and amounting to PLN 21,340,000 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 4,942,000).

### 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 2,082,000 (as at 31 December 2016: PLN 2,013,000), which were necessary for filing for redemption in relation to the purchase and using electrical energy in 2017. In 2017 the Parent used the provision for the purchase of green certificates for 2016, in the amount of PLN 2,013,000.

Furthermore, in order to protect itself against negative financial consequences (if any, if the findings of the inspections are upheld - more information on this subject is provided for in Note 26.2) the Parent created a provision, as at 31 December 2017, in the amount of PLN 3,578,000 for the interest on tax arrears (if any) for 2015 on account of the corporate income tax.

## 20. REVENUE

	for the financial year from 1 January to 31 December	
	2017	2016
Sale of coal	1,725,221	1,724,416
Other activities	41,807	50,180
Sale of goods and materials	13,293	11,669
<b>Total revenue</b>	<b>1,780,321</b>	<b>1,786,265</b>

The main categories of contracts falling within the above types of revenue include:

- Contracts for the sale of coal, relating to the core activities of the Group; those contracts may be of two types – with transport service (where the Company arranges transport for the customer) or without transport service. The Company sells coal both to large business customers – mainly to professional energy companies – as well as to smaller companies and private individuals. The sales to professional companies account for the predominant share. The total value of all revenue from the sale of coal in 2017 amounted to PLN 1,725,221,000. At the same time revenue from transport of coal (shown in the above table under „Other activities”) amounted in 2017 to PLN 13,664,000.
- Contracts for the sale of goods and materials, relating mainly to the sale of scrap; revenue from such sales accounts for a slight share in the total consolidated revenue. The total value of all revenue on that account in 2017 amounted to PLN 13,293,000.
- Contracts relating to the sale of other services, in which the largest portion relates to revenue from renting space in the bath – the so called hook places and closets. The service is provided almost exclusively to the Parent’s subcontractors (providing services within the scope of mining works), whose employees are required to use the bath under occupational and safety regulations. The total value of consolidated revenue from renting bath space in 2017 amounted to PLN 8,141,000.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## 21. COSTS BY TYPE

	for the financial year from 1 January to 31 December	
	2017	2016
Amortisation	356,372	362,180
Materials and energy consumption	507,766	435,764
External services	459,410	448,720
Employee benefits	608,247	576,593
Entertainment and advertising costs	6,738	6,462
Taxes, fees and charges	40,461	39,358
Other expenses by type	7,148	28,659
<b>Total costs by type</b>	<b>1,986,142</b>	<b>1,897,736</b>
Consolidation exclusions (intragroup transactions)	(112,511)	(114,465)
Activities for the Company's own needs	(285,370)	(195,985)
Accruals and deferrals	6,978	(11,699)
Value of coal obtained from excavations	(63,887)	(70,519)
Provisions and other presentation adjustments between costs by type and by function	(125,667)	23,498
Release of impairment loss on the property, plant and equipment and intangible assets (Note 4.3)	(495,982)	-
<b>Total production cost</b>	<b>909,703</b>	<b>1,528,566</b>
Change in inventory of products	11,614	15,431
Costs of goods and materials sold	12,862	11,457
<b>Own cost of sales, including:</b>	<b>934,179</b>	<b>1,555,454</b>
- <i>Costs of products, goods and materials sold</i>	<i>859,161</i>	<i>1,429,011</i>
- <i>Selling costs</i>	<i>41,115</i>	<i>40,843</i>
- <i>Administrative expenses</i>	<i>33,903</i>	<i>85,600</i>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## 22. OTHER INCOME

	for the financial year from 1 January to 31 December	
	2017	2016
Compensations and damages received	1,954	5,737
Release of unused provision for the claims of the consortium of BUDIMEX S.A., Ferroviar Agroman S.A., and Mostostal Kraków	-	10,125
Other,	3,150	2,004
<i>including:</i>		
- Release of used provisions for liabilities	786	105
- Release of impairment losses	2,063	146
- Other income	301	1,753
<b>Total other income</b>	<b>5,104</b>	<b>17,866</b>

## 23. OTHER COSTS

	for the financial year from 1 January to 31 December	
	2017	2016
Grants	(401)	(475)
Enforcement fees and penalties	-	(139)
Compensation	(602)	(1,375)
Other	(158)	(156)
<b>Total other costs</b>	<b>(1,161)</b>	<b>(2,145)</b>

## 24. OTHER NET LOSS

	for the financial year from 1 January to 31 December	
	2017	2016
Loss on sale of non-current assets	(460)	51
Currency exchange differences	(104)	(112)
Liquidation of investment without effect	-	(41)
Impairment losses due to impairment of construction in progress	(1,284)	(7,352)
Other,	(967)	(2,071)
<i>including:</i>		
- Creating other provisions	(431)	(672)
- Other	(536)	(1,399)
<b>Total other net loss</b>	<b>(2,815)</b>	<b>(9,525)</b>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## 25. FINANCE INCOME AND COSTS

	for the financial year from 1 January to 31 December	
	2017	2016
Interest income on short-term bank deposits	5,331	5,691
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:	1,922	2,411
- <i>Interest regarding the Mine Closure Fund</i>	<i>1,705</i>	<i>1,832</i>
<b>Total finance income</b>	<b>7,253</b>	<b>14,567</b>
Interest on bank loans, commissions on loans and bonds	(5,541)	(13,392)
Interest expense on valuation of employee benefits	(6,843)	(6,348)
Settlement of discount on regarding provision for the Mine Closure Fund and land reclamation	(3,758)	(3,645)
Creation of a provision and impairment losses of interest	(7,617)	(2,285)
Provision for interest on claims of the Social Security Institution (ZUS) for contribution for accident insurance	(1,298)	(1,315)
Other cost	(705)	(944)
<b>Total finance costs</b>	<b>(25,762)</b>	<b>(27,929)</b>
<b>Finance cost – net</b>	<b>(18,509)</b>	<b>(13,362)</b>

## 26. INCOME TAX

### 26.1. Tax burden

	for the financial year from 1 January to 31 December	
	2017	2016
Current tax	5,760	21,668
Deferred tax charged into finance income	155,076	19,985
Deferred tax charged into other comprehensive income:	(5,708)	(1,477)
- <i>as actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income:</i>	<i>(5,708)</i>	<i>(1,477)</i>
<b>Total</b>	<b>155,128</b>	<b>40,176</b>

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



## 26.2. Reconciliation of an effective tax rate

	for the financial year from 1 January to 31 December	
	2017	2016
Profit before taxation	828,761	223,645
Tax calculated at the rate of 19%	157,465	42,493
Tax effect of income permanently excluded from the taxable base, including:	(502)	(3,288)
- revenue due in respect of the real property tax	(223)	(136)
- release of the provision for legal claims	-	(3,152)
- other	(279)	-
Tax effect of costs permanently excluded from the taxable base	3,873	2,448
- payment to the National Fund for the Disabled	1,003	956
- provision for interest on real property tax	581	382
- impairment loss for interest receivable from the central budget and interest payable to the central budget	928	250
- other interest	482	145
- donations	74	90
- other	805	625
<b>Decrease in financial result by the income tax</b>	<b>160,836</b>	<b>41,653</b>

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.

The above risk was somewhat confirmed during customs and tax inspection regarding CIT for 2015, which was made in the Parent at the end of 2017. The inspection was carried out by inspectors from the Lublin Customs and Tax Office in Biała Podlaska pursuant to the authorisation dated 29 August 2017, and lasted from 30 August to 14 December 2017. The inspecting authority focused on the Parent's approach to tax treatment of wall reinforcements and costs of making movable excavations, and questioned the settlements made as being correct. In the opinion of the Parent, the approach applied to date is in conformity with the applicable tax law and the same as the approach of other entities operating in the mining industry, which is supported by available tax rulings. At the moment, however, the opinions of the Parent and the tax authority are different.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



### 26.3. Deferred income tax

Assets and liabilities regarding the deferred income tax mutually set-off if 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:

	As at 31 December	
	2017	2016
Deferred tax assets		
- to be realised after 12 months	38,377	50,138
- to be realised within 12 months	10,913	19,227
	49,290	69,365
Deferred income tax liability		
- to be realised after 12 months	247,955	118,876
- to be realised within 12 months	4,645	4,431
	252,600	123,307
<b>Deferred tax assets (net)</b>	<b>2,024</b>	<b>2,117</b>
<b>Deferred tax liabilities (net)</b>	<b>205,334</b>	<b>56,059</b>

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 January 2017	50,773	4,741	5,353	5,620	844	2,034	69,365
Decrease)/increase of the financial result	(20,885)	(483)	1,310	76	(1)	(92)	(20,075)
- recognised in the consolidated income statement	(26,593)	(483)	1,310	76	(1)	(92)	(25,783)
- recognised in the consolidated statement of comprehensive income	5,708	-	-	-	-	-	5,708
<b>As at 31 December 2017</b>	<b>29,888</b>	<b>4,258</b>	<b>6,663</b>	<b>5,696</b>	<b>843</b>	<b>1,942</b>	<b>49,290</b>
As at 1 January 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
<b>As at 31 December 2016</b>	<b>50,773</b>	<b>4,741</b>	<b>5,353</b>	<b>5,620</b>	<b>844</b>	<b>2,034</b>	<b>69,365</b>

Projections prepared for the Group suggest that tax income will be generated in 2018 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.

Notes presented on pages 10 - 81 make an integral part of 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 January 2017	109,698	4,063	7,503	802	1,241	123,307
(Decrease)/increase of the financial result, including:	128,669	461	866	(186)	(517)	129,293
- recognised in the consolidated income statement	128,669	461	866	(186)	(517)	129,293
<b>As at 31 December 2017</b>	<b>238,367</b>	<b>4,524</b>	<b>8,369</b>	<b>616</b>	<b>724</b>	<b>252,600</b>
As at 1 January 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
<b>As at 31 December 2016</b>	<b>109,698</b>	<b>4,063</b>	<b>7,503</b>	<b>802</b>	<b>1,241</b>	<b>123,307</b>

\*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 23,504,000 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 2017.

Receivables related to the overpayment of current income tax for 2016 as disclosed in the consolidated statement of financial position as at the end of the previous year was in 2017 set off in full with current liabilities on account of other taxes (value added tax, personal income tax).





## 27. EARNINGS PER SHARE

### Basic

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

	for the financial year from 1 January to 31 December	
	2017	2016
Earnings attributable to owners of the Parent	667,613	181,536
Weighted average number of ordinary shares ('000)	34,014	34,014
<b>Basic earnings per share (in PLN)</b>	<b>19.63</b>	<b>5.34</b>

### Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. As at 31 December 2017, 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 2017 dilution did not occur (the same situation was recorded as at 31 December 2016).

## 28. DIVIDEND PER SHARE

During the Annual General Shareholders Meeting held on 26 June 2017, the Shareholders of the Parent, Lubelski Węgiel Bogdanka S.A., adopted a resolution on payment of dividend for 2016. In compliance with Resolution No. 26 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A., the net profit of the Parent in the amount of PLN 175,896,000 distributed as follows:

- the amount of PLN 34,014,000 – to a dividend, i.e. the equivalent of PLN 1.00 per share,
- the remainder, i.e. PLN 141,882,000 – to the Parent's reserve capital.

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

	for the financial year from 1 January to 31 December	
	2017	2016
Dividend paid	34,014	-
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
<b>Dividend per share (in PLN)</b>	<b>1.00</b>	<b>-</b>

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 2017. On the date of these consolidated financial statements, the decision on the distribution of profit for 2017 was not yet taken. Recommendation of the Parent's Management Board regarding profit distribution for 2017 is expected to be issued in the middle of the second quarter 2018.



## 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 42,353,000 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 2016).

### 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 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. Further, a court expert was heard as regards the prepared opinion; the hearing, which took place on 4 July 2017, was preceded by drawing an additional opinion by the expert. Another trial took place on 5 September 2017; during the trial the Court made decisions as to considering further evidence motions, including further expert opinions, and requested the parties to specify their arguments to the expert opinions. On 1 December 2017 the Regional Court in Lublin issued a decision admitting the evidence in the form of opinions prepared by the University of Science and Metallurgy (AGH) in Kraków and the Silesian University of Technology in Gliwice, Mining and Geology Faculty. Further actions will depend on the assessment of the opinions. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2016).



*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. At the turn of 2016 and 2017 the parties exchanged further pleadings. The trials before the Arbitration Court were held between 19 and 21 June 2017. On 29 September 2017, the Arbitration Court at the National Chamber of Commerce in Warsaw issued a judgment dismissing in full the action brought against the Parent by the Consortium. With the judgement the procedure before the Arbitration Court was closed. In October 2017 the Parent filed with the Court of Appeals in Lublin a motion to recognise the judgement of the Arbitration Court. Further, at the end of November 2017, the Consortium filed an appeal to repeal the judgment of the Arbitration Court. At present, the judgment is not final and legally binding.

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. After the Consortium had filed the reply to the statement of claim and the first hearing had been conducted, the parties jointly submitted a motion to the Court to direct the parties to mediation and reached an agreement as to the mediator.



### 30. FUTURE CONTRACTUAL LIABILITIES

#### *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:

	As at 31 December	
	2017	2016
Property, plant and equipment	188,793	7,063
<b>Investment liabilities</b>	<b>188,793</b>	<b>7,063</b>

Such a significant increase in the future contractual liabilities comparing to 2016 is a result of concluding by the Group of a number of mining works agreements in relation to intensified plans regarding preparatory works (drilling of excavations).

### 31. OPERATING LEASE

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

	As at 31 December	
	2017	2016
Less than 1 year	3,926	2,605
From 1 year to 2 years	3,350	466
From 2 to 5 years	2,272	1,294
Over 5 years	29,847	30,153
<b>Minimum future payments</b>	<b>39,395</b>	<b>34,518</b>

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 2017, the costs of the operating lease recognised in the consolidated income statement amounted to PLN 5,356,500 (during the period ended on 31 December 2016: PLN 5,300,200).



## 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

Purchase transactions cover primarily the purchases of electrical energy from ENEA S.A. and materials from ENEA Logistyka Sp. z o.o. as well as services from Enea Centrum Sp. z o.o. and Enea Serwis Sp. z o.o.

In the reporting periods ending on 31 December 2017 and 31 December 2016, the value of tradeover on account of purchase with the ENEA Group companies and the total liabilities of the Group towards those entities were as follows:

	for the financial year from 1 January to 31 December	
	2017	2016
Purchases in period	67,659	66,585
Total liabilities at end of period including VAT	13,784	13,459

Sale transactions cover primarily the sales of thermal coal to ENEA Wytwarzanie Sp. z o.o. and ENEA Elektrownia Połaniec Sp. z o.o. (formerly ENGIE ENERGIA POLSKA Sp. z o.o.) and Enea Ciepło Sp. z o.o. (formerly Miejskie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. with registered office in Białystok).

In the reporting periods ending on 31 December 2017 and 31 December 2016, the value of tradeover on account of sale with the ENEA Group companies and the total receivables of the Group from those entities as at individual balance-sheet dates were as follows:

	for the financial year from 1 January to 31 December	
	2017*	2016
Sales in period	1,318,126	819,991
Total receivables at end of period including VAT	134,873	105,579

\*ENEA Elektrownia Połaniec S.A. became a related entity once it was purchased by ENEA S.A. (the parent in the ENEA Group), on 15 March 2017; therefore revenue disclosed in the above table include transactions with ENEA Elektrownia Połaniec S.A. conducted after 15 March 2017.

In the reporting periods ending on 31 December 2017 and 31 December 2016, the value of dividends paid by the Parent to the Enea Group companies, i.e. Enea S.A. and Enea Wytwarzanie Sp. z o.o. as at subsequent balance-sheet dates were as follows:

	for the financial year from 1 January to 31 December	
	2017	2016
Dividend paid to the ENEA Group companies	22,449	-
<b>Total dividend</b>	<b>22,449</b>	<b>-</b>

Pursuant to the resolution of the Annual General Shareholders Meeting of the Parent of 26 June 2017, the 2016 dividend was paid on 2 August 2017.

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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. (Grupa Azoty), PGE Paliwa Sp. z o.o., PGNiG Termika S.A., Energa Elektrownie Ostrołęka S.A. and Miejskie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Chełm.

In the reporting periods ending on 31 December 2017 and 31 December 2016, 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:

	for the financial year from 1 January to 31 December	
	2017	2016
Sales in period	223,458	370,020
Total receivables at end of period including VAT	29,780	33,364

Key purchase transactions include: 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, purchase of fuel from Orlen Paliwa Sp. z o.o. as well as payments for mining and prospecting licences.

In the reporting periods ending on 31 December 2017 and 31 December 2016, the value of purchases from the above entities and the total liabilities of the Group to those entities were as follows:

	for the financial year from 1 January to 31 December	
	2017	2016
Purchases in period	136,700	109,790
Total liabilities at end of period including VAT	19,150	14,963

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.



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

	for the financial year from 1 January to 31 December	
	2017	2016
<b>Remuneration of Management Board members and commercial proxies</b>	<b>5,698</b>	<b>7,070</b>
Including:		
- Annual award	1,328	498
- Pay for termination of employment relationship	-	990
- Other benefits	14	1,354
<b>Remuneration of the Supervisory Board members of the Parent</b>	<b>272</b>	<b>123</b>

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 (removed from the position of the President of the Management Board as of 16 February 2018) 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 2017, the number of allocated options under the whole Scheme was 1,143,863, and the total value of the Management Options Scheme amounted to PLN 3,839,000 (31 December 2016: PLN 3,839,000). 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 Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (in the past: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa), with registered office in Warsaw, as an entity authorised to:

- 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 Audyt 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 2017 and 2016 is as follows:

	for the financial year from 1 January to 31 December	
	2017	2016
<b>Auditor's fee</b>	<b>211</b>	<b>231</b>
Including:		
- <i>Audit of the annual financial statements</i>	105	105
- <i>Review of the financial statements</i>	70	70
- <i>Other attestation services</i>	25	20
- <i>Other certification services (review of indicators)</i>	11	36

On 5 January 2018, the Supervisory Board of the Parent adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o. with registered office in Warsaw, as an entity authorised to:

- review the financial statements and Group's consolidated financial statements for the first halves of 2018, 2019 and 2020,
- audit the Parent's financial statements and the Group's consolidated financial statements for 2018, 2019 and 2020.

The agreement will be concluded for a period enabling the subject matter of the agreement to be performed.

PricewaterhouseCoopers Sp. z o.o. since 16 February 1995, has been entered in the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 144.

The Group has earlier used the services of PricewaterhouseCoopers Sp. z o.o. and PwC chain entities with respect to: advisory services and preparation of a report regarding an issue prospectus of LWB S.A. shares, published in 2009; review and audit of separate and consolidated financial statements of financial years 2009-2011; advisory services regarding first application of IAS/IFRS; advisory services and audit regarding the scope of budget preparation (2011-2012); workshops on different subjects (2010); legal advisory (2012); tax advisory in 2014-2017 regarding excise tax; and reviewing the correctness of Excise Ratio calculations made by the Parent for 2016;

### 35. EVENTS AFTER THE BALANCE-SHEET DATE

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 2017, and were not disclosed in the Group's consolidated financial statements.

On 28 February 2017 the Parent entered into an agreement with trade unions regarding the level of remunerations in 2018. The parties have agreed that beginning from 1 March 2018 the rates of personal classification of employees will grow by 5%. Furthermore, by the end of March, a one-off incentive benefit will have been paid in the gross amount of PLN 2,700.

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 2017.





### 36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 22 March 2018, it approves these consolidated financial statements of the Group for the period from 1 January to 31 December 2017.

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

Artur Wasil	President of the Management Board
Sławomir Karlikowski	Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility
Stanisław Misterek	Vice-President of the Management Board Economic and Financial Affairs
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

Notes presented on pages 10 - 81 make an integral part of these consolidated financial statements.