THE CONDENSED INTERIM
FINANCIAL
STATEMENTS

LUBELSKI WĘGIEL BOGDANKA S.A.

2018

CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD OF SIX MONTHS ENDED 30 JUNE 2018

BOGDANKA, SEPTEMBER 2018

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(IN PLN '000)

INTERIM STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	As at 30 June 2018	As at 31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	5	3,148,013	3,150,847
Intangible assets	7	58,405	59,691
Non-current investments		75,601	75,601
Trade and other receivables	8	4,135	239
Cash and cash equivalents		120,127	121,806
Total non-current assets		3,406,281	3,408,184
Current assets			
Inventories		96,472	60,707
Trade and other receivables	8	259,289	207,523
Overpaid income tax	21.3	4,484	22,803
Other short-term investments	9	151,279	-
Cash and cash equivalents		192,915	416,827
Total current assets		704,439	707,860
TOTAL ASSETS		**4,110,720**	**4,116,044**
Equity			
Ordinary shares	10	301,158	301,158
Other capitals	11	1,615,010	1,615,010
Retained profits	11	1,028,172	968,459
Total equity		2,944,340	2,884,627
Liabilities			
Non-current liabilities			
Deferred income tax liability		212,229	205,233
Provisions for employee benefits	14	124,327	117,344
Provisions for other liabilities and charges	15	124,529	114,448
Grants		12,868	13,148
Trade and other liabilities	12	42,582	42,675
		516,535	492,848
Current liabilities			
Provisions for employee benefits	14	29,245	36,218
Financing liabilities on account of bond issue	13	226,401	301,911
Provisions for other liabilities and charges	15	85,201	85,544
Grants		560	560
Liabilities under contracts with customers		462	-
Trade and other liabilities	12	307,976	314,336
		649,845	738,569
Total liabilities		1,166,380	1,231,417
TOTAL EQUITY AND LIABILITIES		**4,110,720**	**4,116,044**

Notes presented on pages 9 – 47 constitute an integral part of these condensed interim financial statements.

(IN PLN '000)

INTERIM INCOME STATEMENT

	Note	For the period of six months ended 30 June	
		2018	**2017**
Revenue	16	854,452	899,987
Costs of products, goods and materials sold		(740,355)	(692,765)
Gross profit		114,097	207,222
Selling costs		(20,804)	(22,117)
Administrative expenses		(50,160)	(44,691)
Other income	17	30,012	1,085
Other costs	18	(700)	(211)
Other profit / (loss) - net	19	1,516	(1,163)
Profit on operating activities		73,961	140,125
Finance income	20	11,040	12,452
Finance costs	20	(8,143)	(11,809)
Profit before taxation		76,858	140,768
Income tax	21.1	(12,405)	(25,796)
Net profit for the financial year		**64,453**	**114,972**

Earnings per share attributable to owners of the Company during the year (in PLN per share)	**Note**		
- basic	22	1.89	3.38
- diluted	22	1.89	3.38

Notes presented on pages 9 – 47 constitute an integral part of these condensed interim financial statements.

(IN PLN '000)

INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	For the period of six months ended 30 June	
		2018	2017
Net profit for the financial year		**64,453**	**114,972**
Other comprehensive losses 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	14	(5,852)	(33,476)
Income tax relating to non-transferrable items	21.1	1,112	6,360
Items which never will be subject to reclassification to profit or loss for the current period – total		(4,740)	(27,116)
Items which are or may be subject to reclassification to profit or loss for the current period:		-	-
Items which are or may be subject to reclassification to profit or loss for the current period - total		-	-
Other comprehensive net losses for the financial period		(4,740)	(27,116)
Other net comprehensive income for the reporting period - total		**59,713**	**87,856**

Notes presented on pages 9 – 47 constitute an integral part of these condensed interim financial statements.

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INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary shares	Other capital			Retained profits	Total equity
			Supplementary fund	Other capital – transfer of profit / loss	Other capital – issue of Management Options		
As at 1 January 2018		**301,158**	**702,549**	**908,622**	**3,839**	**968,459**	**2,884,627**
Total net comprehensive income for the reporting period:		-	-	-	-	59,713	59,713
- net profit		-	-	-	-	64,453	64,453
- other comprehensive losses		-	-	-	-	(4,740)	(4,740)
As at 30 June 2018		**301,158**	**702,549**	**908,622**	**3,839**	**1,028,172**	**2,944,340**
As at 1 January 2017		**301,158**	**702,549**	**766,740**	**3,839**	**495,380**	**2,269,666**
Total net comprehensive income for the reporting period:		-	-	-	-	87,856	87,856
- net profit		-	-	-	-	114,972	114,972
- other comprehensive losses		-	-	-	-	(27,116)	(27,116)
Dividend for 2016	23	-	-	-	-	(34,014)	(34,014)
Transfer of the result for 2016		-	-	141,882	-	(141,882)	-
As at 30 June 2017		**301,158**	**702,549**	**908,622**	**3,839**	**407,340**	**2,323,508**

Notes presented on pages 9 – 47 constitute an integral part of these condensed interim financial statements.

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INTERIM STATEMENT OF CASH FLOWS

(indirect method)

	Note	For the period of six months ended 30 June	
		2018	2017
Cash flow from (used in) operating activities			
Cash inflow from operating activities*		196,251	207,879
Interest received and paid		(3,361)	(623)
Income tax paid		13,608	(18,356)
Net cash flow from (used in) operating activities		**206,498**	**188,900**
Cash flow from (used in) investing activities			
Acquisition of property, plant and equipment		(209,492)	(160,555)
Interest paid regarding investing activities		(2,744)	(2,027)
Acquisition of intangible assets		(11)	(58)
Inflow from the sale of property, plant and equipment		3,572	2,982
Interest received		2,554	4,019
Dividend received		-	4,240
Expenditure on other current investments		(150,000)	-
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		1,679	(979)
Net cash flow from (used in) investing activities		**(354,442)**	**(152,378)**
Cash flow from (used in) financing activities			
Bond redemption	13	(75,000)	(300,000)
Interest and commissions paid regarding financing activities		(968)	(3,451)
Net cash flow from (used in) financing activities		**(75,968)**	**(303,451)**
Net decrease in cash and cash equivalents		(223,912)	(266,929)
Cash and cash equivalents at beginning of period		416,827	513,432
Cash and cash equivalents at end of period		**192,915**	**246,503**

**detailed list of cash inflow from (used in) operating activities is presented in table on page 8.*

Notes presented on pages 9 – 47 constitute an integral part of these condensed interim financial statements.

(IN PLN '000)

INTERIM CASH INFLOWS FROM OPERATING ACTIVITIES

	Note	For the period of six months ended 30 June	
		2018	2017
Profit before taxation		76,858	140,768
- Depreciation of non-current assets	5	194,769	166,202
- Amortisation of intangible assets	7	1,298	729
- (Profit)/Loss on sale of property, plant and equipment		(2,612)	470
- Profit/(loss) on liquidation of plant, property and equipment		14,808	6,153
- Actuarial gains (losses) as recognised in the interim statement of comprehensive income	14	(5,852)	(33,476)
- Change in provisions for employee benefits	14	10	36,588
- Changes in provisions		2,072	6,981
- Other flows		(1,652)	27
- Dividend due and received		(1,025)	(8,490)
- Change in inventories		(35,765)	7,693
- Change in trade and other receivables		(54,637)	(104,951)
- Change in trade and other liabilities		7,979	(10,815)
Cash inflow from (used in) operating activities		**196,251**	**207,879**
Balance-sheet change in receivables		(55,662)	(109,201)
Dividend receivable		1,025	4,250
Change in receivables for the purposes of the interim statement of cash flows		**(54,637)**	**(104,951)**
Balance-sheet change in liabilities, liabilities under contracts with customers and grants		(6,271)	(10,757)
Set-off of income tax overpaid with other taxes payable	21.3	423	10,187
Change in investment liabilities		13,827	23,769
Liabilities on account of dividend concerning the previous year	23	-	(34,014)
Change in liabilities for the purposes of the interim statement of cash flows		**7,979**	**(10,815)**
Increase in non-current assets	5	207,722	138,826
Increase resulting from revaluation of capitalised costs of liquidating non-current assets relating to mining activities		(7,665)	-
Other non-cash adjustments		(1,648)	(13)
Change in investment liabilities		13,827	23,769
Interest paid regarding investing activities		(2,744)	(2,027)
Acquisition of property, plant and equipment		**209,492**	**160,555**

Notes presented on pages 9 – 47 constitute an integral part of these condensed interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

Notes

1. GENERAL INFORMATION

1.1 Information about the Company

Lubelski Węgiel Bogdanka S.A. is a joint stock company, operating under the laws of Poland. The Company was created as a result of the restructuring of the state enterprise Kopalnia Węgla Kamiennego Bogdanka with registered office in Bogdanka, under the Act on the Privatisation of State Enterprises of 13 July 1990.

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 activity, pursuant to the Polish Classification of Activity (PKD 0510Z), is hard coal mining.

The Company is the Parent in the Lubelski Węgiel Bogdanka Group. The Group draws condensed interim consolidated financial statements in accordance with IFRS of the Group for the period from 1 January to 30 June 2018. In order to understand fully the Company's financial standing and the results of its operation, these interim financial statements should be read in conjunction with the condensed interim consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial period ended on 30 June 2018, as well as with the audited financial statements of Lubelski Węgiel Bogdanka S.A. for the financial period ended on 31 December 2017. Those financial statements are available on the Company's website at www.ri.lw.com.pl.

On 14 September 2015, ENEA S.A. announced a tender offer for the shares of the Company and it declared its intention to acquire up to 64.57% of the total vote at the General Shareholders Meeting of the Company. 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 Company, as a result of which the Company became a part of the ENEA Group of which ENEA S.A. with registered office in Poznań is the parent.

The ultimate controlling entity is the State Treasury.

1.2 Assumption of the Company going concern

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

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

2. DESCRIPTION OF KEY ACCOUNTING PRINCIPLES (POLICIES) APPLIED

2.1 Basis of preparation

These condensed interim financial statements of LW Bogdanka S.A. for the first half of 2018 were prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting", as endorsed by the EU.

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

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 Company 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 Company's financial statements 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.

New Accounting Policies

On 1 January 2018, the Company adopted the following new standards for the first time: IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments". Below is a description of the impact that the application of each of the new standards had on the interim financial statements.

IFRS 15 "Revenue from Contracts with Customers" has been applied with the use of the retrospective method with the total effect of the first-time application of IFRS 15. The fact that the standard was applied for the first time did not lead to an adjustment of 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 Company, the application of the above standard does not have a material impact on the accounting principles applied to date. There has been a change to the manner in which revenue and costs of providing coal transport services by the Company are presented in the statements (the so-called "przewoźne"). In the case of that service, the Company acts as an intermediary. As far as the transactions where the Company acts as an intermediary/agent are concerned, as a result of applying the standard and netting revenue and costs, the revenue from other activities in the amount of PLN 8,017,000 disclosed in the Company's interim income statement was reduced by the costs of the transport services of PLN 7,549,000, and the margin of PLN 468,000 was consequently disclosed under revenue only.

As a matter of principle, as a result of applying IFRS 15, the Company's interim statement of financial position may 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 Company expects that significant balances in those items will be rare. As at 30 June 2018, the Company's interim statement of financial position only showed "Contract liabilities with customers" in the amount of PLN 462,000.

IFRS 9 "Financial Instruments" has been applied with the use of the retrospective method in accordance with interim provisions – the Company does not restate comparative data for prior periods in its financial statements (1 January 2017 and 31 December 2017) in order to reflect the requirements of IFRS 9 in terms of measurement. Consequently, the provided comparative information continues to be based on the accounting principles applied previously by the Company and described in the annual financial statements for the year ended 31 December 2017.

As a consequence of IFRS 9 becoming effective, changes have been made to the classification of financial assets. Since 1 January 2018 financial assets have been classified by the Company to the following measurement categories:

- measured at amortised cost,

- measured at fair value through other comprehensive income,

- measured at fair value through profit or loss.

Classification depends on the management model of financial assets adopted by the Company and contractual terms of cash flows. The Company reclassifies investments to debt instruments only when the management model of those assets is changed.

a) Debt instruments - Financial assets measured at amortised cost

Debt instruments held only in order to collect contractual cash flows covering only SPPI (solely payment of principal and interest) are measured at amortised cost. Interest income is calculated using the effective interest method and disclosed under item "interest income" in the profit or loss. Impairment losses are recognised in accordance with the accounting principle stated in note 2.1.e and presented under item "impairment losses on financial assets".

b) Debt instruments - Financial assets measured at fair value through other comprehensive income

Debt instruments with cash flows therefrom being only SPPI, which are held in order to collect contractual cash flows and for sale, are measured at fair value through other comprehensive income. Changes in carrying amount are recognised through other comprehensive income, except for gains and losses from impairment, interest income and foreign exchange gains and losses which are recognised in the profit or loss. In the event of derecognition of a financial asset, the accumulated gain or loss recognised previously under other comprehensive income is transferred from the equity to the profit or loss and recognised as other profit/(loss). Interest income on such financial assets is calculated using the effective interest method and recognised under item "interest income". Impairment losses are recognised in accordance with the accounting principle stated in note 2.1.e and presented under item "impairment losses on financial assets".

c) Debt instruments - Financial assets measured at fair value through profit or loss

Assets which do not meet the criteria of measurement at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss. In particular, the Company includes the following instruments under this category:

- trade receivables subject to factoring used regularly for the purpose of liquidity management when the terms and conditions of the factoring agreement result in derecognition of the receivables; and
- loans that do not meet the SPPI test (i.e. cash flows from such loans are not solely payment of principal and interest), because the frequency of changes in interest does not correspond to the formula of interest calculation.

Gain or loss from measurement of debt investments to fair value is recognised in the profit or loss and presented under item "Gains/(losses) from fair value changes of financial instruments" as they arise, except for interest income, which is calculated using the effective interest method, recognised under item "interest income".

d) Equity instruments - Financial assets measured at fair value through other comprehensive income

Following initial recognition, the Company measures all investments in equity instruments at fair value. The Company has opted to present gains and losses from fair value changes of equity instruments in other comprehensive income. In the case of electing such option, gains and losses from fair value changes are not subsequently reclassified to profit or loss when the investment is derecognised. Dividends from such investments are recognised in the profit or loss when the Company's right to receive payment is established. Impairment losses (and their reversal) with respect to equity investments measured at fair value through other comprehensive income are not presented separately from other fair value changes.

e) Impairment of financial assets listed in a–d above

A credit loss is the difference between all contractual cash flows due to the entity under the contract and all cash flows that entity expects to receive, discounted at original effective interest rate. In order to determine cash shortfall, the entity estimates cash flows, taking into account all terms and conditions of the financial instrument agreement (e.g. options of early repayment, renewal, purchase or similar) during the entire expected lifetime of that financial instrument. Cash flows to be taken into account include cash flows from the sale of held collaterals or other elements resulting in more advantageous lending conditions, which are inseparably connected with terms and conditions of the agreement. It is assumed that the expected lifetime of a financial instrument may be reliably estimated. If reliable estimation of the expected lifetime of a financial instrument is not possible, the entity calculates credit losses based on the remaining contractual term of the financial instrument.

Expected credit losses are credit losses weighted with a risk of default.

12-month expected credit losses are that part of full lifetime expected credit losses which represents expected credit losses arising from events of default under a financial instrument possible within 12 months after the reporting date.

Full lifetime expected credit losses are the expected credit losses arising from all events of default, if any, during the entire expected lifetime of a financial instrument.

The Company makes an assessment of expected credit losses connected with debt instruments measured at amortised cost and at fair value through other comprehensive income, regardless whether any premises for impairment have occurred.

In the case of current trade receivables without significant financing component, the Company applies a simplified approach required under IFRS 9 and measures allowances for impairment at an amount of expected credit losses over the full lifetime of a receivable from its initial recognition.

For the purpose of determination of expected credit losses, trade receivables have been grouped based on similarity of credit risk characteristics (three basic groups have been separated: receivables from professional energy sector, receivables from professional and non-professional heat plants, receivables from other industrial customers; the above division is supplemented with receivables from other customers). In order to specify a general default rate for the above groups, the analysis of collection for the last three years is made. Impairment allowance is calculated by taking into account a default rate adjusted with the impact of future factors and the balance of receivables unpaid on the balance sheet date for each group (and aging range).

The Company applies a three-level impairment model for financial assets, except for trade receivables:

- Level 1 – balances for which credit risk has not increased significantly since initial recognition. Expected credit losses are specified on the basis of probability of default within 12 months (i.e. the total expected credit loss is multiplied by the probability that a loss will occur within the next 12 months);

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- Level 2 – balances for which credit risk has increased significantly since initial recognition but there are no objective premises of impairment; expected credit losses are specified on the basis of probability of default over the entire contractual lifetime of a given asset;
- Level 3 – balances with objective premises of impairment.

Trade receivables are included under Level 2 or Level 3:

- Level 2 – trade receivables to which a simplified approach of expected credit losses measurement over the full lifetime of a receivable has been applied, with the exception of certain receivables included under Level 3;
- Level 3 – trade receivables past due by more than 90 days or identified on a case by case basis as not serviced.

To the extent that in accordance with the above model an assessment is necessary whether there has been a significant credit risk increase, the Company considers the following premises in making such assessment:

- the loan is past due by at least 30 days;
- there have been legislative, technological or macroeconomic changes having a significant adverse impact on the debtor;
- information has appeared about a significant adverse event relating to the loan or another loan of the same debtor advanced by another creditor, e.g. termination of a loan agreement, violation of its terms or renegotiation of terms and conditions due to financial distress etc.
- the debtor has lost a major customer or supplier or has been affected by other adverse changes on its market.

Financial assets are written off, fully or in part, when the Company has practically exhausted all collection activities and has deemed that recovery of the receivable may be no longer reasonably expected. It happens usually when the asset is past due by more than 360 days.

f) Modification of financial liabilities

In the case of modification of contractual terms of a financial liability which does not result in derecognition of the existing liability, the gain or loss is promptly recognised in the profit or loss. Gain or loss is calculated as the difference between the present value of modified and original cash flows, discounted at original effective interest rate of the liability.

Based on the analysis carried out by the Company for the purposes of the application of IFRS 9, it was demonstrated that as at 1 January 2018 there was no need to recognise additional material losses with respect to debt financial assets disclosed in the statement of financial position of the Company as at 31 December 2017. At the same time, on the date of these interim financial statements the Company completed the implementation of IFRS 9 and does not expect any further changes in the assessment of impact of the standard as presented below.

- Comparison of financial assets and liabilities according to IAS 39 and IFRS 9

	IAS 39	IFRS 9	Impact of the change
	Amortised cost	Amortised cost	Increase (decrease)
Trade receivables	172,401	172,401	-
Cash and cash equivalents	538,633	538,633	-
Financial assets	**711,034**	**711,034**	**-**

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	IAS 39 Amortised cost	IFRS 9 Amortised cost	Impact of the change Increase (decrease)
Trade liabilities and other liabilities*	222,944	222,944	-
Financing liabilities on account of bond issue	301,911	301,911	-
Total financial liabilities	**524,855**	**524,855**	**-**

**Trade and other liabilities in accordance with note 12 cover trade liabilities, investment liabilities and liabilities under advance payments*

The first time adoption of the standard has not led to any adjustment of the retained profits balance (no significant material adjustments from implementation of IFRS 9 that would affect the equity/cause the adjustment of retained profits in the opening balance).

- Financial assets and liabilities

Financial assets – classification and measurement

Financial assets	IFRS 9 30 June 2018	IFRS 9 1 January 2018	IAS 39 31 December 2017
Financial assets measured at amortised cost			
Trade receivables	201,811	172,401	172,401
Other short-term investments	151,279	-	-
Cash and cash equivalents	313,042	538,633	538,633
Total	**666,132**	**711,034**	**711,034**

Financial liabilities – classification and measurement

Financial liabilities	IFRS 9 30 June 2018	IFRS 9 1 January 2018	IAS 39 31 December 2017
Liabilities measured at amortised cost			
Trade liabilities and other liabilities*	219,282	222,944	222,944
Financial liabilities on account of bond issue	226,401	301,911	301,911
Total	**445,683**	**524,855**	**524,855**

**Trade and other liabilities in accordance with note 13 cover trade liabilities, investment liabilities and liabilities under advance payments, as well as liabilities under contracts with customers (from 2018)*

- Trade receivables according to IAS 39 and IFRS 9

Trade receivables measured at amortised cost	IFRS 9 30 June 2018	IFRS 9 1 January 2018	IAS 39 31 December 2017
Gross trade receivables	206,836	179,547	179,547
Impairment loss on receivables	(5,025)	(7,146)	(7,146)
Total	**201,811**	**172,401**	**172,401**

Except for the changes described above, the condensed interim financial statements were prepared using the same accounting principles for the current and comparative periods; the financial statements follow the same accounting principles (policies) and calculating methods as the latest annual financial statements.

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 condensed interim 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.

Key estimates and judgements have not changed since the publication of the annual financial statements for 2017.

2.1.2. New standards and interpretations

New and amended standards and interpretations applied

The following new standards and amendments to the applicable standards that entered into force on 1 January 2018 were for the first time applied in these financial statements:

- IFRS 9 "Financial Instruments" - IFRS 9 replaces IAS 39. The standard introduces a model with only two categories of financial assets: financial assets measured at fair value and financial assets measured at amortised cost. The standard requires that an asset be classified when it is initially recognised and according to the financial instrument management model adopted by the entity and reflecting the characteristics of the contractual cash flows from those instruments. IFRS 9 implements a new model for determination of impairment losses – model of expected credit losses.

  The majority of IAS 39 requirements for the classification and measurement of financial liabilities have been included in IFRS 9 without any changes. The key change is the requirement that an entity should present, in other comprehensive income, the outcome of changes of its own credit risk arising from financial liabilities classified for measurement at fair value through profit and loss, and recognition, on a one-off basis in profit or loss, of the effects of renegotiation of terms of loan agreements, which do not result in an exclusion of the liability from the books.

  As regards hedge accounting, the amendments are aimed to better adapt hedge accounting to risk management. The standard will not have an impact on the recognition and settlement of hedging relationships because of high matching between hedged items and hedging instruments.

- IFRS 15 "Revenue from Contracts with Customers" – IFRS 15 "Revenue from Contracts with Customers" replaces IAS 18 and IAS 11, and the relevant interpretations. Principles provided for in IFRS 15 concern all contracts that generate revenue. The fundamental principle of the new standard is that revenue is recognised in the amount of the transaction price in the moment when control over the goods or services is transferred to the customer. All goods or services sold in a bundle which may be separated within such bundle should be recognised separately, moreover all discounts and rebates relating to the transaction price should be in principle allocated to individual elements of the bundle. If the amount of revenue is variable, according to the new standard the variable amounts are included under revenue if it is highly probable that such recognised revenue will not be reversed in the future because of revaluation. In addition, according to IFRS 15 the costs incurred in order to acquire and secure a contract with a customer should be capitalised and settled over time during consummation of benefits from the contract.

- Clarifications to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 "Revenue from Contracts with Customers" provide additional information and clarifications relating to the main assumptions adopted in IFRS 15, for example about identification of separate obligations, determination whether the entity acts as an intermediary (agent) or is the principal supplier of goods and services, and the manner of recording revenue from licenses. Apart from additional clarifications, also reliefs and expedients for entities applying the new standard for the first time were introduced.

- Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions – Amendment to IFRS 2 provides, for example, guidance for fair value measurement of an obligation under cash-settled share-based payments, guidance for modification of share-based payments from cash-settled to equity-settled, as well as guidance for recognition of an employee's tax obligation from share-based payments.

- Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – Amendments to IFRS 4 "Insurance Contracts" address the issue of application of the new IFRS 9 "Financial Instruments" . Published amendments to IFRS 4 supplement options already existing in the standards and are aimed at preventing temporary fluctuations in the results of entities from the insurance sector in connection with implementation of IFRS 9.

- Annual Improvements to IFRS 2014-2016 cycle – "Annual Improvements to 2014-2016 cycle" amend 3 standards: IFRS 12 "Disclosure of Interests in Other Entities", IFRS 1 "First-time Adoption of IFRS" and IAS 28 "Investments in Associates and Joint Ventures". Revisions include clarifications and amendments to the scope of the standards, recognition and measurement, as well as terminology and editorial amendments.

  Improvements to IFRS 12 are applicable to annual periods beginning as of January 2017. While other improvements are obligatory as of 1 January 2018.

- Amendments to IAS 40 Reclassification of Investment Property – Amendments to IAS 40 clarify the requirements connected with reclassification to and from investment property.

- IFRIC 22: Transactions in foreign currencies and advance payments – IFRIC 22 clarifies the accounting principles for transactions in which the entity provides or receives advance payments in foreign currencies.

Published standards and interpretations which are not yet mandatory and have not been earlier applied by the Company

In these financial statements the Company did not decide to earlier apply the following published standards, interpretations or revisions before they become effective:

- IFRS 16 "Leases" – IFRS 16 "Leases" is applicable to annual periods beginning on or after 1 January 2019.

  The new standard establishes rules for the recognition, measurement, presentation and disclosure of lease contracts. All lease transactions result in the lessee acquiring the right-of-use asset and the liability connected with an obligation to make payment. Therefore, IFRS 16 removes the classification of operating and finance leases, which applies in accordance with IAS 17, and introduces a single lessee accounting model. A lessee will be obligated to recognise: (a) assets and liabilities for all lease transactions concluded for a term of over 12 months, except where a given asset is a low-value asset; and (b) depreciation of a leased asset separately from interest on lease liability in the income statement.

  A significant part of IFRS 16 repeats the regulations from IAS 17 relating to lease accounting treatment by a lessor. Consequently, a lessor continues the classification broken down into operating lease and finance lease, and differentiates the accounting treatment accordingly.

- Amendments to IFRS 9: Prepayment features with negative compensation – Amendment to IFRS 9 applicable to annual periods beginning on or after 1 January 2019, with possibility of early application. As a result of amendment to IFRS 9, entities will be able to measure financial assets with the so called prepayment feature with negative compensation at amortised cost or at fair value through other comprehensive income, if a certain condition is met – instead of measurement at fair value through profit or loss.

The Company will apply the above changes from 1 January 2019.

As at the date of drawing up these financial statements, the amendment has not been yet endorsed by the European Union.

- IFRS 17 "Insurance Contracts" – IFRS 17 "Insurance Contracts" was issued by the International Accounting Standards Board on 18 May 2017, and it is applicable to annual periods beginning on or after 1 January 2021.

New IFRS 17 Insurance Contracts will replace currently effective IFRS 4, which allows various practices in the accounting for insurance contracts. IFRS 17 will generally change the accounting of all entities dealing with insurance contracts and investment contracts.

The Company will apply IFRS 17 after it has been endorsed by the European Union.

- Revisions to IAS 28 "Investments in Associates and Joint Ventures" – The amendment is applicable to annual periods beginning on or after 1 January 2019. Revisions to IAS 28 "Investments in Associates and Joint Ventures" clarify that companies apply IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applicable. In addition, the Board published also an example illustrating application of the requirements of IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

The Company will apply the above changes from 1 January 2019.

As at the date of drawing up these financial statements, the amendment has not been yet endorsed by the European Union.

- IFRIC 23: Uncertainty over Income Tax Treatments – IFRIC 23 clarifies the requirements regarding recognition and measurement included in IAS 12 in a situation involving uncertainty over income tax treatments. These guidelines are applicable to annual periods beginning on or after 1 January 2019.

The Company will apply the above changes from 1 January 2019.

As at the date of drawing up these financial statements, the amendment has not been yet endorsed by the European Union.

- Annual Improvements to IFRS 2015-2017 cycle – the International Accounting Standards Board published in December 2017 – "Annual Improvements to IFRS 2015-2017", which introduce amendments to 4 standards: IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "External Borrowing Costs".

Revisions include clarifications and make the guidelines in the standards regarding recognition and measurement more clarified.

The Company will apply the above changes from 1 January 2019.

As at the date of drawing up these financial statements, the amendments have not been yet endorsed by the European Union.

- IAS 19 "Employee Benefits" – revisions to IAS 19 are applicable to annual periods beginning on or after 1 January 2019. Revisions to the standard specify the requirements connected with accounting recognition of modification, curtailment or settlement of a defined benefit plan.

The Company will apply the above changes from 1 January 2019.

As at the date of drawing up these financial statements, the amendment has not been yet endorsed by the European Union.

- Amendments to References to the Conceptual Framework in IFRS Standards – Amendments to references to the conceptual framework in IFRS standards will be applicable as of 1 January 2020.

- IFRS 14 "Regulatory Deferral Accounts" – the standard permits entities which are first-time adopters of IFRS (on or after 1 January 2016) to recognise amounts arising from rate-regulated activities in accordance with the accounting principles applied previously. To improve comparability with entities already applying IFRS and do not disclose such amounts, in accordance with the published IFRS 14, amounts arising from rate-regulated activities should be presented under a separate item, both in the statement of financial position and in the profit and loss account, and in the statement of other comprehensive income.

  IFRS 14 has not been yet endorsed by a decision of the European Union.

- Amendments to IFRS 10 and IAS 28 regarding sale or contribution of assets between an investor and its associate or joint venture – Amendments solve the problem of current conflict between IFRS 10 and IAS 28. Accounting treatment depends on whether non-monetary assets sold or contributed to an associate or joint venture constitute a business. If non-monetary assets constitute a business, the investor will disclose the full gain or loss on the transaction. If, however, assets do not satisfy the definition of a 'business' , the investor recognises the loss or gain excluding a part representing interests of other investors.

  Amendments were published on 11 September 2014. The date of application of amended regulations has not been yet determined by the International Accounting Standards Board.

  As at the date of drawing up the financial present financial statements, endorsement of this amendment has been postponed by the European Union.

The Company is analysing the impact of new standards, amendments to the standards and interpretations on the financial statements, however it estimates of the Company that the application of IFRS 14 and IFRS 17 as well as amendments to IFRS 10 and IAS 28 shall have no impact on the accounting policies applied so far.

IFRS 16 will be applied by the Company 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 Company. After having performed the analysis of the type of concluded contracts, the Company 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 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 Company's 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 Company's financial statements:

- If the Company is a lessor, "Finance lease receivables" will appear in the statement of financial position, and "finance lease revenue" will appear in the income statement;

- If the Company is a lessee, "Lease liabilities" will appear in the 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 income statement. At the same time, the income statement will disclose depreciation of the right-of-use asset. Until now the entire lease instalment has been recognised in the income statement as the cost of external services (rental services).

Amendments to IFRS 9, amendments to IAS 19, annual amendments to IFRS 2015-2017 and Interpretation 23 will affect the financial statements, but the Company believes it should be relatively small.

(IN PLN '000)

3. INFORMATION ON BUSINESS SEGMENTS

Key reporting structure - industry segments

The Company's core business is production and sale of coal. From 1 January to 30 June 2018, revenue on sales of other products and services amounted to PLN 18,212,000 (in the analogous period of 2017: PLN 21,465,000), representing, 2.13% of total revenue in 2018 and 2.39% in 2017.

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

Supplementary reporting structure - geographical segments

The Company operates primarily in Poland. From 1 January to 30 June 2018, revenue on foreign sales amounted to PLN 73,000,000 (PLN 24,981,000 in the analogous period of 2017), representing 0.01% of total revenue in the current year and 2.78% in the analogous period of the previous year. The Company does not hold the related assets or liabilities outside Poland.

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

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

Division into mining fields

The Company 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 Company, 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 Company are treated as a single cash generating unit (CGU).

Key coal customers

Within six months in 2018 and 2017, key customers for the Company's coal, whose share in sales exceeded 10% of the total revenue on sales, were:

	For the period from 1 January to 30 June	
	2018	2017
Enea Wytwarzanie Sp. z o.o.	62%	59%
Enea Elektrownia Połaniec S.A.	25%	22%

4. INFORMATION CONCERNING SEASONALITY

The production is not seasonal, whereas seasonal character of sales can be noticed in the case of retail sales at a point of coal sale. Sales to retail customers account for 0.25% of total sales. They do not have any significant impact on the operating and financial activities of the Company.

(IN PLN '000)

5. NON-CURRENT ASSETS

	Land	Buildings and structures		Plant and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
		total	including excavations					
As at 1 January 2018								
Cost or assessed value	9,669	3,088,882	2,160,368	2,304,097	96,767	23,665	214,087	5,737,167
Depreciation	-	(1,312,692)	(987,668)	(1,192,712)	(64,323)	(16,593)	-	(2,586,320)
Net book value	9,669	1,776,190	1,172,700	1,111,385	32,444	7,072	214,087	3,150,847
As at 30 June 2018								
Net book value at beginning of year	9,669	1,776,190	1,172,700	1,111,385	32,444	7,072	214,087	3,150,847
Increases	-	7,665	-	1,657	-	740	197,660	207,722
Transfer from construction in progress	144	95,166	94,916	8,930	2,219	137	(106,596)	-
Reclassification to assets held for sale	-	-	-	-	(186)	-	-	(186)
Decreases	-	(14,700)	(14,700)	(101)	(796)	-	(4)	(15,601)
Amortisation	-	(110,304)	(95,855)	(76,551)	(6,550)	(1,364)	-	(194,769)
Net book value	9,813	1,754,017	1,157,061	1,045,320	27,131	6,585	305,147	3,148,013
As at 30 June 2018								
Cost or assessed value	9,813	3,070,117	2,133,687	2,307,085	85,625	23,502	305,147	5,801,289
Depreciation	-	(1,316,100)	(976,626)	(1,261,765)	(58,494)	(16,917)	-	(2,653,276)
Net book value	**9,813**	**1,754,017**	**1,157,061**	**1,045,320**	**27,131**	**6,585**	**305,147**	**3,148,013**

As at 1 January 2017								
Cost or assessed value	8,741	2,713,892	1,959,954	2,021,374	95,124	21,969	157,623	5,018,723
Depreciation	-	(1,269,874)	(988,667)	(1,009,116)	(55,003)	(14,375)	-	(2,348,368)
Net book value	8,741	1,444,018	971,287	1,012,258	40,121	7,594	157,623	2,670,355
As at 30 June 2017								
Net book value at beginning of year	8,741	1,444,018	971,287	1,012,258	40,121	7,594	157,623	2,670,355
Increases	-	-	-	-	-	315	138,511	138,826
Transfer from construction in progress	72	49,745	49,126	18,727	521	165	(69,230)	-
Decreases	-	(16,009)	(13,380)	(15)	(60)	(3)	(2,492)	(18,579)
Amortisation	-	(93,027)	(80,665)	(68,948)	(3,193)	(1,034)	-	(166,202)
Impairment loss	-	7,222	7,222	-	-	-	2,479	9,701
Net book value	8,813	1,391,949	933,590	962,022	37,389	7,037	226,891	2,634,101
As at 30 June 2017								
Cost or assessed value	8,813	2,678,598	1,926,670	2,039,160	95,074	22,301	226,891	5,070,837
Depreciation	-	(1,286,649)	(993,080)	(1,077,138)	(57,685)	(15,264)	-	(2,436,736)
Net book value	**8,813**	**1,391,949**	**933,590**	**962,022**	**37,389**	**7,037**	**226,891**	**2,634,101**

Borrowing costs (interest and commission on liabilities incurred), activated within the first six months of 2018 in the value of the property, plant and equipment amounted in total to PLN 2,730,000 (PLN 2,023,000 in analogous period of 2017).

(IN PLN '000)

5.1 Property, plant and equipment - excavations

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

As at 30 June 2018:

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:	29	20,670	483,619	357,414	126,205	74%
- depreciated until June 2018	*11*	*7,427*	*157,175*	*116,164*	*41,011*	*74%*
Walls disclosed in non-current assets, depreciated with the use periods	232	92,258	1,351,068	484,996	866,072	36%
Other items, depreciated according to useful life (shafts, shaft towers, dams, reservoirs and other)	31	-	299,000	134,216	164,784	45%
Total as at 30 June 2018	**292**	**112,928**	**2,133,687**	**976,626**	**1,157,061**	**46%**

As at 30 June 2017:

Item	Quantity [items]	Length [m]	Initial value	Depreciation	Impairment losses	Net value as at the balance-sheet date	Depreciation level in the given group
Walls disclosed in non-current assets, depreciated with the cost-of-production method, including:	30	22,262	551,071	419,842	33,418	97,811	82%
- depreciated until June 2017	*24*	*8,732*	*485,857*	*419,842*	*25,850*	*40,165*	*92%*
Walls disclosed in non-current assets, depreciated with the use periods	231	89,062	1,263,559	448,540	123,884	691,135	45%
Other items depreciated with the use periods (shafts, shaft towers, barrages, tanks etc.)	32	-	298,681	124,698	29,339	144,644	52%
Total as at 30 June 2017	**293**	**111,324**	**2,113,311**	**993,080**	**186,641**	**933,590**	**56%**

5.2 Impairment losses of 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	Construction in progress	Total
		total	including excavations				
As at 1 January 2018	4,394	-	-	3,187	-	6,157	13,738
As at 30 June 2018	**4,394**	**-**	**-**	**3,187**	-	**6,157**	**13,738**
As at 1 January 2017	4,394	369,891	193,863	246,280	1,124	7,352	629,041
Using the impairment loss created	-	(7,222)	(7,222)	-	-	(2,479)	(9,701)
As at 30 June 2017	**4,394**	**362,669**	**186,641**	**246,280**	**1,124**	**4,873**	**619,340**

(IN PLN '000)

6. NON-CURRENT ASSETS HELD FOR SALE

	Buildings and structures	Plant and equipment	Vehicles	Total
As at 1 January 2018	-	-	-	-
Reclassification to assets held for sale	-	-	186	186
Sale of assets held for sale	-	-	(186)	(186)
As at 30 June 2018	-	**-**	**-**	-
As at 1 January 2017	13	896	3,421	4,330
Sale of assets held for sale	-	-	(3,400)	(3,400)
As at 30 June 2017	**13**	**896**	**21**	**930**

In March 2018, the Company classified for sale 50 coal wagon carts with the book value of PLN 186,000 net. The sale agreement was signed on 7 March 2018. Pursuant to the agreement, the sale of the coal wagon carts was completed in May 2018.

In the first half of 2017, 100 coal wagon carts were sold, with the book value of PLN 3,400,000 net. As at 30 June 2017, the balance showed the net value of non-current assets held for sale in relation to the Construction Ceramics Plant. The assets were finally sold at the end of July 2017.

(IN PLN '000)

7. INTANGIBLE ASSETS

	Computer software	Fees, licences	Geological information	Total
As at 1 January 2018				
Cost or assessed value	7,426	18,866	54,217	80,509
Amortisation	(5,157)	(4,037)	(11,624)	(20,818)
Net book value	**2,269**	**14,829**	**42,593**	**59,691**
As at 30 June 2018				
Net book value at beginning of year	2,269	14,829	42,593	59,691
Increases	-	12	-	12
Amortisation	(286)	(558)	(454)	(1,298)
Net book value	1,983	14,283	42,139	58,405
As at 30 June 2018				
Cost or assessed value	7,344	18,744	54,343	80,431
Amortisation	(5,361)	(4,461)	(12,204)	(22,026)
Net book value	**1,983**	**14,283**	**42,139**	**58,405**

As at 1 January 2017				
Cost or assessed value	7,076	7,223	51,636	65,935
Amortisation	(4,345)	(2,922)	(11,466)	(18,733)
Net book value	**2,731**	**4,301**	**40,170**	**47,202**
As at 30 June 2017				
Net book value at beginning of year	2,731	4,301	40,170	47,202
Increases	20	38	-	58
Amortisation	(338)	(346)	(45)	(729)
Net book value	2,413	3,993	40,125	46,531
As at 30 June 2017				
Cost or assessed value	7,096	7,261	51,636	65,993
Amortisation	(4,683)	(3,268)	(11,511)	(19,462)
Net book value	**2,413**	**3,993**	**40,125**	**46,531**

8. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2018	31 December 2017
Trade receivables	206,836	179,547
Less: impairment losses of accounts receivable	(5,025)	(7,146)
Net trade receivables	201,811	172,401
Accruals and deferrals	49,258	28,848
Other accounts receivable	8,220	6,274
Current	259,289	207,523
Accruals and deferrals	4,135	239
Non-current	4,135	239
Total trade and other receivables	**263,424**	**207,762**

Fair value of trade and other receivables does not differ significantly from their carrying value. All receivables of the Company are expressed in PLN.
Changes in the impairment losses of trade receivables are presented below:

(IN PLN '000)

	For the period from 1 January to 30 June	
	2018	2017
As at 1 January	7,146	5,858
Creating impairment loss	2,373	764
Receivables written down during the year as uncollectible	(4,469)	-
Reversal of unused amounts	(25)	(73)
Total	**5,025**	**6,549**

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

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

	As at	
	30 June 2018	31 December 2017
Up to 1 month	79	126
3 to 6 months	-	597
6 to 12 months	-	708
above 12 months	4,946	5,715
Total	**5,025**	**7,146**

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	
	30 June 2018	31 December 2017
Up to 1 month	1,682	846
1 to 3 months	15	23
3 to 6 months	-	296
Total	**1,697**	**1,165**

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 29,270,000 as at 30 June 2018 (31 December 2017: PLN 25,645,000) constitute collateral of liabilities under the bond issue, as well as bank guarantees issued.

9. OTHER CURRENT INVESTMENTS

	As at	
	30 June 2018	30 June 2017
Term deposits with maturity period of more than 3 months	150,000	-
Accrued interest	1,279	-
Total other current investments	**151,279**	-

Other short-term investments include deposits with the initial maturity period of more than 3 months (the maturity period applicable at the moment of opening a deposit). Deposits were opened at Bank Gospodarstwa Krajowego.

The total amount of capital amounts to PLN 150,000,000, but in the case of deposits with the value of PLN 75,000,000 the maturity date is 26 September 2018. For new deposits with the value of PLN 75,000,000 the maturity date will be 27 December 2018. The balance-sheet value also comprises interest on the deposits in the amount of PLN 1,279,000, which were charged as at 30 June 2018.

10. SHARE CAPITAL

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2018	34,014	170,068	131,090	301,158
As at 30 June 2018	34,014	170,068	131,090	301,158
As at 1 January 2017	34,014	170,068	131,090	301,158
As at 30 June 2017	34,014	170,068	131,090	301,158

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

11. OTHER CAPITAL

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

Other capital – issue of Management Options

On 30 September 2013 the Supervisory Board of the Company adopted, by way of a resolution, the Rules of Management Options Scheme in 2013-2017. The resolution was adopted based on Resolution No. 26 of the Annual General Shareholders Meeting of the Company of 4 July 2013 regarding issue of up to 1,360,540 registered series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Company's share capital by no more than PLN 6,802,700 through issue of up to 1,360,540 ordinary series D shares with a par value of PLN 5 each and with the exclusion of a pre-emptive right. 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 Company listings,
- - zero dividend rate is assumed in connection with the Management Option 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 30 June 2018, the number of allocated options under the whole Scheme was 1,143,863, and the total value of the Management Option Scheme amounted to PLN 3,839,000 (30 June 2017: PLN 3,839,000). Within this pool, the number of allocated rights (for 2013-2014) to be exercised under the above options is 335,199.

The total cost of the Scheme disclosed as at 30 June 2018 under "Other capitals" amounted to PLN 3,839,000 (30 June 2017: PLN 3,839,000). There were no material changes to the valuation of the Scheme in the first half of 2018.

Equity on valuation of cash flow hedges

Other capitals include also derivatives used as cash flow hedges (in the part deemed the efficient hedge) after tax effect. During the first six months of 2018 and the first six months of 2017 the Company held no financial instruments hedging cash flows.

Retained profits

Apart from net earnings for the current year, the amount of retained profits consists of retained earnings, non-transferrable actuarial gain/(loss) on defined benefit schemes, and capital arising from fair value measurement of property, plant and equipment as at the date on which the IAS/IFRS were first applied. The increase of PLN 59,713,000 as compared to 31 December 2017 results from net profit for the current year of PLN 64,453,000, and from actuarial losses (after tax effect) on defined benefit schemes of PLN 4,740,000 (including losses incurred as a result of adjustments of ex-post actuarial assumptions in the amount of PLN 2,521,000 and losses incurred as a result of changes to financial assumptions in the amount of PLN 2,219,000).

Components of equity not subject to distribution

Under Article 396.1 of the Commercial Companies Code applicable to the Company, 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 30 June 2018 and 31 December 2017, 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.

(IN PLN '000)

12. TRADE AND OTHER LIABILITIES

	As at	
	30 June 2018	31 December 2017
Trade liabilities	152,874	127,389
Other liabilities, including:	158,719	170,372
Company Social Benefits Fund	*7,090*	*487*
Liabilities on security deposit	*2,268*	*2,571*
Investment liabilities	*65,946*	*88,650*
Salaries payable	*20,567*	*35,151*
Liabilities on advance payments	*-*	*6,905*
Other liabilities	*62,848*	*36,608*
Total financial liabilities	311,593	297,761
Liabilities - social security and other tax payable	38,965	59,250
Trade and other liabilities	**350,558**	**357,011**
Including:		
Non-current	*42,582*	*42,675*
Current	*307,976*	*314,336*
Total	**350,558**	**357,011**

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

13. FINANCIAL LIABILITIES ON ACCOUNT OF BOND ISSUE

	As at	
	30 June 2018	31 December 2017
Short-term:	226,401	301,911
Issuance of bonds	225,000	300,000
- PEKAO S.A.	*225,000*	*300,000*
Interest accrued on bonds:	1,401	1,911
- PEKAO S.A.	*1,401*	*1,911*
Total	**226,401**	**301,911**

Financial liabilities on account of bond issue currently refer to one programme agreement. Under the Programme Agreement concluded by the Company 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 was 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.

On 30 March 2018, the Company redeemed 750 bonds worth PLN 100,000 each for the total amount of PLN 75 million. As a consequence, the value of capital to be repaid as at the balance-sheet date amounts to PLN 225,000,000.

(IN PLN '000)

After the balance-sheet date, i.e. on 2 July 2018, another tranche comprising 750 bonds was repaid for the total amount of PLN 75 million.

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

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

Changes to the balance of liabilities under bonds and the status as at 30 June 2018 and 2017 are presented in the table below:

	BGK	PEKAO S.A.	TOTAL
As at 1 January 2018	-	301,911	301,911
Bond redemption	-	(75,000)	(75,000)
Accrued interest	-	3,202	3,202
Interest paid	-	(3,712)	(3,712)
As at 30 June 2018	-	**226,401**	**226,401**
As at 1 January 2017	150,019	450,061	600,080
Bond redemption	(150,000)	(150,000)	(300,000)
Accrued interest	869	4,629	5,498
Interest paid	(888)	(4,669)	(5,557)
As at 30 June 2017	-	**300,021**	**300,021**

14. PROVISIONS FOR EMPLOYEE BENEFITS

	As at	
	30 June 2018	**31 December 2017**
Provisions disclosed in the interim/annual statement of financial position, for:		
Retirement and disability benefits	48,674	42,542
Long service awards	92,513	90,704
Voluntary redundancy programme	1,366	5,143
Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	11,019	15,173
	153,572	**153,562**

	For the period from 1 January to 30 June	
	2018	**2017**
Costs disclosed in the interim income statement, of:		
Retirement and disability benefits	2,283	1,544
Long service awards	5,697	14,699
Coal allowances in kind	-	3,287
Voluntary redundancy programme	(2,115)	(8,021)
Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	4,330	11,657
	10,195	**23,166**

(IN PLN '000)

In the first half of 2018, the Company updated the calculation of the provision for the Voluntary Redundancy Programme. Following the update, an unused portion of the provision for the Voluntary Redundancy Programme in the amount of PLN 2,115,000, was released.

	For the period from 1 January to 30 June	
	2018	**2017**
Costs recognised in the statement of comprehensive income regarding the distribution of actuarial gains and losses resulting from demographic assumptions, financial assumption and other changes:		
Retirement and disability benefits	6,078	2,756
Coal allowances in kind	-	30,508
Other benefits for employees (death benefits)	(226)	212
	5,852	**33,476**

A major change to the level of actuarial loss recognised in the interim statement of comprehensive income as "other comprehensive losses" mainly results from actuarial losses incurred in connection with the valuation of provisions for coal allowances. On 17 October 2017, the Management Board of the Company 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 Company 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 Company, in exchange for a right to receive a one-off additional severance pay for retirees and pensioners.

As a consequence of the aforementioned events, the Company is no longer obliged to establish provisions for coal allowances.

Change in provisions for employee benefits liabilities:

	For the period from 1 January to 30 June	
	2018	**2017**
As at 1 January	153,562	263,476
Costs of current employment (unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	8,668	10,492
Interest expense	1,913	3,481
Actuarial gains/losses as disclosed in the interim income statement	(386)	9,193
Actuarial losses as disclosed in the interim statement of comprehensive income	5,852	33,476
Recognised in the comprehensive income, total	16,047	56,642
Benefits paid	(16,037)	(20,054)
As at 30 June	**153,572**	**300,064**
Including:		
- non-current	*124,327*	*254,380*
- current	*29,245*	*45,684*

(IN PLN '000)

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

	For the period from 1 January to 30 June	
	2018	2017
Costs of products, goods and materials sold	7,516	17,630
Selling costs	721	110
Administrative expenses	45	1,945
Finance costs	1,913	3,481
Total as disclosed in the interim income statement	**10,195**	**23,166**
- Actuarial gains (losses) as recognised in the interim statement of comprehensive income	5,852	33,476
Total as disclosed in the interim statement of comprehensive income	**16,047**	**56,642**

(IN PLN '000)

15. 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 2018	**114,448**	**4,434**	**11,599**	**42,353**	**21,340**	**5,818**	**199,992**
Including:							
Non-current	*114,448*	*-*	*-*	*-*	*-*	*-*	*114,448*
Current	*-*	*4,434*	*11,599*	*42,353*	*21,340*	*5,818*	*85,544*
Recognition in the interim statement of financial position							
- Update of the provision created	8,362	-	-	-	-	-	8,362
Recognition in the interim income statement							
- Creation of additional provisions	-	-	160	3,103	-	92	3,355
- Use of the created provision	-	(201)	-		-	(2,141)	(2,342)
- Release of an unused provision	-	-	-	-	-	(3,578)	(3,578)
- Interest	-	-	145	1,421	656	-	2,222
- Discount settlement	1,719	-	-	-	-	-	1,719
As at 30 June 2018	**124,529**	**4,233**	**11,904**	**46,877**	**21,996**	**191**	**209,730**
Including:							
Non-current	*124,529*	*-*	*-*	*-*	*-*	*-*	*124,529*
Current	*-*	*4,233*	*11,904*	*46,877*	*21,996*	*191*	*85,201*
As at 1 January 2017	**117,423**	**4,440**	**11,522**	**32,456**	**20,042**	**2,141**	**188,024**
Including:							
Non-current	*117,423*	*-*	*-*	*-*	*-*	*-*	*117,423*
Current	*-*	*4,440*	*11,522*	*32,456*	*20,042*	*2,141*	*70,601*
Recognition in the interim statement of financial position							
- Update of the provision created	(1,766)	-	-	-	-	-	(1,766)
Recognition in the interim income statement							
- Creation of additional provisions	-	-	303	3,447	-	1,108	4,858
- Use of the created provision	-	(199)	-	-	-	(2,101)	(2,300)
- Release of an unused provision	-	-	(652)	-	-	-	(652)
- Interest	-	-	149	1,657	643	-	2,449
- Discount settlement	1,763	-	-	-	-	-	1,763
As at 30 June 2017	**117,420**	**4,241**	**11,322**	**37,560**	**20,685**	**1,148**	**192,376**
Including:							
Non-current	*117,420*	*-*	*-*	*-*	*-*		*117,420*
Current	*-*	*4,241*	*11,322*	*37,560*	*20,685*	*1,148*	*74,956*

Mine closure and land reclamation

The Company creates a provision for costs of mine closure and land reclamation, which it is obliged to incur under current laws. The value of mine closure and land reclamation calculated as at 30 June 2018 amounts to PLN 124,529,000 including a provision for a mine closure of PLN 115,522,000 and a provision for land reclamation of PLN 9,007,000. The change in provision compared to 31 December 2017 is PLN 10,081,000; an increase resulting from the discount write-off of PLN 1,719,000 were recognised in the interim income statement under "Costs of products, goods and materials sold" and "Finance cost", respectively, while an increase caused by update of assumptions, amounting in total to PLN 8,362,000, was recognised in the interim statement of financial position as an increase in "Property, plant and equipment".

Removing mining damage

Given the need of removing mining damage, the Company creates a provision for mining damage. The estimated value of works necessary to remove damage as at 30 June 2018 amounts to PLN 4,233,000, 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. For the first 6 months of 2018 the amount of the unused provision totalled PLN 201,000, compared to PLN 199,000 for the same period of 2017.

Legal claims

The amount disclosed constitutes a provision for certain legal claims filed against the Company by customers and suppliers. The value of made/released provisions in the current period is disclosed in the income statement under other income/expenses. In the Management Board's opinion, supported by an appropriate legal opinion, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 30 June 2018. The provision for legal claims has not changed significantly compared to the end of the prior financial year (31 December 2017).

Real property tax

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

The dispute and relevant case law regarding real property tax related to underground excavations are described in detail in the annual financial statements of the Company, prepared as at the end of 2017.

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 Company, 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. No settlement with respect to the provision for real property tax was made in 2018.

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 30 June 2018 the Company calculated income due for those years for the overpaid real property tax, in the amount of PLN 6,253,000 (as at 31 December 2017: PLN 5,786,000). They are disclosed in the interim statement of financial position as current assets under "Trade and other receivables".

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

The provision is described in detail in the annual financial statements of the Company, prepared as at the end of 2017.

The Management Board of the Company 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. Having taken the above into account, the provision disclosed in the Company's books as at 30 June 2018 and amounting to PLN 21,996,000 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 5,598,000).

(IN PLN '000)

Other

At the end of the last year, the "Other" item mainly showed a provision for the cost of green certificates in the amount of PLN 2,082,000. Moreover, at the end of 2017, that item also included a provision in the amount of PLN 3,578,000 for potential interest on tax arrears (if any) for 2015 on account of corporate income tax. Decrease in the balance of provisions included under the "Other" item by PLN 5,627,000 is to a large extent a consequence of the fact that the provision was used to cover the cost of green certificates (PLN 2,082,000), which had to be filed for redemption in relation to the electricity that the Parent bought and used in 2017. Moreover, in the first half of 2018, the Management Board of the Company made a decision to release a previously-established provision for potential interest on tax arrears (if any) for 2015 on account of corporate income tax in the amount of PLN 3,578,000. Detailed information about the dispute regarding the customs and tax inspection carried out at the Company and the justification for releasing the abovementioned provision for interest is presented in Note 25.

16. REVENUE

	For the period from 1 January to 30 June	
	2018	**2017**
Sale of coal	836,240	878,522
Other activities	9,136	15,267
Sale of goods and materials	9,076	6,198
Total revenue	**854,452**	**899,987**

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 Company; 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 commercial power plants account for the predominant share. The total value of all revenue from the sale of coal in the first half of 2018 amounted to PLN 836,240,000. Concurrently the margin from transport of coal in the first half of 2018 (shown in the above table under „Other activities") recognised under revenue (revenue less costs of third party services) amounted to PLN 468,000.
- 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 revenue. The total value of all revenue on that account in the first half of 2018 amounted to PLN 9,076,000.
- 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 Company's subcontractors (providing services within the scope of mining works to the Company), whose employees are required to use the bath under occupational and safety regulations. The total value of revenue from renting bath space in the first half 2018 amounted to PLN 5,808,000.

(IN PLN '000)

17. OTHER INCOME

	For the period from 1 January to 30 June	
	2018	2017
Compensations and damages received	507	282
Settlement with the *Mostostal & Acciona Infraestructuras Consortium*	28,666	-
Other, *including:*	839	803
- release of other provisions for liabilities	*61*	*725*
- release of impairment losses of receivables	*9*	*68*
- return of the excise tax	*759*	*-*
- Other income	*10*	*10*
Total other income	**30,012**	**1,085**

18. OTHER COSTS

	For the period from 1 January to 30 June	
	2018	2017
Grants	(97)	(146)
Compensation	(589)	-
Other	(14)	(65)
Total other costs	**(700)**	**(211)**

19. OTHER NET INCOME/(LOSS)

	For the period from 1 January to 30 June	
	2018	2017
(Profit)/(loss) on sale of non-current assets	2,612	(470)
Currency exchange differences	(6)	(103)
Other, *including:*	(1,090)	(590)
- Creating other provisions	*(160)*	*(303)*
- Other	*(930)*	*(287)*
Total other net income/(loss)	**1.516**	**(1,163)**

(IN PLN '000)

20. FINANCE INCOME AND COSTS

	For the period from 1 January to 30 June	
	2018	2017
Interest income on short-term bank deposits	2,726	3,046
Dividend received and due	1,025	8,490
Other income, including:	7,289	916
- Interest regarding the Mine Closure Fund	*892*	*853*
- Release of the provision for interest on income tax	*3,578*	-
- Release of provisions for potential interest on liabilities towards the Mostostal & Acciona Infraestructuras Consortium	*2,753*	-
- Other	*66*	*63*
Total finance income	**11,040**	**12,452**
Interest on bonds	(471)	(3,396)
Interest expense on valuation of employee benefits	(1,913)	(3,481)
Settlement of discount on regarding provision for the Mine Closure Fund and land reclamation	(1,719)	(1,763)
Creating a provision for interest on liabilities	(2,485)	(1,657)
Creation of impairment losses of interest	(384)	(542)
Provision for interest on claims of the Social Security Institution (ZUS) for contribution for accident insurance	(656)	(643)
Other cost	(515)	(327)
Total finance cost	**(8,143)**	**(11,809)**

21. INCOME TAX

21.1 Tax burden

	For the period from 1 January to 30 June	
	2018	2017
Current tax	6,195	16,096
Deferred tax charged into finance income	6,210	9,700
Deferred tax charged into other comprehensive income:	(1,112)	(6,360)
- as actuarial losses as recognised in the statement of comprehensive income	*(1,112)*	*(6,360)*
	11,293	**19,436**

(IN PLN '000)

21.2 Reconciliation of an effective tax rate

	For the period from 1 January to 30 June	
	2018	2017
Profit before taxation	76,858	140,768
Tax calculated at the rate of 19%	14,603	26,746
Correction of income tax for previous years	(1,906)	-
Tax effect of income permanently excluded from the taxable base, including:	(1,823)	(2,179)
- revenue due in respect of the real property tax	*(202)*	*-*
- dividend received from subsidiaries	*(195)*	*(1,613)*
- release of a provision for interest on income tax	*(680)*	*-*
- other	*(746)*	*(566)*
Tax effect of costs permanently excluded from the taxable base	1,531	1,229
- payment to the National Fund for the Disabled	*493*	*462*
- provision for interest on real property tax	*270*	*319*
- interest on liabilities to the central budget	*323*	*122*
- donations	*18*	*28*
- other interest	*66*	*298*
- other	*361*	*-*
Decrease in financial result by the income tax	**12,405**	**25,796**
Effective interest rate	***16%***	***18%***

Income tax in the condensed interim financial statements was determined according to the expected interest rate for 2018 amounting to 19.0% (2017: 19.0%). Income tax in the condensed interim financial statements was determined according to the nominal interest rate for 2018 amounting to 19.0% (2017: 19.0%). The deviation of the effective tax rate in H1 2018 from the 19.0% rate is primarily a result of a one-off influence of the adjustment in the income tax for previous years. According to the Company's assessment, charging the financial result with income tax on the basis of the possibly best estimate of the weighted annual average income tax rate which is expected during the whole financial year, would not have a material impact on the financial result of the Company.

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

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

However, in the light of applicable tax regulations, it may not be ruled out that such costs could be classified by the Company for the purpose of corporate income tax in a way that differs from the classification presented by the Company, which could potentially result in adjustments in corporate income tax settlements and the payment of an additional amount of tax. Such amount 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 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 and 2012 which has been in progress at the Company since 2017. The inspection is carried out by inspectors from the Lublin Customs and Tax Office in Biała Podlaska. The inspecting authority focused on the Company'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 Company, 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 Company and the tax authority are different. A more detailed description of the customs and tax inspection carried out at the Parent is presented in Note 25 "Contingent items".

21.3 Current income tax - receivables and liabilities

Receivables related to the overpayment of current income tax in the amount of PLN 4,484,000 which are disclosed in the interim statement of financial position are mainly a result of a current overpayment of the corporate income tax for 2018 on the part of Lubelski Węgiel Bogdanka. The balance of receivables for current income tax also includes an overpayment for corporate income tax for 2012-2014 which arose as a result of corrections of CIT returns submitted by the Company.

The receivable related to the CIT overpayment at the end of 2017 was partly offset in 2018 against other tax liabilities in the amount of PLN 423,000. In June 2018, the Company received a refund of PLN 13,591,000, while the remaining amount was settled with current income tax liabilities.

22. EARNINGS PER SHARE

Basic

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

	For the period from 1 January to 30 June	
	2018	**2017**
Earnings attributable to owners of the Company	64,453	114,972
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN)	**1.89**	**3.38**

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. As at 30 June 2018, in connection with the introduction of the Management Options Scheme in 2013, the Company held instruments causing dilution of ordinary shares. The existence of subscription warrants granted under the Management Options Scheme has no significant bearing on the calculation of the diluted earnings per share.

23. DIVIDEND PER SHARE

At the Annual General Shareholders Meeting held on 25 June 2018, the Shareholders of the Company adopted resolutions on approval of the financial statements for 2017 and did not make a distribution of profit for that year due to the fact that a resolution was passed to adjourn the meeting until a later date. In accordance with the resolution, the meeting was scheduled for 20 July 2018.

At the Annual General Shareholders Meeting on 20 July 2018, the Shareholders of Lubelski Węgiel Bogdanka S.A. adopted resolution No. 25 on distribution of profit for 2017. Under the resolution, the entire net profit of the Company amounting to PLN 673,281,000 was allocated for reserve capital.

The dividend rate to shareholders of the Company is presented in the table below.

	For the period from 1 January to 30 June	
	2018	2017
Dividend due	-	34,014
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
Dividend per share (in PLN)	-	**1.00**

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

24. 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 30 June 2018 (as well as at 30 June 2017) the Company had no financial instruments measured at fair value.

25. CONTINGENT ITEMS

The Company 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.

Corporate income tax for 2012-2015

Under an authorisation issued by the Head of the Customs and Tax Office in Biała Podlaska on 29 August 2017, an inspection was launched at the Company to verify the compliance with the tax law with respect to corporate income tax ("CIT") for 2015. As a result of the inspection, on 14 December a documents and records Report was drawn. On 25 January 2018 a copy of the Inspection Findings was delivered to the Company. Following the inspection, the Tax Authority questioned the approach applied to date by the Company in respect of the point when hard coal mining costs, that is expenses related to drilling galleries and wall reinforcements, were charged as tax deductible business expenses. As a result, it questioned the amount of tax deductible expenses included in the CIT return for 2015, estimated the amount by which they should be adjusted, and re-calculated the tax liability for 2015. This resulted in tax arrears for the Company in the amount of PLN 30,771,000 (in relation to the costs of drilling galleries and wall reinforcements). The Company did not agree with the Inspection Findings, as a result of which on 26 February 2018 the Company received a Decision to transform the customs and tax inspection into tax proceedings in respect of compliance with tax law regarding 2015 CIT.

In the meantime, the Tax Authority had broadened the customs and tax inspection to include the years 2012-2014. As regards the inspection concerning 2012, on 14 June 2018 the Company received both the Inspection Report and the 2012 CIT Inspection Findings, which, as was the case with the inspection concerning 2015, challenged the Company's approach with regard to the point when hard coal extraction costs were charged as tax deductible business expenses. As a result, the Tax Authority questioned the amount of tax deductible expenses included in the 2012 CIT return, estimated the amount by which they should be adjusted, and re-calculated the tax liability for 2012. This resulted in tax arrears in the amount of PLN 32,981,000 for the Company. Once again, the Company did not agree with the Inspection Findings, as a result of which on 4 July 2018 the Company was served a Decision to transform the customs and tax inspection into tax proceedings regarding 2012. On 28 August 2018, the Parent received a Tax Proceedings Report in which the amount of tax arrears decreased by PLN 10,455,000 to the total of PLN 22,526,000.

It should be noted that, in determining the tax liability for the Company for 2012 and 2015, the Tax Authority applied a completely different method in each case.

The customs and tax inspection for the years 2013-2014 is still ongoing. In a letter dated 3 July 2018, the Tax Authority informed the Company about its decision to extend the customs and tax inspection regarding the years 2013-2014.

Lubelski Węgiel Bogdanka S.A. does not agree with the findings of the inspection for 2012 and 2015 and, therefore, has in both cases submitted a relevant letter presenting the position of the Company on the costs of drilling galleries and wall reinforcements. In relation to both tax proceedings, the Company is availing of the support of a consulting company specialising in this area.

During the inspections and discussions with representatives of the Tax Authority, the Company repeatedly argued that all entities from the mining sector in Poland involved in hard coal mining apply a uniform method of charging the costs of drilling galleries and wall reinforcements as tax deductible business expenses, consistent with the Company's approach. This is confirmed, among other things, by numerous tax rulings issued in recent years for other operators from the mining sector. The Tax Authority, however, did not take into account tax rulings issued to other entities in the mining industry in analogous cases, as indicated by the Company, stating that these rulings were not binding as they do not concern Lubelski Węgiel Bogdanka S.A. (which the Tax Authority mentioned in the 2015 and 2012 Inspection Findings).

Neither did the Tax Authority refer to the fact that Lubelski Węgiel Bogdanka S.A. was in possession of 2010 Inspection Findings regarding 2006, and 2001 Ruling of the Supreme Administrative Court in Warsaw regarding a tax inspection for 1999. Both documents indicate that during the first stage of the inspection carried out at that time, the Tax Authority also questioned the correctness of charging the costs of drilling galleries and wall reinforcements as tax deductible business expenses in the period in which they were incurred. In the case of the first document, after receiving comprehensive explanations from employees of Lubelski Węgiel Bogdanka S.A., the Tax Authority ultimately considered the Company's approach to have been correct; in the second case, the Court, on the basis of the presented evidence, considered the Company's approach to have been correct and reversed the decision issued by the Tax Authority. Therefore, with the Court ruling regarding the 1999 inspection and the Inspection Findings for 2006 to support its position, and taking into account the tax rulings issued for entities operating in the same industry, the Company believes that it did not have to request a tax ruling and does not agree with the conclusions drawn by the Tax Authority and with the Inspection Findings for 2012 and 2015. It should also be noted that, in relation to the 2001 Court ruling and the Inspection Findings for 2006, the Tax Authority has radically changed its approach, which should not have been the case, in spite of the passage of time, as the regulations in this area have not changed significantly.

In the event that the dispute is ultimately resolved in favour of the Tax Authority, the only negative financial consequences that would affect the financial result of the Company would concern potential interest that would be charged on the amount of tax arrears. The tax liability itself would be set off against the deferred income tax liability disclosed in the statement of financial position.

With regard to the tax arrears of PLN 30,771,000 stated in the Inspection Findings for 2015, it should be stated that had the Tax Authority applied the same method as in 2012, there would be an overpayment, rather than tax arrears. Therefore, in the opinion of the Company, the tax arrears stated in the Inspection Findings for 2015 are completely unreliable and, therefore, a decision was made to dissolve the provision of PLN 3,578,000 created at the end of the previous year for potential interest on possible tax arrears for 2015 (see Note 15).

With reference to the tax arrears of PLN 22,526,000 stated in the Tax Proceedings Report for 2012, potential interest on this liability (in case the position of the Tax Authority is ultimately upheld) would amount to approx. PLN 10,198,000 as at 30 June 2018.

Taking into account all the arguments presented during the inspection, in particular the consistent approach applied by the Company in terms of charging the costs of drilling galleries and wall reinforcements as tax deductible expenses, the same approach used by other entities in the industry as confirmed by available tax rulings, as well as the opinions of tax advisors in its possession, the Management Board of the Company disagrees with the position of the Tax Authority expressed in the Inspection Findings for 2012 and 2015.

The Management Board would also like to emphasise that at the moment the tax proceedings are still pending and that no binding tax decisions have been delivered to the Company (in the current legal environment, a tax decision is issued by the Tax Authority only after the tax proceedings have been completed; at the same time, the Company will be entitled to appeal to the same Tax Authority which had originally issued the decision).

In the opinion of the Management Board, the probability that the final resolution of the dispute is unfavourable for the Company is low, and it is more likely that the position presented by the Tax Authority will not stand at subsequent stages of the dispute. In view of the above, in the opinion of the Management Board of the Company, at the moment there are no reasons to create a provision for potential negative effects in the form of interest on tax arrears, however this amount (i.e. PLN 10,198,000) is being disclosed as a contingent liability.

Real property tax

The contingent liability concerning the value of mining excavations from which the Company does not create a provision (provision for real property tax, in its parts deemed as probable by the Company, amounts to PLN 46,877,000 and is presented in Note 15), may primarily result from the existing discrepancies between the position of the Company and the position of tax authorities with respect to the subject of that tax. The issue revolves around the question of whether there are in the mining excavations any structures within the meaning of the Act on Local Taxes and Charges which would be subject to the property tax. The discrepancies may also occur with regard to the value of particular facilities - in the event that it is agreed that the facilities are subject to the real property tax. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2017).

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 Company from which the Company does not create provision may primarily result from impossibility to assess whether the claim in question is justified and different positions taken by the Company and the co-inventors of inventions covered with the abovementioned patents. The value of the possible liability as at the day of publishing these condensed interim financial statements amounts to PLN 48 million. The Company estimated a provision for remuneration for co-inventors to the best of its knowledge and in line with principles so far applied at the Company when calculating remunerations for inventors. The item provisions for legal claims shows a provision for legal claims regarding remuneration for co-inventors of inventions covered by patents No. 206048 and 209043, used at the Company. The amount of remuneration will be subject to analysis of court experts or experts accepted by both parties, 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. Such an opinion has not been prepared yet until today. 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 2017).

Liabilities and contingent assets regarding a dispute with the Consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A.

The dispute with the Consortium is described in detail in the annual financial statements of the Company, prepared as at the end of 2017.

Following a mediation meeting held on 29 March 2018, the parties signed a settlement which resolves all disputes between the Company and the Consortium. On 6 June 2018, the Regional Court in Lublin issued a decision under which it fully confirmed the settlement reached by the parties. The impact that the settlement had on the net financial result for the first half of 2018 was positive and amounted to PLN 25,449,000.

(IN PLN '000)

26. FUTURE CONTRACTUAL LIABILITIES

Investment liabilities

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

	As at		
	30 June 2018	31 December 2017	30 June 2017
Property, plant and equipment	302,529	188,793	152,435
Investment liabilities	**302,529**	**188,793**	**152,435**

27. RELATED PARTY TRANSACTIONS

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

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

The Company concludes commercial transactions with state administration and local self-government bodies as well as subsidiary entities of 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 Cieplnej Sp. z o.o. in Chełm.

In the reporting periods ending on 30 June 2018 and 30 June 2017, the value of tradeover on account of sales with the above entities and the total receivables of the Company from those entities were as follows:

	For the period from 1 January		
	30 June 2018	31 December 2017	30 June 2017
Sales in period	83,572	223,458	86,181
Total receivables at end of period including VAT	29,643	29,780	20,961

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 30 June 2018 and 30 June 2017, the value of purchases from the above entities and the total liabilities of the Company to those entities were as follows:

	For the period from 1 January		
	30 June 2018	31 December 2017	30 June 2017
Purchases in period	89,528	136,700	58,231
Total liabilities at end of period including VAT	15,521	19,150	12,433

(IN PLN '000)

Transactions with ENEA Group companies

Purchase transactions cover primarily the purchases of electricity from ENEA S.A. and services from Enea Centrum Sp. z o.o.

In the reporting periods ending on 30 June 2018 and 30 June 2017, the value of turnover on account of purchases from the ENEA Group companies and the Company's total liabilities towards those entities were as follows:

	For the period from 1 January		
	30 June 2018	31 December 2017	30 June 2017
Purchases in period	37,192	67,654	33,808
Total liabilities at end of period including VAT	14,801	13,784	12,187

Sale transactions cover 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 Cieplnej Sp. z o.o. with registered office in Białystok).

In the reporting periods ending on 30 June 2018 and 30 June 2017, the value of tradeover on account of sale with the ENEA Group companies and the total receivables of the Company from those entities were as follows:

	For the period from 1 January		
	30 June 2018	31 December 2017*	30 June 2017*
Sales in period	749,043	1,318,126	642,564
Total receivables at end of period including VAT	157,501	134,873	281,447

**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 30 June 2018 and 30 June 2017, the value of liability on account of dividend for the Enea Group companies, i.e. Enea S.A. and Enea Wytwarzanie Sp. z o.o. were as follows:

	For the period from 1 January		
	30 June 2018	31 December 2017	30 June 2017
Dividend payable to the ENEA Group companies	-	-	22,449
Dividend paid to the ENEA Group companies	-	22,449	-
Total dividend	**-**	**22,449**	**22,449**

Transactions of the Company with the subsidiary companies of Lubelski Węgiel Bogdanka Group.

The Company's revenue resulting from the co-operation Łęczyńska Energetyka, the Company's subsidiary, is in the most part generated through sale of coal, lease of premises, telecommunications services, investor supervision, and re-invoicing electricity costs.

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

(IN PLN '000)

The Company's revenue resulting from the co-operation with its subsidiary, EkoTRANS Bogdanka Sp. z o.o., relates predominantly to payments for lease of premises and telecommunication services.

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

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

Purchases include primarily services with respect to the mining works and auxiliary works at the mine as well as run-of-mine services.

The Company's revenue resulting from the co-operation with its subsidiary, MR Bogdanka Sp. z o.o., relates predominantly to payments for lease of premises and telecommunication services.

Purchases primarily include the purchase of services connected with renovation of mining equipment and devices as well as transport units, performing regeneration services, traffic maintenance services and supply of machineries and components.

In the reporting periods ended on 30 June 2018 and 30 June 2017 the value of trade related to purchase from the following subsidiaries: Łęczyńska Energetyka Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o. and MR Bogdanka Sp. z o.o., and the balance of the Company's liabilities towards these associated entities were as follows:

	For the period from 1 January		
	30 June 2018	31 December 2017	30 June 2017
Purchases in period, including:	54,627	101,370	51,755
- Purchases of services activated on the value of "property, plant and equipment"	*508*	*3,526*	*3,799*
Total liabilities at end of period including VAT	12,647	12,859	12,296

In the reporting periods ended on 30 June 2018 and 30 June 2017 the value of trade related to sale to the following subsidiaries: Łęczyńska Energetyka Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o. and MR Bogdanka Sp. z o.o., and the balance of the Company's receivables from these associated entities were as follows:

	For the period from 1 January		
	30 June 2018	31 December 2017	30 June 2017
Sales in period	6,884	11,440	6,114
Total receivables at end of period including VAT	704	1,887	692

In the reporting periods ended on 30 June 2018 and 30 June 2017 the value of dividends due and received from the following subsidiaries: Łęczyńska Energetyka Sp. z o.o., MR Bogdanka Sp. z o.o., EkoTRANS Bogdanka sp. z o.o, and RG Bogdanka Sp. z o.o. were as follows:

	For the period from 1 January		
	30 June 2018	31 December 2017	30 June 2017
Dividend due	1,025	-	4,250
Dividend received	-	9,778	4,240
Total dividend	**1,025**	**9,778**	**8,490**

(IN PLN '000)

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

	For the period from 1 January to 30 June	
	2018	2017
Remuneration of Management Board members and commercial proxies	2,132	3,363
Remuneration of the Supervisory Board members	250	114

Apart from the standard remuneration on account of managerial contracts, appointment or employment relationship, no other transactions with key personnel took place in the first half of 2018 and in the same period of the previous year.

29. UNUSUAL EVENTS AFFECTING THE FINANCIAL RESULT

In the period of six months of 2018, an important and unusual event that had an impact on the interim income statement was the fact that a settlement was agreed on between the Company and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras. The fact that the settlement was recognised in the accounting books of the Company had a positive influence on the net financial result for the period of six months of 2018 – the amount of that influence was PLN 25,449,000.

Geological and hydrogeological difficulties the Company observed during the first quarter of 2018 (in the months of January and February) which translated into lower production of commercial coal also had a powerful influence on the financial results the Company achieved in the first six months of 2018. The difficulties were removed at the end of February, and the production in the following months proceeded as scheduled. Nevertheless, significantly lower production in the first two months of the reporting period was a factor that contributed to reduced average yield produced over the entire six-month period, which had a major effect on the total level of production and sales, and consequently, on the financial results for the six months of 2018.

30. EVENTS AFTER THE BALANCE-SHEET DATE

At the end of July 2018, the Parent and the participants to the Management Options Scheme concluded arrangements terminating their scheme participation agreements. In exchange for the termination, the persons received symbolic monetary compensation.

After the balance-sheet date, to the best of the Company's knowledge, no material event occurred, which could affect the financial result as at 30 June 2018, and were not disclosed in the condensed interim financial statements.

31. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 11 September 2018, it approves for publication these condensed interim financial statements of the Company for the period from 1 January to 30 June 2018.

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

Artur Wasil	President of the Management Board
Stanisław Misterek	Vice-President of the Management Board, Economic and Financial Affairs
Sławomir Karlikowski	Vice-President of the Management Board, Production and Development
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