



THE LUBELSKI WĘGIEL BOGDANKA GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR

FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

BOGDANKA, 21 MARCH 2019



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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

	Note	As at 31 December	
		2018	2017
Assets			
Non-current assets			
Property, plant and equipment	4	3,270,293	3,240,307
Intangible assets	5	58,844	59,961
Investment properties	6	3,312	3,365
Deferred tax assets	26.3	1,833	2,024
Trade and other receivables	7	1,261	1,342
Cash and cash equivalents	9	128,279	121,806
Total non-current assets		3,463,822	3,428,805
Current assets			
Inventories	8	83,382	62,557
Trade and other receivables	7	203,452	209,078
Overpaid income tax	26.4	11,835	23,504
Other current investments	10	67	-
Cash and cash equivalents	9	170,793	434,928
Total current assets		469,529	730,067
TOTAL ASSETS		3,933,351	4,158,872
Equity			
Equity attributable to owners of the Parent			
Ordinary shares	11	301,158	301,158
Other capitals	12	2,288,291	1,615,010
Retained profits	12	350,490	975,357
		2,939,939	2,891,525
Non-controlling interests	12	10,177	10,002
Total equity		2,950,116	2,901,527
Liabilities			
Non-current liabilities			
Loans and borrowings	15	13,930	16,966
Deferred income tax liability	26.3	213,686	205,334
Provisions for employee benefits	18	132,347	119,532
Provisions for other liabilities and charges	19	124,207	114,448
Grants	14	12,587	13,148
Trade and other liabilities	13	39,675	43,007
		536,432	512,435
Current liabilities			
Loans and borrowings	15	3,212	3,242
Provisions for employee benefits	18	32,809	37,489
Provisions for other liabilities and charges	19	79,156	85,770
Grants	14	560	560
Financial liabilities on account of bond issue	16	-	301,911
Trade and other liabilities	13	330,549	315,938
Contract liabilities		517	-
		446,803	744,910
Total liabilities		983,235	1,257,345
TOTAL EQUITY AND LIABILITIES		3,933,351	4,158,872

CONSOLIDATED INCOME STATEMENT

	Note	For the financial year from 1 January to 31 December	
		2018	2017
Revenue from contracts with customers, including:	20	1,756,671	1,780,321



<i>Core business revenue</i>	20	1,707,797	1,731,604
<i>Additional business revenue</i>	20	48,874	48,717
Costs of products, goods and materials sold	21	(1,583,971)	(859,161)
Gross profit		172,700	921,160
Selling costs	21	(42,996)	(41,115)
Administrative expenses	21	(101,492)	(33,903)
Other income	22	34,621	5,104
Other costs	23	(1,118)	(1,161)
Other profit / (loss) - net	24	312	(2,815)
Profit on operating activities		62,027	847,270
Finance income	25	14,542	7,253
Finance costs	25	(11,649)	(25,762)
Profit before taxation		64,920	828,761
Income tax	26.1	(11,124)	(160,836)
Net profit for the financial year		53,796	667,925
<i>including:</i>			
- attributable to the owners of the Parent		53,626	667,613
- attributable to non-controlling interests		170	312

Earnings per share attributable to owners of the Parent during the year (in PLN per share)	Note		
- basic	27	1.58	19.63
- diluted	27	1.58	19.63

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the financial year from 1 January to 31 December	
		2018	2017
Net profit for the financial year		53,796	667,925
Total other comprehensive loss for the financial period Items which will never be subject to reclassification to profit or loss for the current period:			
Actuarial gains (losses) of defined benefit schemes	18	(6,428)	(30,043)
Income tax relating to non-transferrable items	26.1	1,221	5,708
Items which will never be subject to reclassification to profit or loss for the current period - total		(5,207)	(24,335)
Other net comprehensive loss for the reporting period		(5,207)	(24,335)
Other net comprehensive income for the reporting period - total		48,589	643,590
<i>including:</i>			
- attributable to owners of the Parent		48,414	643,281
- attributable to non-controlling interests		175	309



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary shares	Other capitals				Total equity	Non-controlling interests	Total equity
			Supplementary fund	Reserve capital	Other capital related to the Management Options Scheme	Retained profits			
As at 1 January 2018		301,158	702,549	908,622	3,839	975,357	2,891,525	10,002	2,901,527
Total net comprehensive income for the reporting period:		-	-	-	-	48,414	48,414	175	48,589
- <i>net profit</i>		-	-	-	-	53,626	53,626	170	53,796
- <i>other comprehensive loss</i>		-	-	-	-	(5,212)	(5,212)	5	(5,207)
Transfer of the result for 2017	28	-	-	673,281	-	(673,281)	-	-	-
As at 31 December 2018		301,158	702,549	1,581,903	3,839	350,490	2,939,939	10,177	2,950,116
As at 1 January 2017		301,158	702,549	766,740	3,839	507,972	2,282,258	10,149	2,292,407
Total net comprehensive income for the reporting period:		-	-	-	-	643,281	643,281	309	643,590
- <i>net profit</i>		-	-	-	-	667,613	667,613	312	667,925
- <i>other comprehensive loss</i>		-	-	-	-	(24,332)	(24,332)	(3)	(24,335)
<i>Dividend for 2016</i>	28	-	-	-	-	(34,014)	(34,014)	(456)	(34,470)
Transfer of the result for 2016		-	-	141,882	-	(141,882)	-	-	-
As at 31 December 2017		301,158	702,549	908,622	3,839	975,357	2,891,525	10,002	2,901,527



CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the financial year from 1 January to 31 December	
		2018	2017
Cash flow from (used in) operating activities			
Cash inflow from operating activities*		460,563	640,096
Interest received and paid		(9,545)	(1,531)
Income tax paid and received		7,856	(30,048)
Net cash flow from (used in) operating activities		458,874	608,517
Cash flow from (used in) investing activities			
Acquisition of property, plant and equipment		(415,277)	(368,174)
Interest paid regarding investing activities	17.1	(5,544)	(3,126)
Acquisition of intangible assets		(5,243)	(1,160)
Inflow from the sale of property, plant and equipment		3,613	3,924
Interest received		8,623	7,072
Expenditure on other current investments	10	(153,098)	-
Inflows from other current investments	10	155,167	-
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund	9	(6,473)	(10,588)
Net cash flow from (used in) investing activities		(418,232)	(372,052)
Cash flow from (used in) financing activities			
Bond redemption	16	(300,000)	(300,000)
Repayments of loans and borrowings	15	(3,036)	(3,036)
Interest and commissions paid regarding financing activities	17.1	(1,741)	(5,137)
Dividend paid	28	-	(34,470)
Net cash flow from (used in) financing activities		(304,777)	(342,643)
Net decrease in cash and cash equivalents		(264,135)	(106,178)
Cash and cash equivalents at beginning of period		434,928	541,106
Cash and cash equivalents at end of period		170,793	434,928

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

CONSOLIDATED CASH INFLOW FROM OPERATING ACTIVITIES

	Note	For the financial year from 1 January to 31 December	
		2018	2017
Profit before taxation		64,920	828,761
- Depreciation of non-current assets	4	404,274	354,591
- Amortisation of intangible assets	5	2,722	1,614
- Depreciation of investments in real property	6	168	167
- Profit/(loss) on sale of property, plant and equipment		(2,652)	460
- Profit/(loss) on liquidation of plant, property and equipment		31,423	10,522
- Creating and using impairment losses of property, plant and equipment		-	1,284

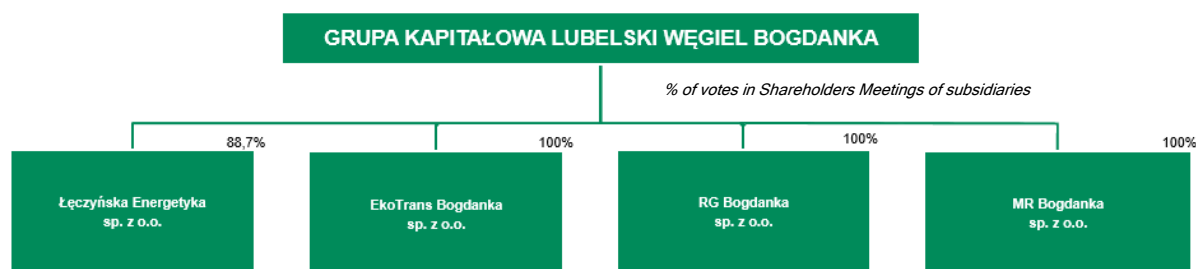


- Actuarial losses as recognised in the consolidated statement of comprehensive income	18	(6,428)	(30,043)
- Change in provisions for employee benefits	18	8,135	(109,960)
- Changes in provisions		731	21,082
- Other flows		2,116	1,073
- Reversal of impairment losses of current assets	4.3	-	(495,982)
- Change in inventories	8	(20,825)	9,014
- Change in trade and other receivables	7	5,707	38,864
- Change in trade and other liabilities		(29,728)	8,649
Cash inflow from (used in) operating activities		460,563	640,096
Balance-sheet change in liabilities, contract liabilities and grants		11,235	(541)
Set-off of income tax overpaid with other taxes payable		2,465	10,187
Change in investment liabilities		(43,428)	(997)
Change in liabilities for the purposes of the consolidated statement of cash flows		(29,728)	8,649
Increase in non-current assets	4	465,249	363,733
Other non-cash adjustments		(1,000)	(1,781)
Interest paid regarding investing activities		(5,544)	(3,126)
Change in investment liabilities		(43,428)	9,348
Acquisition of property, plant and equipment		415,277	368,174
Increase in intangible assets	5	5,279	11,505
Other non-cash adjustments		(36)	-
Change in investment liabilities		-	(10,345)
Acquisition of intangible assets		5,243	1,160

1. GENERAL INFORMATION

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

The Lubelski Węgiel Bogdanka Group:



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

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

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

On 26 March 2001, Lubelski Węgiel Bogdanka Spółka Akcyjna was registered in the Register of Entrepreneurs of the National Court Register, under KRS No. 0000004549.



At present the register is maintained by the District Court Lublin-Wschód in Lublin, with the seat in Świdnik, VI Commercial Division of the National Court Register.

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

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

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

As at 31 December 2018, the Parent held 88.70% of shares in the capital of the subsidiary, Łęczyńska Energetyka Sp. z o.o.

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

The company prepares its balance sheet as at 31 December.

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

As at 31 December 2018, the Parent held 100.00% of shares in the capital of the subsidiary, EkoTRANS Bogdanka Sp. z o.o.

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

The company prepares its balance sheet as at 31 December.

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

As at 31 December 2018, the Parent held 100.00% of share in capital of its subsidiary RG Bogdanka Sp. z o.o.

RG Bogdanka Sp. z o.o. provides services to the mine mainly with respect to the mining works, auxiliary works and run-of-mine services.

The company prepares its balance sheet as at 31 December.

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

As at 31 December 2018, the Parent held 100.00% of share in the capital of the subsidiary, MR Bogdanka Sp. z o.o.

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

The company prepares its balance sheet as at 31 December.



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

Name of the subsidiary	Balance-sheet total [PLN '000]	Equity [PLN '000]	% of shares held	Non-controlling interests	Restrictions in control; restrictions in consolidated assets and equity & liabilities	Consolidation method
<u>Companies subject to consolidation in the current and previous periods:</u>						
Łęczyńska Energetyka sp. z o.o.	114,997	90,036	88.70	Non-controlling interests amount to 11.30% and are held by: Łączna Municipality 11.29% Puchaczów Commune 0.01%	none	full
RG Bogdanka Sp. z o.o.	5,922	2,633	100.00	none	none	full
EkoTRANS Bogdanka Sp. z o.o.	4,384	1,265	100.00	none	none	full
MR Bogdanka Sp. z o.o.	6,066	2,537	100.00	none	none	full

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

Entering the structure of the ENEA Group

On 14 September 2015, ENEA S.A. announced a tender offer for the shares of the Parent, Lubelski Węgiel Bogdanka S.A., and it declared its intention to acquire up to 64.57% of the total vote at the General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. The transaction settlement took place on 29 October 2015. As a result of the transaction, ENEA S.A. along with its subsidiary acquired the total of 66% of shares in Lubelski Węgiel Bogdanka S.A., as a result of which Lubelski Węgiel Bogdanka S.A. with its subsidiaries 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 consolidated financial statements were prepared under the assumption of going concern in the foreseeable future and that there are no circumstances indicating any risk to the continuation of the Group's activities.

2. DESCRIPTION OF KEY ACCOUNTING PRINCIPLES (POLICIES) APPLIED

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

1. Basis of preparation

These consolidated financial statements of the Group have been prepared in compliance with the International Financial Reporting Standards as well as the related interpretations published in the form of a regulation of the European Commission, as approved by the European Union.

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



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

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

Except for the changes described in Note 2.1.2, the consolidated financial statements were prepared using the same accounting principles for the current and comparative periods; the consolidated financial statements follow the same accounting principles (policies) and calculating methods as the latest approved annual consolidated 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 consolidated financial statements on the basis of the International Financial Reporting Standards and in accordance with the accounting policies.

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

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

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

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



	Value of the items related to the estimate made in the consolidated financial statements in PLN '000		Accounting policy	Details of the assumptions and calculations of the material estimate
	2018	2017		
Property, plant and equipment	3,270,293	3,240,307	note 2.4 and 2.7	note 4
Provision for employee benefits	165,156	157,021	note 2.17	note 18
Intangible assets	58,844	59,961	note 2.5 and 2.7	note 5
Provision for mine closure and land reclamation	124,207	114,448	note 2.18	note 19
Deferred tax assets	1,833	2,024	note 2.16	note 26.3
Deferred income tax liability	213,686	205,334	note 2.16	note 26.3
Management Options Issue	3,839	3,839	note 2.17	note 12

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

As compared to information provided in the most recent annual consolidated financial statements for 2017, the estimated life of the mine has not changed. This period both in 2018 and in 2017 was defined to end in 2051 (which was estimated on the basis of available coal resources with an account taken of an average level of extraction).

Valuation of provisions for employee benefits

- Change in assumptions regarding the price of coal allowance benefit

In previous years the change in assumptions regarding the price of coal allowance benefit could have materially affect the valuation of provisions for employee benefits. However, on 17 October 2017, the Management Board of the Parent signed with the trade unions active at Lubelski Węgiel Bogdanka S.A. an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners of the Parent. As a result of signing the agreement, the existing retirees and pensioners, for whom Lubelski Węgiel Bogdanka S.A. was the last place of employment, have lost their right to free coal. Further, as a result of signing the agreement, the right to free coal after retirement was also lost by the current employees. Consequently, the provision for coal allowance benefits so far disclosed by the Parent, has been released in its entirety, that is why the value of provisions for employee benefits, as disclosed in the consolidated statement of financial position, is much less exposed to fluctuations.

- Assumptions regarding the actuarial valuation of provisions for employee benefits

The current value of employee benefits depends on a number of factors which are determined with the use of actuarial methods on the basis of certain assumptions. The assumptions used to determine the provision and expenses related to employee benefits include assumptions concerning discount rates as well as the indicator of growth of the given benefit's basis. Key assumptions regarding provisions for employee benefits are presented in Note 18. Any changes to these assumptions affect the carrying amount of the provisions for employee benefits.

As at 31 December 2018 and 31 December 2017, an analysis was carried out with respect to sensitivity of the results of valuation to a change in the financial discount rate and to changes in the planned increases in bases in the range from -1 p.p. to +1 p.p.

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

As at 31 December 2018:

Provision	Carrying amount	Deviations
-----------	-----------------	------------



		Financial discount rate		Planned increases in bases	
		-1 p. p.	+1 p. p.	-1 p. p.	+1 p. p.
Pays upon retirement due to old age	50,187	5,065	(4,342)	(3,168)	3,600
Pays upon retirement due to disability	813	70	(60)	(47)	53
Long-service award	98,427	7,675	(6,754)	(6,062)	6,729
Death benefits	3,353	300	(262)	(228)	255
Total	152,780	13,110	(11,418)	(9,505)	10,637

As at 31 December 2017:

Provision	Carrying amount	Deviations			
		Financial discount rate		Planned increases in bases	
		-1 p. p.	+1 p. p.	-1 p. p.	+1 p. p.
Pays upon retirement due to old age	42,996	4,182	(3,589)	(3,189)	3,961
Pays upon retirement due to disability	442	32	(29)	(23)	28
Long-service award	92,276	7,141	(6,302)	(6,617)	8,153
Death benefits	3,222	291	(254)	(253)	311
Total	138,936	11,646	(10,174)	(10,082)	12,453

The results of balance-sheet valuation as at 31 December 2018, broken down by maturity periods, are presented in the table below:

Payment period	Pays upon retirement due to old age	Pays upon retirement due to disability	Long-service award	Death benefits	Total
2019*	9,550	71	10,436	267	20,324
2020	1,443	64	7,404	249	9,160
2021	2,050	60	7,798	234	10,142
2022	1,730	57	8,583	224	10,594
2023	1,700	54	6,526	223	8,503
Remainder	33,714	507	57,680	2,156	94,057
Total	50,187	813	98,427	3,353	152,780

* Value of benefits for payment in 2019 includes payments resulting from the acquired retirement rights and long-service awards for persons who achieved retirement age, but remain in the employment relationship.

Provision for mine closure and land reclamation

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

- Sensitivity to changes regarding the life of the mine.

Assumptions regarding the life of the mine have been described above. In the case that the life of the mine assumed as at 31 December 2018 was extended by 1 year, the carrying amount of the provision for the cost of mine closure and land reclamation would be lower by PLN 867,000, and in the case that the life of the mine was extended by 10 years, the carrying amount of the provision would be lower by PLN 8,397,000. Further, in the case that the life of the mine was shortened by 1 year, the carrying amount of the provision for



the cost of mine closure and land reclamation would be higher by PLN 872,000, and in the case that the life of the mine was shortened by 10 years, the carrying amount of the provision would be higher by PLN 9,006,000.

- Sensitivity to changes of inflation and discount rates

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

The calculation of the provision was significantly affected by the discount rate which reflects the change in money value over time. For the purpose of assumptions, a discount rate based on the treasury bills yield was adopted and as at 31 December 2018 it amounted to 3.22% (as at 31 December 2017: 3.26%).

If the adopted inflation rates departed from the Management Board's estimates by 1 p.p., the carrying amount of provisions would be PLN 46,909,000 higher (in the event of inflation rates higher by 1 p.p.) or PLN 34,332,000 lower (in the event of inflation rates lower by 1 p.p.).

The impact of changing the financial discount on the carrying amount of the provisions for the Mine Closure Fund and land reclamation as at 31 December 2018 and 31 December 2017 is presented in the table below:

As at 31 December 2018:

Change in the financial discount	-0.25 p. p.	0 p. p.	+0.25 p. p.	+1 p. p.
Value of the provision for Mine Closure and land reclamation cost	134,555	124,207	114,677	90,358

As at 31 December 2017:

Change in the financial discount	-0.25 p. p.	0 p. p.	+0.25 p. p.	+1 p. p.
Value of the provision for Mine Closure and land reclamation cost	124,280	114,448	105,414	82,471

The analysis indicates that when the financial discount rate goes up as at 31 December 2018 by 0.25 p.p., the provision for the costs of Mine Closure and land reclamation is lower by PLN 9,530,000, and the financial discount rate is higher by 1 p.p., the provision for the costs of Mine Closure and land reclamation goes down by PLN 33,849,000. When the financial discount rate goes down as at 31 December 2018 by 0.25 p.p., the provision for the costs of Mine Closure and land reclamation is higher by PLN 10,348,000. At the same time, no impact of the financial rate going down by 1 p.p. is presented, because it would mean that the discount rate falls beneath the assumed inflation level, which is groundless in the Group's opinion.

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



2.1.2. New Accounting Policies

On 1 January 2018, the Group 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 consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers"

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 Group, 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 Parent are presented in the consolidated income statement (the so-called "przewoźne"). In the case of that service, the Parent acts as an intermediary. As far as the transactions where the Group 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 14,294,000 disclosed in the consolidated income statement was reduced by the costs of the transport services of PLN 10,651,000, and the margin of PLN 3,643,000 was consequently disclosed under revenue only.

As a matter of principle, as a result of applying IFRS 15, the Group's consolidated 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 Group expects that significant balances in those items will be rare. As at 31 December 2018, the Group's consolidated statement of financial position only showed "Contract liabilities" in the amount of PLN 517,000.

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" has been applied with the use of the retrospective method in accordance with interim provisions - the Group 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 Group and described in the annual consolidated 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 Group 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 Group and contractual terms of cash flows. The Group 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 "Interest income" in the consolidated income statement. Impairment losses are recognised in accordance with the accounting principle stated in Note 2.1.2.e and presented under "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 consolidated 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 consolidated 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 "Interest income". Impairment losses are recognised in accordance with the accounting principle stated in Note 2.1.2.e and presented under "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 Group 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 consolidated 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 "Interest income".

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

Following initial recognition, the Group measures all investments in equity instruments at fair value. The Group 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 consolidated profit or loss when the Group'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 Group 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 Group 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 commercial power plants, 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 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 Group 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);
- 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 Group 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 Group 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 consolidated 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 Group 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 consolidated statement of financial position of the Group as at 31 December 2017.



- Comparison of financial assets and liabilities according to IAS 39 and IFRS 9 as at 31 December 2017:

	IAS 39 Amortised cost	IFRS 9 Amortised cost	Impact of the change Increase (decrease)
Trade receivables	172,743	172,743	-
Cash and cash equivalents	556,734	556,734	-
Financial assets	729,477	729,477	-

	IAS 39 Amortised cost	IFRS 9 Amortised cost	Impact of the change Increase (decrease)
Trade and other liabilities*	217,835	217,835	-
Financing liabilities on account of bond issue	301,911	301,911	-
Loans and borrowings	20,208	20,208	-
Total financial liabilities	539,954	539,954	-

*Trade and other liabilities in accordance with Note 13 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 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

	IFRS 9 31 December 2018	IFRS 9 1 January 2018	IAS 39 31 December 2017
Financial assets measured at amortised cost:			
Trade receivables	161,448	172,743	172,743
Other current investments	67	-	-
Cash and cash equivalents	299,072	556,734	556,734
Total	460,587	729,477	729,477

Financial liabilities - classification and measurement

	IFRS 9 31 December 2018	IFRS 9 1 January 2018	IAS 39 31 December 2017
Liabilities measured at amortised cost:			
Trade and other liabilities*	259,584	217,835	217,835
Financial liabilities on account of bond issue	-	301,911	301,911
Loans and borrowings	17,142	20,208	20,208
Total	276,726	539,954	539,954



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

- Trade receivables according to IAS 39 and IFRS 9

	IFRS 9	IFRS 9	IAS 39
	31 December 2018	1 January 2018	31 December 2017
Trade receivables measured at amortised cost:			
Gross trade receivables	166,993	180,713	180,713
Impairment loss on receivables	(5,545)	(7,970)	(7,970)
Total	161,448	172,743	172,743

2.1.3. New standards and interpretations

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 consolidated financial statements:

a) IFRS 9 "Financial Instruments"

The impact of IFRS 9 is described in detail in Note 2.1.2.

b) IFRS 15 "Revenue from Contracts with Customers"

The impact of IFRS 15 is described in detail in Note 2.1.2.

c) 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.

d) 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.

e) 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.

f) 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.

g) Amendments to IAS 40: Reclassification of Investment Property



Amendments to IAS 40 clarify the requirements connected with reclassification to and from investment property.

h) 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.

The effect of applying the new standards IFRS 9 and IFRS 15 has been presented in greater detail in Note 2.1.2.

The application of other changes (amendments to IFRS 2, amendments to IFRS 4, annual improvements to IFRS 2014-2016, amendments to IAS 40 as well as Interpretation 22) did not significantly affect the consolidated financial statements of the Group.

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

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

a) 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.

The Group will apply IFRS 16 as of 1 January 2019.

b) Amendments to IFRS 9: Prepayment features with negative compensation

Amendment to IFRS 9 is 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 Group will apply the above changes from 1 January 2019.

c) Amendments 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 Group will apply the above changes from 1 January 2019.

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

d) 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 Group will apply the above changes from 1 January 2019.

e) 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 Group will apply the above changes from 1 January 2019.

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

f) 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 Group will apply the above changes from 1 January 2019.

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

g) 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.

h) IFRS 3 "Business Combinations"

The amendment to IFRS 3 resulted in a change in the definition of a "business". The current definition has been narrowed, which will probably result in more acquisition transactions to be classified as the acquisition of assets. The amendment to IFRS 3 is applicable to annual periods beginning on or after 1 January 2020.

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

i) IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

The Board has published a new definition of "material". The amendments to IAS 1 and IAS 8 make the definition of "material" more precise and increase consistency between the standards; it is however not expected that they will have a significant impact on the financial statements. The amendment is applicable to annual periods beginning on or after 1 January 2020.

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

j) 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.



k) 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 inconsistency 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 these consolidated financial statements, endorsement of this amendment has been postponed by the European Union.

The Group currently analyses the impact of the new standards, amendments to standards and interpretations on the financial statements. The Group estimates that IFRS 17 will not apply to it and the amendments to IFRS 10 and IAS 28, as well as IFRS 3 shall have no impact on the accounting policies applied so far.

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

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

- If the Company is a lessee, "Lease liabilities" will appear in the consolidated statement of financial position under equity and liabilities, and "Right-of-use assets" will appear under assets.

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

The application of IFRS 16 will not affect agreements where the Group is the lessor. Further, in case of agreements where the Group is the lessee, as a result of the application of IFRS 16, as at 1 January 2019, in the consolidated statement of financial position under "Right-of-use assets" and "Lease liabilities" the value of PLN 21,410,000 will be disclosed (of which approximately PLN 17,596,000 refers to the perpetual usufruct right to land, PLN 3,814,000 refers to other agreements under which the Group uses the assets).

Amendments to IFRS 9, amendments to IAS 19, annual improvements to IFRS 2015-2017, amendments to IAS 1 and IAS 8 as well as Interpretation 23 will affect the consolidated financial statements, but the Group believes it should be relatively small.

2.1. Principles of consolidation

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



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

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

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

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

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

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

Consolidation adjustments

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

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

Loss of control

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

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



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

Acquisition of entities

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

The Group recognises goodwill at the acquisition date as:

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

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

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

2.2. Measurement of items expressed in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

Foreign exchange differences resulting from translation are disclosed accordingly in the consolidated income statement, with the foreign exchange differences are recognised under "Other profit/(loss) - net", and those referring to financial activity - under "Finance income / costs" or, in cases defined in the accounting policies, under the equity, when they qualify for recognition as a cash flow hedge and hedge of share in net assets.



Property, plant and equipment are non-current assets:

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

Property, plant and equipment is initially recognised at acquisition (production cost).

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

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

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

As at the balance-sheet date, items of non-current assets are carried at acquisition or production cost less accumulated depreciation and impairment charges.

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

Land is not depreciated. Depreciation of an item of non-current assets starts when that item is available to be placed in service. Other items of non-current assets are depreciated using the straight-line method beginning from a month following the month when the asset was put into service or the cost-of-production method in order to distribute their initial values or re-measured values, less residual values, over their useful economic lives, which for particular groups of non-current assets are as follows:

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



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

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

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

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

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

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

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

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

2.4. Intangible assets (Note 5)

Geological information

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

Computer software

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

Fees, licences

The fee for mining usufruct for the purpose of extraction of coal from the Bogdanka deposit is capitalised in the amount of the fee paid. The capitalised cost is amortised over the period for which the agreement for mining use has been concluded.

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



2.5. Investment properties (Note 6)

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

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

Buildings 25-40 years

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

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

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

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

2.7. Financial assets (Note 17)

Financial assets have been classified by the Group as at their initial recognition to the following categories:

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

Financial assets measured at fair value through profit and loss include:

- financial assets held for trade (including derivative instruments for which hedge accounting is not applied),
- financial assets voluntarily classified to this category,
- financial assets which do not meet the definition of a basic loan agreement, including equity instruments such as shares except for those classified to equity instruments by other comprehensive income,
- financial assets meeting the definition of a basic loan agreement, which are not kept as per the business model for the purpose of generating cash flows or sales.



Equity instruments measured through other comprehensive income include investments in equity instruments classified voluntarily and irreversibly as at initial recognition. Such classification may not cover equity instruments which meet the criteria of being held for trade and the criteria of conditional payment recognised by the acquiring company in a merger transaction.

Financial assets measured at amortised cost are financial assets which are kept as per the business model aiming at keeping financial assets for the purpose of generating cash flows resulting from an agreement and financial assets whose contractual terms meet the definition of a basic loan agreement.

Financial assets measured at fair value through other comprehensive income are financial assets which are kept as per the business model aiming at generating cash flows resulting from an agreement and sale of individual financial assets, as well as financial assets whose contractual terms meet the definition of a basic loan agreement.

At initial recognition the Group measures the given financial asset which is subject to classification for the purposes of valuation at its fair value. An exception to this rule are trade receivables without a material financial component, which are measured at transaction price.

Fair value of financial assets not classified to the measurement through profit or loss are increased by transaction costs which may be directly allocated to the purchase/acquisition of those assets.

2.8. Inventories (Note 8)

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

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

2.9. Trade receivables (Note 7)

Trade receivables are initially recognised at transaction price, and subsequently valued at amortised cost using the effective interest rate method, with an account taken for the impairment losses. If there are no differences between initial value of a receivable and a due amount (on the payment date), there is no interest calculated with the effective interest rate.

Receivables denominated in foreign currencies are measured during a financial year at historic rate, i.e. mid-exchange rate quoted by the National Bank of Poland for the transaction date, while as at the balance-sheet date they are measured at the mid-exchange rate quoted by the National Bank of Poland for that day.

Impairment loss of receivables is determined on the basis of the expected credit losses. The expected credit losses include events of a failure to perform a liability by a business partner - both the ones that have already occurred as well as possible estimated credit losses. The impairment loss is charged into costs disclosed in the consolidated income statement, under selling costs. When trade receivables become uncollectible, they are written off against the provision for trade receivables. Subsequent collection of amounts previously written off is credited against "Selling cost" (as a decrease in costs) in the consolidated income statement.



2.10. Cash and cash equivalents (Note 9)

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

Cash and cash equivalents gathered on a separate Mine Closure Fund's account as well as the restricted cash and cash equivalents where the restriction persists for at least 12 months as from the balance-sheet date, are classified as non-current assets.

2.11. Non-current assets held for sale

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

2.12. Share capital (Note 11)

Ordinary shares are classified as the equity.

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

2.13. Financial liabilities (Notes 13, 15 and 16)

Financial liabilities including trade and other liabilities are initially recognised at fair value less transaction costs incurred.

Financial liabilities including loans and borrowings as well as debt securities are classified as at the moment of initial recognition to the following categories:

- Financial liabilities measured at fair value through profit or loss,
- Financial liabilities measured at amortised cost,

financial liabilities measured at fair value through profit and loss include:

- financial liabilities meeting the definition of financial liabilities held for trading, including derivatives not used in hedge accounting,
- financial liabilities voluntarily classified by the Group as measured at fair value through profit and loss.

Financial liabilities measured at amortised cost include all financial liabilities subject to classification for the purposes of valuation, not included to financial liabilities measured at fair value through profit and loss.

Initial measurement of financial liabilities

At initial recognition the Group measures the given financial liability which is subject to classification for the purposes of valuation at its fair value.

Fair value of financial liabilities not classified to the measurement through profit or loss are decreased by transaction costs which may be directly allocated to the issue (incurring/occurrence) of those liabilities.

Balance-sheet valuation and recognition of revaluations



Balance-sheet valuation of a financial liability and recognition of revaluations depend on a classification of a given item to relevant category for the purposes of valuation.

- Financial liabilities measured at fair value through profit or loss
Financial liabilities classified to the category of financial liabilities measured at fair value through profit or loss are measured as at each balance-sheet day at fair value. The fair value set as at a balance-sheet day is not adjusted by transaction costs which should be incurred for settling the given item. The revaluations to fair value are recognised in the financial result of the period.
- Financial liabilities measured at amortised cost
Financial liabilities classified to the category of financial liabilities measured at amortised cost are measured as at each balance-sheet day at amortised cost.

2.14. Financial derivatives (Note 17)

The Group may enter into derivative contracts in order to manage its currency exchange risk. They include forward contracts. Derivatives are initially recognised at fair value as at the date of concluding the respective contract, and subsequently re-measured to fair value at the end of each reporting period. The resultant gains or losses are recognised in the consolidated statement of comprehensive income under "Finance income / costs" or in the consolidated statement of comprehensive income (in the portion constituting efficient cash flow hedge) as a cash flow hedge and in the consolidated statement of financial position (balance sheet) under - depending on measurement - "Financial instruments" or in equity and liabilities under "Financial liabilities."

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

Tax Group

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

The Company representing the Tax Group is Lubelski Węgiel Bogdanka S.A.

By way of its decision dated 31 January 2019 the Head of the Lublin Tax Office declared the expiration, as of 31 March 2018, of the decision on registering the agreement on creating a tax group.

Current tax

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

Deferred tax

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



A deferred tax asset is recognised if it is probable that taxable income will be available in the future to allow the benefit of the temporary differences to be utilised.

2.16. Provision for employee benefits (Note 18)

Retirement and other employee benefits

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

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

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

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

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

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

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

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

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

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

Profit-sharing programmes and bonus programmes

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

Share-based payments

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



2.17. Provisions (Note 19)

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

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

Provision for mine closure and land reclamation

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

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

The amount of closing of a mining plant and land reclamation is calculated by an independent consultancy company (The Mineral and Energy Economy Research Institute of the Polish Academy of Sciences) on the basis of historical data concerning costs related to mine closures in the Polish hard coal mining sector.

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

2.18. Recognition of revenue (Note 20)

Agreements with customers are analysed and recognised by the Group as per the model indicated in IFRS 15. The recognition of revenue under a given agreement is performed in the following steps:

- Identification of the agreement,
- Identification of the performance obligation,
- Determining of a transaction price,
- Matching the transaction price with the performance obligation,
- Recognition of revenue.

The recognition of revenue is performed upon (or during) fulfillment of a performance obligation, effected by way of delivery of promised goods or services (i.e. an asset) to a customer. The delivery of an asset is completed when the customer gains control over such an asset.



The Group transfers control over goods or services over time thus fulfilling its performance obligation, and recognises revenue over time if one of the following conditions is met:

- criterion 1: the customer simultaneously receives and derives benefits from an entity's performance, in the course of such performance; or
- criterion 2: as a result of the entity's performance an asset is created or enhanced (e.g. production in progress), and control over such an asset - in the course of its creation or enhancement - is exercised by the customer; or
- criterion 3: as a result of the entity's performance no asset with an alternative application for the entity is created, and the entity is entitled to an enforceable right to receive payment for the performance to that moment.

If the performance obligation is not fulfilled in time as per the above, the Group fulfills its performance obligation in a defined moment. In order to define the moment when the customer gains control over the promised asset, and the Group fulfills its performance obligation, the Group takes account of the requirements regarding control. Furthermore, the Group takes account of circumstances indicating that the control was transferred in the following cases (without limitation):

- the Group is at the given moment entitled to receive payment for the asset,
- the customer holds a legal title to the asset,
- the Group has physically transferred the asset,
- the customer bears material risk related to and gains material benefits from its ownership of the asset,
- the customer has accepted the asset.

Moment of revenue recognition

The table below lists individual groups of products offered by the Group and specifies relevant moment of revenue recognition:

Product type	Group of products	Moment of revenue recognition	Measurement method	Measurement method	Activating factor
Permanently provided services - consumption	Hook place Use of bath	Over Time (<i>settled over time</i>)	Performance	Consumption	Beginning of service provision
Delivery of products or services settled in a particular moment	Hard coal Scrap Materials	Point in Time (<i>settled in a point in time</i>)	n/a	Event	Delivery / end of service provision
Permanently provided services - time lapse	Investor supervision	Over Time (<i>settled over time</i>)	Performance	Time lapse	Beginning of service provision

Interest income

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

2.19. Recognition of government grants (Note 14)

IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" is applied in accounting for, and in the disclosure of, government grants.

According to IAS 20.3, grants related to assets are defined as government grants whose objective is to finance non-current assets. Under IAS 20, government grants must be



recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

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

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

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

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

2.20. Lease (Note 31)

Operating lease

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

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

The manner of implementing the new standard IFRS 16 “Leases” as well as its impact on the consolidated financial statements are described in detail in Note 2.1.3.

2.21. Dividend payment (Note 28)

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

3. INFORMATION ON SEGMENTS OF OPERATION

Key reporting structure - industry segments

The Group's core business is production and sale of coal. In 2018, revenue on sales of other products and services amounted to PLN 48,874,000 (in 2017: PLN 55,100,000), representing 2.78% in 2018 and 3.09% in 2017, respectively, of total revenue.

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

Supplementary reporting structure - geographical segments

The Group operates primarily in Poland. In 2018, revenue from foreign sales amounted to PLN 133,000 (in 2017: PLN 25,564,000), representing below 0.01% in 2018 and 1.44% in 2017 of total revenue. The Group does not hold related assets or liabilities outside Poland.

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



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

Division into mining fields

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



Key coal customers

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

	for the financial year from 1 January to 31 December	
	2018	2017
Enea Wytwarzanie Sp. z o.o.	62%	56%
ENEA Elektrownia Połaniec S.A. (formerly ENGIE Energia Polska S.A.)	23%	22%

4. PROPERTY, PLANT AND EQUIPMENT

	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	9,976	3,185,992	2,159,920	2,361,274	97,420	25,994	216,412	5,897,068
Depreciation	-	(1,357,639)	(987,668)	(1,216,021)	(64,785)	(18,316)	-	(2,656,761)
Net book value	9,976	1,828,353	1,172,252	1,145,253	32,635	7,678	216,412	3,240,307
As at 31 December 2018								
Net book value at beginning of year	9,976	1,828,353	1,172,252	1,145,253	32,635	7,678	216,412	3,240,307
Increases	-	2,414	-	277	-	1,470	461,088	465,249
Transfer from construction in progress	1,187	224,378	206,621	54,241	12,084	1,688	(293,578)	-
Reclassification to assets held for sale	-	-	-	-	(186)	-	-	(186)
Decreases	-	(29,604)	(29,573)	(212)	(887)	(4)	(96)	(30,803)
Non-current assets reclassification	-	780	-	(713)	(2)	(65)	-	-
Depreciation/amortisation	-	(230,375)	(198,212)	(158,957)	(12,048)	(2,894)	-	(404,274)
Net book value	11,163	1,795,946	1,151,088	1,039,889	31,596	7,873	383,826	3,270,293
As at 31 December 2017								
Cost or assessed value	11,163	3,249,970	2,204,601	2,397,964	94,164	27,535	383,826	6,164,622
Depreciation	-	(1,454,024)	(1,053,513)	(1,358,075)	(62,568)	(19,662)	-	(2,894,329)
Net book value	11,163	1,795,946	1,151,088	1,039,889	31,596	7,873	383,826	3,270,293
As at 1 January 2017								
Cost or assessed value	9,048	2,808,779	1,959,506	2,073,693	95,815	24,046	157,739	5,169,120
Depreciation	-	(1,311,199)	(988,667)	(1,026,332)	(55,449)	(15,944)	-	(2,408,924)
Net book value	9,048	1,497,580	970,839	1,047,361	40,366	8,102	157,739	2,760,196
As at 31 December 2017								
Net book value at beginning of year	9,048	1,497,580	970,839	1,047,361	40,366	8,102	157,739	2,760,196
Increases	-	2	-	-	-	1,159	362,572	363,733
Transfer from construction in progress	928	246,930	237,332	52,311	1,201	1,007	(302,377)	-
Reversal of impairment losses	-	352,852	176,825	242,985	1,124	-	-	596,961
(Creating)/use of impairment losses	-	17,039	17,003	108	-	-	1,195	18,342
Decreases	-	(36,745)	(27,534)	(279)	(60)	(4)	(2,717)	(39,805)
Depreciation/amortisation	-	(197,810)	(170,118)	(144,413)	(9,782)	(2,586)	-	(354,591)
Reclassification of impairment losses to depreciation	-	(51,495)	(32,095)	(52,820)	(214)	-	-	(104,529)



Net book value	9,976	1,828,353	1,172,252	1,145,253	32,635	7,678	216,412	3,240,307
As at 31 December 2017								
Cost or assessed value	9,976	3,185,992	2,159,920	2,361,274	97,420	25,994	216,412	5,897,068
Depreciation	-	(1,357,639)	(987,668)	(1,216,021)	(64,785)	(18,316)	-	(2,656,761)
Net book value	9,976	1,828,353	1,172,252	1,145,253	32,635	7,678	216,412	3,240,307

Borrowing costs (interest and commission on liabilities incurred), activated in 2018 in the value of the property, plant and equipment amounted in total PLN 4,130,000 (PLN 4,523,000 in 2017).

No collateral was established on property, plant and equipment.

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

	for the financial year from 1 January to 31 December	
	2018	2017
Costs of products, goods and materials sold	(395,138)	(345,336)
Selling costs	(485)	(461)
Administrative expenses	(8,651)	(8,794)
As at 31 December	(404,274)	(354,591)

2. Property, plant and equipment - excavations

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

As at 31 December 2018:

	Quantity [items]	Length [m]	Initial value	Depreciation	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	19,267	526,126	(416,431)	109,695	79%
- <i>depreciated until December 2018</i>	8	8,732	89,493	(47,027)	42,466	53%
Walls disclosed in non-current assets, depreciated with the use periods	234	91,937	1,379,474	(499,001)	880,473	36%
Other items, depreciated according to useful life (shafts, shaft towers, dams, reservoirs and other)	31	-	299,001	(138,081)	160,920	46%
Total as at 31 December 2018	295	111,204	2,204,601	(1,053,513)	1,151,088	48%



As at 31 December 2017:

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

4.1. Property, plant and equipment - construction in progress

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

	As at 31 December	
	2018	2017
Excavations (galleries)	283,458	191,152
Modernisation of the longwall systems	61,796	-
Expansion of the waste storage yard in Bogdanka	9,929	9,290
Construction of new mining fields	6,081	5,607
Reinforcement of shaft 1.3 lining	3,707	3,708
Modernisation of the main fan station at shaft 1.4.	4,005	-
Purchase of belt conveyors	2,322	-
Other	12,528	6,655
As at 31 December	383,826	216,412

4.2. Impairment losses on the property, plant and equipment

In 2018 the Group made no moves in relation to impairment losses of property, plant and equipment.

On the basis of an analysis carried out by the Parent with respect to the occurrence of premises indicating that the impairment loss of non-current assets may possibly occur, it was determined that such premises had not taken place, and therefore, as at the end of 2018, there was no need to perform an impairment test.

As at the end of 2017 the Management Board of the Parent have analysed the occurrence of premises indicating that the impairment loss of non-current assets created in 2015 is not grounded or may have been reduced. As a result, it was a justified measure to reduce or entirely reverse the earlier created impairment loss.

This operation has been described in detail in the annual consolidated financial statements for 2017, whereas key information regarding the reversal of the impairment loss created in 2017, is presented below.

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

	Land	Buildings and structures including excavations	Plant and equipment	Vehicles	Construction in progress	Total
As at 1 January 2018	4,394	-	3,187	-	8,267	15,848



As at 31 December 2018	4,394	-	-	3,187	-	8,267	15,848
As at 1 January 2017	4,394	369,891	193,828	246,280	1,124	9,462	631,151
Creating impairment loss	-	-	-	-	-	1,284	1,284
Reversal of unused impairment loss	-	(352,852)	(176,825)	(242,985)	(1,124)	-	(596,961)
Using the impairment loss created	-	(17,039)	(17,003)	(108)	-	(2,479)	(19,626)
As at 31 December 2017	4,394	-	-	3,187	-	8,267	15,848

In 2018 there was no change in the balance of impairment losses.

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

The release (reversal) of the impairment losses of property, plant and equipment was disclosed in the consolidated income statement as a decrease in the following cost items: "Cost of products, goods and materials sold" in the amount of PLN 441,022,000, "Selling costs" in the amount of PLN 2,758,000 and in "Administrative expenses" in the amount of PLN 48,652,000. The remainder of the released impairment loss of PLN 104,529,000 which was recognised into depreciation and did not affect the profit/loss of 2017.



5. INTANGIBLE ASSETS

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 January 2018					
Cost or assessed value	7,682	18,874	54,217	2,197	82,970
Depreciation	(5,301)	(4,044)	(11,624)	(2,040)	(23,009)
Net book value	2,381	14,830	42,593	157	59,961
As at 31 December 2018					
Net book value at beginning of year	2,381	14,830	42,593	157	59,961
Increases	1,304	408	-	3,567	5,279
Decreases	(1)	(213)	-	(3,460)	(3,674)
Depreciation/amortisation	(623)	(1,087)	(908)	(104)	(2,722)
Net book value	3,061	13,938	41,685	160	58,844
As at 31 December 2018					
Cost or assessed value	8,890	18,380	54,343	3,855	85,468
Depreciation	(5,829)	(4,442)	(12,658)	(3,695)	(26,624)
Net book value	3,061	13,938	41,685	160	58,844
As at 1 January 2017					
Cost or assessed value	7,332	7,231	51,636	1,193	67,392
Depreciation	(4,441)	(2,927)	(11,466)	(1,047)	(19,881)
Net book value	2,891	4,304	40,170	146	47,511
As at 31 December 2017					
Net book value at beginning of year	2,891	4,304	40,170	146	47,511
Increases	36	10,435	30	1,004	11,505
Reversal of impairment losses	342	1,082	2,677	-	4,101
Decreases	-	-	-	(991)	(991)
Depreciation/amortisation	(713)	(741)	(158)	(2)	(1,614)
Reclassification of impairment losses to amortisation	(175)	(250)	(126)	-	(551)
Net book value	2,381	14,830	42,593	157	59,961
As at 31 December 2017					
Cost or assessed value	7,682	18,874	54,217	2,197	82,970
Depreciation	(5,301)	(4,044)	(11,624)	(2,040)	(23,009)
Net book value	2,381	14,830	42,593	157	59,961



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

	for the financial year from 1 January to 31 December	
	2018	2017
Costs of products, goods and materials sold	(2,661)	(1,572)
Selling costs	(3)	(2)
Administrative expenses	(58)	(40)
Total	(2,722)	(1,614)

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

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

For more information please refer to Note 4.3.

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

	Computer software	Fees, licences	Geological information	Total
As at 1 January 2018	-	-	1,780	1,780
As at 31 December 2018	-	-	1,780	1,780
As at 1 January 2017	342	1,082	4,457	5,881
Reversal of unused impairment loss	(342)	(1,082)	(2,677)	(4,101)
As at 31 December 2017	-	-	1,780	1,780

In 2018 no movements related to impairment losses occurred. In 2017 the release (reversal) of the impairment losses of intangible assets was disclosed in the consolidated income statement as a decrease in the following cost items: "Cost of products, goods and materials sold" in the amount of PLN 3,179,000, "Selling costs" in the amount of PLN 20,000 and in "Administrative expenses" in the amount of PLN 351,000. The remainder of the released and unused impairment loss of PLN 551,000 was recognised into amortisation and did not affect the achieved consolidated profit/loss of the reporting period.

6. INVESTMENT PROPERTIES

	for the financial year from 1 January to 31 December	
	2018	2017
As at 1 January	3,365	3,532
Purchase of investment properties	115	-
Depreciation/amortisation	(168)	(167)
Total	3,312	3,365



Investment properties relate to a holiday resort Kalnica, located in the Bieszczady mountains, owned by Łęczyńska Energetyka Sp. z o.o., the Parent's subsidiary.

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

	for the financial year from 1 January to 31 December	
	2018	2017
Revenue on investment properties	104	95
Operating expenses related to investment properties	(279)	(252)

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



7. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
Trade receivables	166,993	180,713
Less: impairment losses of receivables	(5,545)	(7,970)
Net trade receivables	161,448	172,743
Accruals and deferrals	36,802	28,916
Other receivables	5,202	7,419
Current	203,452	209,078
Accruals and deferrals	805	1,332
Other receivables	456	10
Non-current	1,261	1,342
Total trade and other receivables	204,713	210,420

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

All receivables of the Group are expressed in PLN.

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

	for the financial year from 1 January to 31 December	
	2018	2017
As at 1 January	7,970	7,389
Creating impairment loss	3,111	3,583
Receivables written down during the year as uncollectible	(78)	(127)
Reversal of unused amounts	(5,458)	(2,875)
Total	5,545	7,970

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



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

	As at 31 December	
	2018	2017
Up to 1 month	313	808
3 to 6 months	-	597
6 to 12 months	2	708
above 12 months	5,230	5,857
Total	5,545	7,970

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

	As at 31 December	
	2018	2017
Up to 1 month	99	877
1 to 3 months	19	29
3 to 6 months	52	296
6 to 12 months	105	-
above 12 months	-	3
Total	275	1,205

Maximum exposure to credit risk as at the reporting date is the fair value of each category of receivables described above.

8. INVENTORIES

	As at 31 December	
	2018	2017
Materials	67,295	54,200
Finished goods	16,087	8,361
Impairment loss to the sale price, likely to achieve, of the finished goods	-	(4)
Total	83,382	62,557

Cost of inventories in the consolidated income statement was disclosed under "Cost of products, goods and materials sold" totalling PLN 1,583,971,000 in 2018 (2017: PLN 859,161,000).



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

	for the financial year from 1 January to 31 December	
	2018	2017
As at 1 January	4	139
Creating impairment losses of the sale price, likely to achieve, of finished goods	-	12
Use of impairment losses of the sale price, likely to achieve, of the finished goods	(4)	(147)
As at 31 December	-	4

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

No collateral was established on inventories held by the Group.

9. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
Cash in banks	18,667	17,742
Bank deposits	280,405	538,992
Total	299,072	556,734
<i>Including:</i>		
<i>Non-current*</i>	<i>128,279</i>	<i>121,806</i>
<i>Current</i>	<i>170,793</i>	<i>434,928</i>
	<i>299,072</i>	<i>556,734</i>

*cash with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 130,240,000 as at 31 December 2018, including PLN 128,279,000 (as at 31 December 2017: PLN 122,054,000, including PLN 121,806,000) of the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine, and the remainder refers to funds collected on separate VAT accounts. Cash held by the Group is denominated in PLN.

Effective interest rates of short-term bank deposits are close to nominal interest rates, and the fair value of the short-term bank deposits does not differ materially from their carrying amount. Interest rates are based on WIBID rates and were as follows:

2018 - 0.45% - 1.41%

2017 - 0.4% - 1.85%

10. OTHER CURRENT INVESTMENTS

	As at 31 December	
	2018	2017
Other current investments	67	-
- Deposits with maturity over 3 months	67	-



Total	67	-
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11. 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 31 December 2018	34,014	170,068	131,090	301,158
As at 1 January 2017	34,014	170,068	131,090	301,158
As at 31 December 2017	34,014	170,068	131,090	301,158

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

12. OTHER CAPITAL

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

Other capital related to the Management Options Scheme

On 30 September 2013 the Supervisory Board of the Parent adopted, by way of a resolution, the Rules of Management Options Scheme in 2013-2017. The resolution was adopted based on Resolution no. 26 of the Annual General Shareholders Meeting of the Company of 4 July 2013 regarding issue of up to 1,360,540 registered series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Parent's share capital by no more than PLN 6,802,700 through issue of up to 1,360,540 ordinary series D shares with a par value of PLN 5 each and with the exclusion of a pre-emptive right. As at the allocation date, the valuation of the scheme was made using the Black - Scholes - Merton model, the calculated value of bonds as at the allocation date amounted to PLN 23,657,000. The valuation model employed the following assumptions:

- - option allocation date (valuation date) was set to fall on 30 September 2013 for each of the tranches.
- - current price for calculation purposes was a forecast share price of Lubelski Węgiel Bogdanka S.A. as at 30 September 2013,
- - the option life was calculated with the assumption of its maturity falling in the middle of the range between the first and the last possible day of option exercise,
- - risk-free rate was defined as the semi-annual average of weekly prices of 5-year treasury bonds,
- - share price variability was calculated on the basis of annual rates of return on shares of Lubelski Węgiel Bogdanka S.A. using continuous capitalisation for the 4-year period of Parent listings,
- - zero dividend rate is assumed in connection with the Management 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 31 December 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 (31 December 2017: PLN 3,839,000). Within this pool, the number of allocated rights (for 2013-2014) to be exercised under the above options was 335,199.

The total cost of the Scheme disclosed as at 31 December 2018 under "Other capitals" amounted to PLN 3,839,000 (31 December 2017: PLN 3,839,000). In Q3 2018 the Parent and all beneficiaries of the Scheme (the persons to whom option may be granted) concluded arrangements under which Scheme participation agreements of the beneficiaries were terminated. Each beneficiary was paid compensation of PLN 1. Upon conclusion of the above arrangements the Management Options Scheme was ultimately closed.

Equity on valuation of cash flow hedges

Other capitals may include also derivatives used as cash flow hedges (in the part deemed the efficient hedge) after tax effect. In 2018 and 2017 the Group held no financial instruments hedging cash flows.



Non-controlling interests

Non-controlling interests relate exclusively to the subsidiary Łęczyńska Energetyka Sp. z o.o., and are owned by the Łęczna Municipality (11.29%) and by the Puchaczów Commune (0.01%) - 11.30% in total. In 2018 total income attributable to non-controlling interests amounted to PLN 175,000, and this amount was composed of: net profit attributable to non-controlling interests of PLN 170,000 and other comprehensive income related to actuarial gains on defined benefit schemes of PLN 5,000.

Retained profits

Apart from net earnings for the current year attributable to shareholders of the Parent, the amount of retained profits consists of retained earnings, non-transferrable actuarial gain/(loss) on defined benefit schemes attributable to shareholders of the Parent, and capital arising from fair value measurement of property, plant and equipment as at the date on which the IAS/IFRS were first applied. The decrease in 2018 by PLN 624,867,000 results from the recognition of the net profit attributable to the shareholders of the Parent for the current year in the amount of PLN 53,626,000, actuarial losses on defined benefit schemes attributable to the shareholders of the Parent in the amount of PLN 5,212,000, and a transfer of the 2017 profit/loss to reserve capital in the amount of PLN 673,281,000.

Components of equity not subject to distribution

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



13. TRADE AND OTHER LIABILITIES

	As at 31 December	
	2018	2017
Trade liabilities	137,040	120,442
Other liabilities, including:	186,148	174,979
- <i>Company Social Benefits Fund</i>	214	563
- <i>Liabilities on security deposit</i>	3,421	2,578
- <i>Investment liabilities</i>	122,027	90,488
- <i>Salaries payable</i>	39,956	37,130
- <i>Liabilities on advance payments</i>	-	6,905
- <i>Other liabilities</i>	20,530	37,315
Total financial liabilities	323,188	295,421
Liabilities - social security and other tax payable	47,036	63,524
Trade and other liabilities	370,224	358,945
<i>Including:</i>		
- <i>Non-current</i>	39,675	43,007
- <i>Current</i>	330,549	315,938
Total	370,224	358,945

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

14. GRANTS

	As at 31 December	
	2018	2017
Non-current liabilities		
Grants	12,587	13,148
Current liabilities		
Grants	560	560
Total	13,147	13,708

The grant received should be settled in the full amount on the moment it is amortised in full, sold or if an asset financed with that grant is liquidated. The manner of disclosure of the grant is described in Note 2.20.

15. LOANS AND BORROWINGS

	As at 31 December	
	2018	2017
Long-term:	13,930	16,966
Special purpose loans	13,930	16,966
- <i>Regional Environmental Protection Fund in Lublin</i>	13,930	16,966
Short-term:	3,212	3,242
Special purpose loans	3,212	3,242
- <i>Regional Environmental Protection Fund in Lublin</i>	3,212	3,242



Total	17,142	20,208
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In 2014 the subsidiary Łęczyńska Energetyka received from the Regional Environmental Protection Fund in Lublin a special purpose loan intended for financing an investment "Construction of a water treatment facility in Bogdanka along with technological connections". The loan has been repaid in equal monthly instalments since November 2015. The due date for payment of the last instalment is 31 March 2024. The loan bears interest of 0.7 of the rediscount rate of bills of exchange set by the Monetary Policy Council (however not less than 4% annually). The loan is secured with a blank promissory note to the amount of PLN 34,554,000 as well as assignment of receivables under a heat sale agreement concluded with the Parent. In 2018 Łęczyńska Energetyka, with respect to the above loan, repaid a principal amount of PLN 3,036,000.

Further, the Parent holds an agreement for an overdraft facility with a limit of up to PLN 100,000,000, concluded with mBank S.A. (agreement signed on 16 December 2016). Under an annex of 30 November 2018 the Company may use this overdraft until 29 November 2019. Interest on the loan amounted to 1M WIBOR + bank margin. As at the balance-sheet date the limit was not used.

The facility is secured with:

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

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



Changes to the balance of liabilities due to loans and borrowings and the status as at 31 December 2018 and 2017 are presented in the table below:

	Regional Environmental Protection Fund in Lublin	TOTAL
As at 1 January 2018	20,208	20,208
Repayment of principal installments	(3,036)	(3,036)
Accrued interest	743	743
Interest paid	(773)	(773)
As at 31 December 2018	17,142	17,142
As at 1 January 2017	23,275	23,275
Repayment of principal installments	(3,036)	(3,036)
Accrued interest	863	863
Interest paid	(894)	(894)
As at 31 December 2017	20,208	20,208

16. FINANCIAL LIABILITIES ON ACCOUNT OF BOND ISSUE

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

As at 31 December 2018, the Group did not have liabilities on account of bond issue. The existing balance resulting from the Programme Agreement concluded by the Parent on 23 September 2013 with Bank Polska Kasa Opieki S.A. was settled in full. Under the Agreement 3,000 bonds in the aggregate amount of PLN 300,000,000 were issued, to be redeemed by 31 December 2018. The Parent redeemed tranches of 750 bonds per tranche (PLN 75,000,000) on 30 March, 2 July, 1 October, 31 December 2018. Interest on the bonds was based on WIBOR 3M plus a fixed margin.



Changes to the balance of liabilities due to bonds and the status as at 31 December 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	-	(300,000)	(300,000)
Accrued interest	-	4,601	4,601
Interest paid	-	(6,512)	(6,512)
As at 31 December 2018	-	-	-
As at 1 January 2017	150,019	450,061	600,080
Bond redemption	(150,000)	(150,000)	(300,000)
Accrued interest	869	8,410	9,279
Interest paid	(888)	(6,560)	(7,448)
As at 31 December 2017	-	301,911	301,911

17. FINANCIAL INSTRUMENTS

17.1. Financial instruments by category

	Financial assets measured at amortised cost	Total
Assets as disclosed in the consolidated statement of financial position		
Trade receivables	161,448	161,448
Other current investments	67	67
Cash and cash equivalents	299,072	299,072
As at 31 December 2018	460,587	460,587

	Liabilities measured at amortised cost	Total
Liabilities as disclosed in the consolidated statement of financial position		
Loans and borrowings	17,142	17,142
Trade and other financial liabilities as well as contract liabilities	259,584	259,584
As at 31 December 2018	276,726	276,726
Interest and commissions paid		
Interest	7,285	7,285
Total	7,285	7,285



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

	Other financial liabilities	Total
Liabilities as disclosed in the consolidated statement of financial position		
Loans and borrowings	20,208	20,208
Liabilities on account of bond issue	301,911	301,911
Trade and other financial liabilities	217,835	217,835
As at 31 December 2018	539,954	539,954
Interest and commissions paid		
Interest	8,342	8,342
Total	8,342	8,342

17.2. Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value.

Financial instruments measured at fair value may be categorised to the following valuation models:

- Level 1: quoted prices (unadjusted) for identical assets and liabilities in an active market,
- Level 2: data inputs, other than quoted prices used in Level 1, which are observable for given assets and liabilities, both directly (e.g. as prices) or indirectly (e.g. derived from provisions),
- Level 3: data inputs which are not based on observable market prices (unobservable data inputs).

As at 31 December 2018 and 31 December 2017 the Group held no financial instruments valued at fair value.



17.3. Financial risk factors

The Group is exposed to various types of financial risks connected with its activities, such as market risk (including cash flow risk resulting from change in interest rates), credit risk, currency risk, and liquidity risk. The Group's general programme for risk management focuses on ensuring sufficient liquidity to enable the Group to implement its investment projects and secure the Group's operating activity. The interest rate risk is managed in order to restrict the negative influence of market change in interest rates on cash flows to the extent that would be acceptable for the Group, and to minimise finance costs.

The risk is significantly concentrated only in the event of credit risk. In other cases such a concentration does not occur.

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

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

The Group is exposed to interest rate risk particularly in connection with loans but may also be related to its current and non-current debt instruments and bank loans. Loans, borrowings and bonds bearing interest at variable rates result in the Group's exposure to a change in cash flows resulting from changes in interest rates. Both in 2018 and in 2017 the Group used external financing denominated in the zloty.

The current total debt of the Group due to loans amounts to PLN 17 million (as at 31 December 2017 - PLN 20 million). As at the end of 2018 the Group had no debt on account of bond issue (as at the end of 2017 the debt on account of bond issue amounted to PLN 302 million). Bonds issued under the Programme Agreement were repaid in full by 31 December 2018. The total debt of the Group as at 31 December 2018 amounts to PLN 17 million (as at 31 December 2017 - PLN 322 million). Based on simulations it was determined that a 1 p.p. change in interest rates would increase or decrease, as applicable, the Company's gross profit by an amount lower or equal to PLN 171,000 (as at 31 December 2017: PLN 3.22 million) and increase or decrease, as applicable, the net profit by an amount lower or equal to PLN 139,000 (as at 31 December 2017: PLN 2.61 million).

Based on the 2018 and 2017 data concerning the Group's interest bearing assets, the sensitivity of the finance income changes to changes in interest rates has been assessed. The value of assets exposed to the interest rate risk as at 31 December 2018 with respect to bank deposits of free cash (including those classified as other current investments) amounts to PLN 170,860,000 (as at 31 December 2017 - PLN 434,928,000), and with respect to Mine Closure Fund assets - PLN 128,279,000 (as at 31 December 2017 - PLN 121,806,000). The change in finance income is presented in the table below:

Impact of changes of interest rates on finance income from deposits as at 31 December 2018:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(1,709)	(854)	854	1,709

Impact of changes of interest rates on finance income from deposits as at 31 December 2017:

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

The value of assets relating to Mine Closure Fund exposed to interest rate risk amounts to PLN 128,279,000 as at 31 December 2018 (PLN 121,806,000 as at 31 December 2017).



Impact of changes in interest rates on finance income under funds deposited to the Mine Closure Fund as at 31 December 2018:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(1,283)	(641)	641	1,283

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

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

17.3.2. Foreign currency risk

The Group enters into transactions denominated in foreign currencies. It brings about a risk of exchange rate fluctuations. The Group is exposed mostly to a risk of changes in EUR/PLN and USD/PLN exchange rates. In 2018 no material currency exchange transactions were concluded. Such transactions were concluded by the Group in previous years in relation to purchases of specialised plant and equipment, however the Group expects such transactions to reoccur soon as it has become necessary to renew its machine park (specialised plant and equipment used in mining).

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

The fair value measurement of currency forwards is determined based on discounted future cash flows from concluded transactions, calculated based on a difference between the forward price and the transaction price. The forward price is determined based on fixing rates at the National Bank of Poland and interest rate curve implied from FX swap transactions.

As at 31 December 2018 and 31 December 2017 the Group did not hold instruments hedging the currency exchange risk (all currency forwards being the instruments hedging future cash flows have been settled by the end of 2015).

As at 31 December 2018 the Group had no financial assets exposed to the currency risk (as at the end of 2017 the figure totalled PLN 1,010,000). The financial liabilities exposed to the currency risk as at 31 December 2018 amounted to PLN 1,389,000 (as at 31 December 2017: PLN 1,010,000) and related to liabilities on account of a purchase of materials. An increase or decrease in a currency exchange rate by 1% would not affect the consolidated pre-tax earnings in any manner.

17.3.3. Credit risk

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



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

	As at 31 December	
	2018	2017
Cash in hand and bank deposits*	299,139	556,734
Current trade receivables	161,448	172,743
Total exposure to credit risk	460,587	729,477
Receivables from 7 key customers	153,099	168,017
Concentration of credit risk under receivables from 7 key customers	95%	97%
Cash deposited at Banku Gospodarstwa Krajowego S.A. (expressed as % of total cash and bank deposits)	47%	54%
Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits)	45%	41%
Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits)	2%	2%
Cash deposited at BOŚ S.A. (expressed as % of total cash and bank deposits)	2%	2%
Cash deposited at mBank S.A. (formerly BRE Bank S.A.) (expressed as % of total cash and bank deposits)	2%	1%
Cash deposited at PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	1%	-
Cash deposited at Alior Bank S.A. (expressed as % of total cash and bank deposits)	1%	-

*The disclosed amount includes Other current investments of PLN 67,000.

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

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

- - Bank Millennium S.A. - long-term Fitch rating (IDR): BBB- (stable)
- - Bank PEKAO S.A. - long-term Fitch rating (IDR): BBB+ (stable)
- PKO Bank Polski S.A. - no Fitch support rating (and no long-term Fitch rating); deposits long-term Moody's rating: A2 (stable)
- - Bank Gospodarstwa Krajowego - long-term Fitch rating (IDR): A- (stable)
- - mBank S.A. - long-term Fitch rating: BBB (stable)
- Bank Ochrony Środowiska S.A. - long-term Fitch rating (IDR): BB (stable)
- - Alior Bank S.A. - long-term Fitch rating (IDR): BB (stable).



17.3.4. Liquidity risk

Conservative management of liquidity risk consists in, inter alia, maintaining appropriate amounts of cash and ensuring availability of financing through securing credit facilities of appropriate size. The Management Board monitors the current forecasts concerning the Group's liquid assets (comprising available credit facilities as well as cash and cash equivalents) based on estimated cash flows. By making this forecast, deviations between actual cash flow and the demand for cash are eliminated.

On 16 December 2016, the Parent's Management Board entered with mBank S.A. into a revolving overdraft facility agreement with a limit of PLN 100 million. Under an annex of 30 November 2018 the Company may use this overdraft until 29 November 2019.

The table below presents an analysis of the Group's financial liabilities by remaining contractual maturity as from the balance-sheet date. The amounts presented in the table are contractual, non-discounted cash flows. The balance to be repaid within 12 months is presented in carrying amounts increased by interest (if any).

As at 31 December 2018	less than 1 year	1 up to 2 years	2 up to 5 years	more than 5 years
Loans and borrowings	3,834	3,539	9,883	1,810
Trade and other liabilities	219,909	4,942	14,387	31,214

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

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

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

Based on the 2018 data concerning the Group's core business, the sensitivity of the financial result to changes in market risk factors (prices of coal) has been assessed.

The assessment indicates that a 1% increase in the unit price of coal (translating into a 1% increase in revenues from the sale of coal) results in a rise of the result on sales (gross profit - administrative expenses - selling costs) by 8.0%. Similarly, a 1% decrease in the coal price reduces the result on sales (gross financial result - administrative expenses - selling costs) by 8.0%.

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

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in result	-119.6%	-79.7%	-39.9%	-16.0%	-8.0%	0.0%	8.0%	16.0%	39.9%	79.7%	119.6%

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

17.4. Managing capital risk

The Group's objective in the area of managing capital/financial risk is to protect the Group's ability to continue as going concern, in particular ensuring financing for investments being made as well as ensuring relevant funding for on-going activities to allow the liabilities to be



paid on due dates. The Group's objective in the area of managing financial risk includes maintaining the optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may change the amount of dividend declared to be paid to shareholders, refund capital to shareholders, issue new shares or dispose of assets with a view to reducing indebtedness.

In the area of capital management, the Group focuses on managing cash and cash equivalents, and debts under contracted loans and borrowings as well as debts which may possibly result from future bond issues.

The Group has contracted loans and until the end of 2018 it also had financial liabilities due to the bond issue for the financing of current operations and investment activities.



The table below shows the relation between the net debt and the capital employed:

	As at 31 December	
	2018	2017
Total loans and borrowings	17,142	20,208
Financial liabilities on account of bond issue	-	301,911
Net of cash and cash equivalents and other current investments	(299,139)	(556,734)
Net debt	(281,997)	(234,615)
Total equity	2,950,116	2,901,527
Employed capital	2,668,119	2,666,912

18. PROVISIONS FOR EMPLOYEE BENEFITS

	As at 31 December	
	2018	2017
Provisions as disclosed in the consolidated statement of financial position:		
Retirement and disability benefits	51,000	43,438
Long service awards	98,427	92,276
Voluntary Redundancy Programme	233	5,143
Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	15,496	16,164
Total	165,156	157,021

	for the financial year from 1 January to 31 December	
	2018	2017
Costs recognised in the consolidated income statement:		
Retirement and disability benefits	4,640	10,339
Long service awards	14,813	20,805
Coal allowances in kind	-	(139,663)
Voluntary Redundancy Programme	(2,751)	(8,021)
Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	8,746	22,181
Total	25,448	(94,359)

In 2018 the balance of provisions for employee benefits was not subject to such significant changes as in 2017. Such a significant drop in provisions as at the end of 2017 was a result of an agreement concluded by the Management Board of the Parent signed on 17 October 2017 with the trade unions active at Lubelski Węgiel Bogdanka S.A. to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners of the Parent. As a result of signing the agreement, the existing retirees and pensioners, for whom the Parent was the last place of employment, have lost their right to free coal. Further, in consequence of the Act on the benefit to compensate for the loss of the right to free coal becoming effective on 12 October 2017, these persons may benefit from a one-off compensation in the amount of PLN 10,000.

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



The total effect of all operations connected with coal allowances and the agreement signed with trade unions in this regard on the Group's consolidated profit/loss for 2017 amounted to circa PLN 114,931,000.

The Company plans to make further payments in 2019 to compensate for the loss of the right to free coal. As in previous cases the Parent will be only an intermediary in this process, because a direct obligation for compensation was taken over by the State Treasury. For that reason the Parent will not disclose in the consolidated financial statements either costs connected with paid compensation or revenue from received subsidy for payment of funds.

In 2018 the Parent 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 2,751,000, was released.

	for the financial year from 1 January to 31 December	
	2018	2017
Costs recognised in the consolidated statement of comprehensive income regarding the distribution of actuarial gains and losses resulting from demographic assumptions, financial assumption and other changes:		
Retirement and disability benefits	6,765	1,345
Coal allowances in kind	-	28,632
Other benefits for employees (death benefits)	(337)	66
Total	6,428	30,043

Change in provisions for employee benefits liabilities:

	for the financial year from 1 January to 31 December	
	2018	2017
As at 1 January	157,021	266,981
Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	19,030	28,297
Costs of past employment	-	(138,520)
Interest expense	3,898	6,843
Actuarial losses as recognised in the consolidated income statement	2,520	9,021
Actuarial losses as recognised in the consolidated statement of comprehensive income	6,428	30,043
Recognised in the comprehensive income, total	31,876	(64,316)
Benefits paid	(23,741)	(45,644)
As at 31 December	165,156	157,021
<i>Including:</i>		
- non-current	132,347	119,532
- current	32,809	37,489

Amounts disclosed in the consolidated income statement and in the consolidated statement of comprehensive income in 2018 are as follows:

	Benefits during employment	Post-employment benefits	Total
Liabilities as at 1 January	110,319	46,702	157,021



Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	15,112	3,918	19,030
Interest expense	2,687	1,211	3,898
Actuarial gains/(losses) as recognised in the consolidated income statement	2,520	-	2,520
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	-	6,428	6,428
Recognised in the consolidated statement of comprehensive income, total	20,319	11,557	31,876

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

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

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

	for the financial year from 1 January to 31 December	
	2018	2017
Costs of products, goods and materials sold	19,342	(90,636)
Selling costs	2,087	(567)
Administrative expenses	121	(9,999)
Finance costs	3,898	6,843
Recognised in the consolidated income statement, total:	25,448	(94,359)
Actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	6,428	30,043
Recognised in the consolidated statement of comprehensive income, total	31,876	(64,316)



Key actuarial assumptions used in the valuation

	As at 31 December	
	2018	2017
Discount rate	3.22%	3.26%
Employee mobility	0.71%	1.10%
Increase in salaries and wages in the subsequent year	2.50%	2.00%
Increase in salaries and wages in 2020 (2017: in 2019)	2.50%	2.20%
Increase in salaries and wages from 2021 (2017: from 2020)	2.50%	2.50%

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

	As at 31 December	
	2018	2017
Men	15.93	16.00
Women	24.34	24.46

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

	As at 31 December	
	2018	2017
Retirement and disability benefits	13.35	13.32
Length-of-service awards	9.30	10.25
Death benefits	8.29	11.68



19. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Provision for 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	11,804	42,353	21,340	5,839	200,218
<i>Including:</i>							
<i>Non-current</i>	114,448	-	-	-	-	-	114,448
<i>Current</i>	-	4,434	11,804	42,353	21,340	5,839	85,770
Recognition in the consolidated statement of financial position							
- <i>Update of the provision created</i>	3,688	-	-	-	-	-	3,688
Recognition in the consolidated income statement							
- <i>Creation of additional provisions</i>	2,340	289	383	5,986	-	227	9,225
- <i>Use of the created provision</i>	-	(1,539)	(205)	(9,845)	-	(2,282)	(13,871)
- <i>Release of an unused provision</i>	-	-	(598)	-	-	(3,578)	(4,176)
- <i>Interest</i>	-	-	293	2,937	1,318	-	4,548
- <i>Discount settlement</i>	3,731	-	-	-	-	-	3,731
As at 31 December 2018	124,207	3,184	11,677	41,431	22,658	206	203,363
<i>Including:</i>							
<i>Non-current</i>	124,207	-	-	-	-	-	124,207
<i>Current</i>	-	3,184	11,677	41,431	22,658	206	79,156
As at 1 January 2017	117,423	4,440	10,870	32,456	20,042	3,044	188,275
<i>Including:</i>							
<i>Non-current</i>	117,423	-	-	-	-	-	117,423
<i>Current</i>	-	4,440	10,870	32,456	20,042	3,044	70,852
Recognition in the consolidated statement of financial position							
- <i>Update of the provision created</i>	(8,274)	-	-	-	-	-	(8,274)
Recognition in the consolidated income statement							
- <i>Creation of additional provisions</i>	1,541	4,434	641	6,896	-	4,959	18,471
- <i>Use of the created provision</i>	-	(1,801)	-	-	-	(2,164)	(3,965)
- <i>Release of an unused provision</i>	-	(2,639)	-	-	-	-	(2,639)
- <i>Interest</i>	-	-	293	3,001	1,298	-	4,592
- <i>Discount settlement</i>	3,758	-	-	-	-	-	3,758
As at 31 December 2017	114,448	4,434	11,804	42,353	21,340	5,839	200,218
<i>Including:</i>							
<i>Non-current</i>	114,448	-	-	-	-	-	114,448
<i>Current</i>	-	4,434	11,804	42,353	21,340	5,839	85,770

Mine closure and land reclamation

The Group creates a provision for costs of mine closure and land reclamation, which it is obliged to incur under current laws. The value of costs of mine closure and land reclamation calculated as at 31 December 2018 amounts to: PLN 124,207,000 including provision for mine closure of PLN 112,566,000 and provision for land reclamation of PLN 11,641,000. The change in provision compared to 31 December 2017 was PLN 9,759,000; the increase resulting from creating an additional provision of PLN 2,340,000 and an increase resulting from the discount write-off of PLN 3,731,000 were recognised in the consolidated income statement under "Costs of products, goods and materials sold" and "Finance costs", respectively, while an increase caused by update of assumptions, totalling PLN 3,688,000, was recognised in the consolidated statement of financial position as an increase in "Property, plant and equipment".

Removing mining damage

Given the need of removing mining damage, the Group creates a provision for mining damage. The estimated value of works necessary to remove damage as at 31 December 2018 amounts to PLN 3,184,000, and covers predominantly planned costs which will have to be incurred in connection with removal of damage in buildings, buy-out of developed



properties (where damage appeared) and compensations for damage to agricultural land. In 2018 the amount of the used provision totalled PLN 1,539,000 (PLN 1,801,000 in the whole 2017).

Legal claims

The amount disclosed constitutes a provision for certain legal claims filed against the Group by customers and suppliers. The value of made/released provisions in the current period is disclosed in the consolidated income statement under other income/expenses. In the Management Board's opinion, supported by appropriate legal opinions, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 31 December 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. The essence of the dispute between the Parent and territorial units was elaborated on by the Group in financial statements for previous years, including the consolidated financial statements of the Group for 2017. The point is that while preparing statements for real property tax, the Parent (like other mining companies in Poland) does not take into account the value of underground mining excavations or the value of equipment installed there, for the purpose of calculating this tax.

In connection with decisions issued by the Commune Heads and the Local Government Appellate Court in Lublin, determining real property tax of the Parent for 2008-2013 with respect to all communes, the amounts of real property tax calculated for 2014-2018 were adjusted. The adjustment of the tax provision calculated for the above years was supported by a risk that in tax proceedings relating to these years, the tax authorities will decide in the same way as in relation to 2008-2013. Having taken the above into account, the provision disclosed in the Parent's books as at 31 December 2018 (disclosed in the consolidated statement of financial position under "Provisions for other liabilities and charges") in the amount of PLN 41,431,000 (31 December 2017: PLN 42,353,000) represents a provision for real property tax liabilities, if any, and interest thereon for 2013-2018 with respect to all communes, should the tax authorities determine that mining excavations of the Parent contain objects constituting structures on which real property tax is chargeable. The values connected with real property tax are disclosed in the consolidated income statement under "Cost of products, goods and materials sold."

During 2014-2017 mutual receivables and liabilities regarding the real property tax were partially compensated.

At the end of 2018 decisions issued by the Commune Heads and determining real property tax for the Parent for 2013 (Ludwin, Puchaczów and Cyców Communes) were upheld by the Local Government Appellate Court, and so it was decided to make the settlement of real property tax receivables and liabilities. As a result of the settlement, a provision, created earlier, was used in the amount of PLN 9,485,000 (mainly using the amount was in a set-off with overpayments made by the Parent).

It should be stressed that the Parent takes all legal steps in order to challenge effectively the grounds for the fact of assessing by tax authorities the real property tax in relation to the infrastructure situated in underground mining excavations. The abovementioned legal steps consist in, without limitation, filing appeals against the decisions of tax authorities to the Provincial Administrative Court and next, if necessary, to the Supreme Administrative Court.

Concurrently with the made provision, based on the above, in connection with the payments of the real property tax made in 2014, 2015, 2017 and 2018 (overpayments charged to liabilities) on account of real property tax regarding underground mining excavations, as at 31 December 2018 the Parent calculated income due for those years for the overpaid real property tax, in the amount of PLN 4,877,000 (as at 31 December 2017: PLN 5,786,000). They are disclosed in the consolidated statement of financial position as current assets under "Trade debtors and other receivables".

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



The percentage rate of a contribution for accident insurance, determined by the Social Security Institution based on ZUS IWA documents (Information on data required for calculation of contribution for accident insurance) and an adjustment of ZUS IWA document for 2012 submitted by the Parent, was 3.09% for the settlement period from 1 April 2013 to 31 March 2014 and 2.70% for the settlement period from 1 April 2014 to 31 March 2015. In its Decision No. 7/2014 of 18 June 2014, the Social Security Institution, Branch in Lublin, determined the percentage rate of a contribution for accident insurance for the Parent. Having taken into account ZUS IWA adjustments for the years of 2011 and 2012 (made *ex officio*), the authority determined the percentage rate of a contribution for accident insurance at 3.47% for the settlement period from 1 April 2013 to 31 March 2014 and at 3.09% for the settlement period from 1 April 2014 to 31 March 2015. In addition, pursuant to Article 34 of the Act on Social Insurance against Accidents at Work and Occupational Diseases and Article 83.1.3 of the Act on Social Insurance System, the Social Security Institution determined for the Parent the percentage rate of a contribution for accident insurance increased by 50% for the above contributory years, i.e. at 5.21% for the contributory year from 1 April 2013 to 31 March 2014 and at 4.64% for the contributory year from 1 April 2014 to 31 March 2015. On 25 July 2014 the Parent filed an appeal to the Regional Court in Lublin, against the above decision, requesting that it be cancelled and proceeding be discontinued, or in the alternative that the Court change the decision appealed against and decide that the Parent is not required to pay the contribution for accident insurance at the rate increased by 50%, as well as decide that the percentage rate of the contribution for the above contributory years should be 3.09% and 2.7% respectively. On 20 January 2015, the first hearing in the case was held, during which the Court admitted all evidence from documents as requested by the Parent, adjourned the case without stating any date of the adjourned hearing, and informed that the Parent's request for admitting evidence from opinions of expert doctors would be analysed at a hearing in camera. The hearing took place on 6 February 2015, when the Court decided to admit evidence in the form of a joint opinion of court expert physicians.

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

The Social Insurance Institution Lublin Branch appealed against the aforesaid judgement. On 21 November 2017 an appeal trial was held during which the Court of Appeal in Lublin recognised the appeal filed by the Social Insurance Institution from the judgment of 7 February 2017. The Court of Appeal issued a judgment in which it dismissed the appeal filed by the Social Insurance Institution. On 15 January 2018 a copy of the aforementioned ruling of the Court of Appeal was delivered to the Parent. On 12 March 2018 the Social Insurance Institution Lublin Branch filed a cassation appeal against the aforesaid judgement to the Supreme Court.

On 17 January 2019 the Supreme Court held a closed session with a view to considering the recognition by the Supreme Court of a cessation appeal lodged by the Social Insurance Institution. The Supreme Court decided to recognise the appeal. The date of recognition of the appeal has not been set yet.

At present, the judgment is not final and legally binding. According to the assessment of the Parent's Management Board, the matter will be resolved at the end of 2019 at the earliest.

The Management Board of the Parent believes that given a complex nature of the case, the risk of outflow of economic benefits is high, before the above dispute is finally resolved.

After taking the above into account, the provision disclosed in the Parent's books as at 31 December 2018 and amounting to PLN 22,658,000 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 6,260,000).

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 5,633,000 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 Company bought and used in 2017. Moreover, in the first half of 2018, the Management Board of the Parent 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 is presented in Note 29.



20. REVENUE FROM CONTRACTS WITH CUSTOMERS

	for the financial year from 1 January to 31 December	
	2018	2017
Sale of coal	1,707,797	1,725,221
Other activities	30,099	41,807
Sale of goods and materials	18,775	13,293
Revenue from contracts with customers	1,756,671	1,780,321

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

- Contracts for the sale of coal, relating to the core activities of the Group; those contracts may be of two types - with transport service (where the Company arranges transport for the customer) or without transport service.
- Contracts for the sale of goods and materials, relating mainly to the sale of scrap; revenue from such sales accounts for a slight share in the total consolidated revenue. The total value of all revenue on that account in 2018 amounted to PLN 18,775,000.
- Contracts relating to the sale of other services, in which the largest portion relates to revenue from renting space in the bath - the so called hook places and closets. The service is provided almost exclusively to the Parent's subcontractors (providing services within the scope of mining works), whose employees are required to use the bath under occupational and safety regulations. The total value of consolidated revenue from renting bath space in 2018 amounted to PLN 9,373,000.

21. COSTS BY TYPE

	for the financial year from 1 January to 31 December	
	2018	2017
Depreciation/amortisation	407,164	356,372
Materials and energy consumption	555,112	479,448
Outsourced services	450,893	377,171
Employee benefits	629,019	606,284
Entertainment and advertising costs	8,822	6,738
Taxes, fees and charges	41,915	40,461
Other expenses by type	17,403	7,148
Total costs by type	2,110,328	1,873,622
Activities for the Company's own needs	(301,641)	(285,370)
Accruals and deferrals	1,346	6,978
Value of coal obtained from excavations	(113,225)	(63,887)
Provisions and other presentation adjustments between costs by type and by function	20,752	(125,658)
Release of impairment loss on the property, plant and equipment and intangible assets (Note 4.3)	-	(495,982)
Total production cost	1,717,560	909,703
Change in inventory of products	(7,755)	11,614
Costs of goods and materials sold	18,654	12,862
Own cost of sales, including:	1,728,459	934,179
- <i>Costs of products, goods and materials sold</i>	<i>1,583,971</i>	<i>859,161</i>
- <i>Selling costs</i>	<i>42,996</i>	<i>41,115</i>
- <i>Administrative expenses</i>	<i>101,492</i>	<i>33,903</i>



22. OTHER INCOME

	for the financial year from 1 January to 31 December	
	2018	2017
Compensations and damages received	2,014	1,954
Settlement with the Mostostal & Acciona Infraestructuras Consortium and with the Wonam Group	31,165	-
Other,	1,442	3,150
<i>including:</i>		
- Release of used provisions for liabilities	130	786
- Release of impairment losses	65	2,063
- return of the excise tax	759	-
- Other income	488	301
Total other income	34,621	5,104

23. OTHER COSTS

	for the financial year from 1 January to 31 December	
	2018	2017
Grants	(219)	(401)
Enforcement fees and penalties	(85)	-
Compensation	(631)	(602)
Other	(183)	(158)
Total other costs	(1,118)	(1,161)

24. OTHER PROFIT / (LOSS) - NET

	for the financial year from 1 January to 31 December	
	2018	2017
(Profit)/(loss) on sale of non-current assets	2,639	(460)
Currency exchange differences	(20)	(104)
Impairment losses due to impairment of construction in progress	-	(1,284)
Other,	(2,307)	(967)
Total other profit / (loss) - net	312	(2,815)

25. FINANCE INCOME AND COSTS

	for the financial year from 1 January to 31 December	
	2018	2017
Interest income on short-term bank deposits	5,109	5,331
Other income, including:	9,433	1,922
- Interest regarding the Mine Closure Fund	1,800	1,705
- 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	1,302	217
Total finance income	14,542	7,253



Interest and commissions on bank loans, borrowings and bonds	(1,214)	(5,541)
Interest expense on valuation of employee benefits	(3,898)	(6,843)
Settlement of discount on regarding provision for the Mine Closure Fund and land reclamation	(3,731)	(3,758)
Creation of a provision and impairment losses of interest	(978)	(7,617)
Provision for interest on claims of the Social Security Institution (ZUS) for contribution for accident insurance	(1,318)	(1,298)
Other cost	(510)	(705)
Total finance costs	(11,649)	(25,762)
Finance income / (costs) - net	2,893	(18,509)

26. INCOME TAX

26.1. Tax burden

	for the financial year from 1 January to 31 December	
	2018	2017
Current tax	1,360	5,760
Deferred tax charged into finance income	9,764	155,076
Deferred tax charged into other comprehensive income:	(1,221)	(5,708)
- as actuarial gains/(losses) as recognised in the consolidated statement of comprehensive income	(1,221)	(5,708)
Total	9,903	155,128

26.2. Reconciliation of an effective tax rate

	for the financial year from 1 January to 31 December	
	2018	2017
Profit before taxation	64,920	828,761
Tax calculated at the rate of 19%	12,335	157,465
Correction of income tax for 2012-2014	(1,906)	-
Tax effect of income permanently excluded from the taxable base, including:	(2,275)	(502)
- revenue due in respect of the real property tax	(1,195)	(223)
- release of unused provision for interest on income tax	(680)	-
- other	(400)	(279)
Tax effect of costs permanently excluded from the taxable base	2,970	3,873
- payment to the National Fund for the Disabled	1,202	1,003
- provision for interest on real property tax	558	581
- impairment loss for interest receivable from the central budget and interest payable to the central budget	529	928
- donations	12	74
- other interest	66	482
- other	603	805
Decrease in financial result by the income tax	11,124	160,836

Income tax in the consolidated financial statements was determined with the application of nominal interest rate for 2018 amounting to 19.0% (2017: 19.0%). The deviation of the effective tax rate in 2018 from the 19% rate is primarily a result of a one-off influence of the adjustment in the income tax for previous years.

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 Parent 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 Parent for the purpose of corporate income tax in a way that differs from the classification presented by the Parent, which could potentially result in adjustments in corporate income tax settlements and the payment of an additional amount of tax. Such amount could be significant.

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

The above risk was somewhat confirmed during customs and tax inspection regarding CIT for 2015 and 2012 which has been in progress at the Parent 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 Parent's approach to tax treatment of wall reinforcements and costs of making movable excavations, and questioned the settlements made as being correct. In the opinion of the Parent, the approach applied to date is in conformity with the applicable tax law and the same as the approach of other entities operating in the mining industry, which is supported by available tax rulings. At the moment, however, the opinions of the Parent and the tax authority are different. A more detailed description of the customs and tax inspection carried out at the Parent is presented in Note 29 "Contingent items".

20.3. Deferred income tax

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



	As at 31 December	
	2018	2017
Deferred tax assets		
- to be realised after 12 months	44,037	38,377
- to be realised within 12 months	11,689	10,913
Total deferred tax assets	55,726	49,290
Deferred income tax liability		
- to be realised after 12 months	256,472	247,955
- to be realised within 12 months	11,107	4,645
Total deferred tax liabilities	267,579	252,600
Deferred tax assets (net)	1,833	2,024
Deferred tax liabilities (net)	213,686	205,334

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

Change in deferred income tax assets

Deferred tax assets	Provisions for employee benefits and similar	Unpaid remuneration and other benefits	Provision for real property tax	Other balance-sheet provisions	Provision for mining damage	Other	Total
As at 1 January 2018	29,888	4,258	6,663	5,696	843	1,942	49,290
(Decrease)/increase of the financial result	1,658	(604)	(138)	5,815	(238)	(57)	6,436
- recognised in the consolidated income statement	437	(604)	(138)	5,815	(238)	(57)	5,215
- recognised in the consolidated statement of comprehensive income	1,221	-	-	-	-	-	1,221
As at 31 December 2018	31,546	3,654	6,525	11,511	605	1,885	55,726
As at 1 January 2017	50,773	4,741	5,353	5,620	844	2,034	69,365
(Decrease)/increase of the financial result	(20,885)	(483)	1,310	76	(1)	(92)	(20,075)
- recognised in the consolidated income statement	(26,593)	(483)	1,310	76	(1)	(92)	(25,783)
- recognised in the consolidated statement of comprehensive income	5,708	-	-	-	-	-	5,708
As at 31 December 2017	29,888	4,258	6,663	5,696	843	1,942	49,290

Projections prepared for the Group suggest that tax income will be generated in 2019 and in the subsequent years. Based on these projections, it was concluded that there is no risk of failure to realise deferred tax assets recognised in these consolidated financial statements.

Change in deferred income tax liability

Deferred tax liabilities	Valuation of non-current assets	Costs of panel strengthening	Provision for mine closure and land reclamation, net*	Real property tax receivable	Other	Total
As at 1 January 2018	238,367	4,524	8,369	616	724	252,600



(Decrease)/increase of the financial result, including:	16,254	(1,212)	(183)	(79)	199	14,979
- recognised in the consolidated income statement	16,254	(1,212)	(183)	(79)	199	14,979
As at 31 December 2018	254,621	3,312	8,186	537	923	267,579

As at 1 January 2017	109,698	4,063	7,503	802	1,241	123,307
(Decrease)/increase of the financial result, including:	128,669	461	866	(186)	(517)	129,293
- recognised in the consolidated income statement	128,669	461	866	(186)	(517)	129,293
As at 31 December 2017	238,367	4,524	8,369	616	724	252,600

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

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

26.4. Current income tax - receivables and liabilities

Receivables related to the overpayment of current income tax in the amount of PLN 11,835,000 which are disclosed in the consolidated statement of financial position are mainly a result of an overpayment of the Parent's corporate income tax due for 2018.

Receivables related to the overpayment of current portion of the income tax for 2017 as disclosed in the consolidated statement of financial position as at the end of the previous year was in 2018 partially set off with other tax liabilities in the amount of PLN 423,000; PLN 13,591,000 was returned to the Group in June 2018, and the remaining amount was settled against current income tax liabilities.

27. EARNINGS PER SHARE

Basic

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

	for the financial year from 1 January to 31 December	
	2018	2017
Earnings attributable to owners of the Company	53,626	667,613
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN)	1.58	19.63

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. As at 31 December 2018, the Parent held instruments resulting in potential dilution of ordinary shares due to the introduction of the Management Options Scheme in 2013. The existence of subscription warrants granted under the Management Options Scheme has no significant bearing on the calculation of the diluted earnings per share.



28.

At the Annual General Shareholders Meeting held on 25 June 2018, the Shareholders of the Parent 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 the Parent adopted resolution No. 25 on distribution of profit for 2017. Under the resolution, the entire net profit of the Parent amounting to PLN 673,281,000 was allocated for reserve capital.

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

	for the financial year from 1 January to 31 December	
	2018	2017
Dividend paid	-	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 owners of the Parent and the number of ordinary shares as at the dividend date.

The Management Board of the Parent is analysing the possibility of paying the dividend for 2018. On the date of these consolidated financial statements, the decision on the distribution of profit for 2018 was not yet taken. Recommendation of the Parent's Management Board regarding profit distribution for 2018 is expected to be issued in the middle of the second quarter 2019.

29. CONTINGENT ITEMS

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

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 Parent to verify the compliance with the tax law with respect to corporate income tax ("CIT") for 2015. In the meantime, the Tax Authority had broadened the customs and tax inspection to include the years 2012-2014. On 25 January 2018 a copy of the Inspection Findings for 2015 was delivered to the Parent. Following the inspection, the Tax Authority questioned the approach applied to date by the Parent 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. This resulted in tax arrears for the Parent in the amount of PLN 30,771,000 (in relation to the costs of drilling galleries and wall reinforcements). The Parent did not agree with the Inspection Findings, as a result of which on 26 February 2018 the Parent received a Decision to transform the customs and tax inspection into tax proceedings in respect of compliance with tax law regarding 2015 CIT.

As regards the inspection concerning 2012, on 14 June 2018 the Parent received both the Inspection Report and the 2012 CIT Inspection Findings, which, as was the case with the inspection concerning 2015, challenged the Parent's approach with regard to the point when hard coal extraction costs were charged as tax deductible business expenses. This resulted in tax arrears in the amount of PLN 32,981,000 for the Parent. The Parent did



not agree with the Inspection Findings, as a result of which on 4 July 2018 the Parent was served a Decision to transform the customs and tax inspection into tax proceedings regarding 2012. As a result of the proceedings, on 24 September 2018 the Parent received a Decision issued by the Head of the Customs and Tax Office of Lublin in which the Customs and Tax Office claimed that the Parent had understated its tax liability for 2012 by the amount of PLN 22,526,000. The Parent did not accept the above Decision, therefore on 8 October 2018 it filed an appeal from the Decision and presented its objections to the above; in subsequent communication of November and December 2018 the Parent made additional explanations to support its position. As at the present moment the Decision is not final, and the Parent awaits the resolution by the body of second instance, which was first expected to be issued in mid-December 2018, but due to the complex nature of the case the appeal procedure was extended until 10 May 2019.

The customs and tax inspection for the years 2013-2014 is still pending. In a letter dated 31 December 2018, the Tax Authority informed the Parent about its decision to extend the customs and tax inspection regarding the years 2013-2014 up until 4 April 2019.

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 Parent on the costs of drilling galleries and wall reinforcements. In relation to both tax proceedings, the Parent 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 Parent 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 Parent'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 Parent, 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. In both cases the Tax Authority ultimately considered the Parent's approach to have been correct; or in the second case, the Court, on the basis of the presented evidence, considered the Parent's approach to have been correct and reversed the decision issued by the Tax Authority. Therefore, with the above rulings to support its position, the Parent believes that there was no need 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.

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 Parent 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 reference to the tax arrears for 2012, stated in the Decision of the Head of the Customs and Tax Office dated 24 September 2018, established in the amount of PLN 22,526,000, potential interest on this liability (in case the position of the Tax Authority is ultimately upheld) would amount to approx. PLN 11,373,000 as at 31 December 2018.

Taking into account all the arguments presented during the inspection, in particular the consistent approach applied by the Parent 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 Parent disagrees with the position of the Tax Authority expressed in the Tax Decision for 2012 and in the Inspection Findings for 2015.

In the opinion of the Management Board, the probability that the final resolution of the dispute is unfavourable for the Parent 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 Parent, 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 11,373,000) is being disclosed as a contingent liability.

Real property tax

The contingent liability concerning the value of mining excavations from which the Parent does not create a provision (provision for real property tax, in its parts deemed as probable by the Parent, amounts to PLN 41,431,000 and is presented in Note 19), may primarily result from the existing discrepancies between the position of the Parent and the position of tax authorities with respect to the subject of that tax. The issue revolves around the question of whether there are in the mining excavations any structures within the meaning of the Act on Local Taxes and Charges which would be subject to the property tax. The discrepancies may also occur with regard to the value of particular facilities – in the event that it is agreed that the facilities are subject to the real property tax. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 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 Parent from which the Parent does not create provision may primarily result from impossibility to assess whether the claim in question is justified and different positions taken by the Parent and the co-inventors of inventions covered with the abovementioned patents. The value of the possible liability as at the day of publishing these consolidated financial statements amounts to PLN 48 million. The Parent estimated a provision for remuneration for co-inventors to the best of its knowledge and in line with principles so far applied at the Parent when calculating remunerations for inventors. The item provisions for legal claims shows a provision for legal claims regarding remuneration for co-inventors of inventions covered by patents No. 206048 and 209043, used at the Parent. The amount of remuneration will be subject to analysis of court experts or experts accepted by both parties, to be made upon drafting a technical opinion regarding the patented inventions. On 24 March 2016 a court expert issued an opinion. Subsequently, during the course of 2016, both parties submitted a number of reservations to the opinion. 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 hearing 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. On 13 November 2018 a hearing took place, during which the Court informed the parties that the University of Science and Metallurgy had not provided the opinion yet, therefore it was considering taking disciplining actions towards the expert. Another hearing was scheduled to take place on 2 July 2019. 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).

30. FUTURE CONTRACTUAL LIABILITIES

Investment liabilities

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

	As at 31 December	
	2018	2017



Property, plant and equipment	129,790	188,793
Investment liabilities	129,790	188,793

Future contractual liabilities include mainly agreements for mining works and depend on the amount of scheduled preparatory works (drilling excavations).

31. OPERATING LEASE

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

	As at 31 December	
	2018	2017
Less than 1 year	3,702	3,926
From 1 year to 2 years	1,690	3,350
From 2 to 5 years	2,078	2,272
More than 5 years	38,402	29,847
Minimum future payments	45,872	39,395

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

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

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

During the period ended on 31 December 2018, the costs of the operating lease recognised in the consolidated income statement amounted to PLN 5,281,000 (during the period ended on 31 December 2017: PLN 5,357,000).

Introducing the new standard IFRS 16 "Leases" as of 1 January 2019 will trigger significant changes in the value of minimum future payments, as disclosed so far, on account of irreversible operating lease agreements as a large portion of agreements (and so the resulting payments) will be classified as financial leases. As the Group estimates, when it starts applying IFRS 16 the total value of minimum future payments related to irreversible operating lease agreements shall not exceed PLN 1,000,000.

32. RELATED PARTY TRANSACTIONS

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

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



The Group also 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 Ciepłej Sp. z o.o. in Chełm.

In the reporting periods ending on 31 December 2018 and 31 December 2017, the value of sales to the above entities and the total receivables of the Group from those entities were as follows:

	for the financial year from 1 January to 31 December	
	2018	2017
Sales in period	181,436	223,458
Total receivables at end of period including VAT	16,774	29,780

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

In the reporting periods ending on 31 December 2018 and 31 December 2017, the value of purchases from the above entities and the total liabilities of the Group to those entities were as follows:

	for the financial year from 1 January to 31 December	
	2018	2017
Purchases in period	158,653	136,700
Total liabilities at end of period including VAT	9,476	19,150

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 31 December 2018 and 31 December 2017, the value of purchases from the ENEA Group companies and the Group's total liabilities towards those entities were as follows:

	for the financial year from 1 January to 31 December	
	2018	2017
Purchases in period	73,669	67,659
Total liabilities at end of period including VAT	14,171	13,784

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



In the reporting periods ending on 31 December 2018 and 31 December 2017, the value of sales to the ENEA Group companies and the total receivables of the Group from those entities were as follows:

	for the financial year from 1 January to 31 December	
	2018	2017*
Sales in period	1,518,082	1,318,126
Total receivables at end of period including VAT	132,957	134,873

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

In the reporting periods ending on 31 December 2018 and 31 December 2017, the value of dividends paid to the Enea Group companies, i.e. Enea S.A. and Enea Wytwarzanie Sp. z o.o. were as follows:

	for the financial year from 1 January to 31 December	
	2018	2017
Dividend paid to the ENEA Group companies	-	22,449
Total dividend	-	22,449

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

	for the financial year from 1 January to 31 December	
	2018	2017
Remuneration of Management Board members and commercial proxies	4,547	5,698
Including:		
- Annual award	213	1,328
- Pay for termination of employment relationship	423	-
- Other benefits	-	14
Remuneration of the Supervisory Board members	500	272

By mid-2018 a Management Options Scheme was in place at the Parent covering the period from 2013 to 2017, under which eligible persons, subject to the fulfillment of certain conditions, could be granted options conferring the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, confer the right to acquire series D shares. In Q3 2018 the Parent and all beneficiaries of the Scheme (the persons to whom option may be granted) concluded arrangements under which Scheme participation agreements of the beneficiaries were terminated. Each beneficiary was paid compensation of PLN 1. Upon conclusion of the above arrangements the Management Options Scheme was ultimately closed.

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



34.

On 5 January 2018, the Parent's Supervisory Board adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyty sp. k.) with registered office in Warsaw, as an entity authorised to:

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

PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyty sp. k.) since 16 February 1995 has been entered in the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 144.

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



The review of the Parent's financial statements and Group's consolidated financial statements for the first halves of 2015, 2016 and 2017 and the audit of the Parent's financial statements and the Group's consolidated financial statements for 2015, 2016 and 2017 was performed by Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (formerly: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa) with registered office in Warsaw.

The remuneration of the auditor auditing the financial statements as well as for the PricewaterhouseCoopers entities (for 2017: Deloitte) for all services provided in 2018 and 2017 is as follows:

	for the financial year from 1 January to 31 December	
	2018	2017
Auditor's fee	314	211
Including:		
- <i>Audit of the annual financial statements</i>	262	105
- <i>Review of the financial statements</i>	45	70
- <i>Other attestation services</i>	-	25
- <i>Other certification services (review od indicators)</i>	7	11

35. EVENTS AFTER THE BALANCE-SHEET DATE

After the balance-sheet date, to the best of the Group's knowledge, no material event occurred, which could affect its financial result as at 31 December 2018, and were not disclosed in the consolidated financial statements.



36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 20 March 2019, it approves these consolidated financial statements of the Group for the period from 1 January to 31 December 2018.

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

Artur Wasil	President of the Management Board
Artur Wasilewski	Vice-President of the Management Board, Economic and Financial Affairs
Dariusz Dumkiewicz	Vice-President of the Management Board, Development
Adam Partyka	Vice-President of the Management Board Employee and Social Affairs
Urszula Piątek	Chief Accountant