LUBELSKI WĘGIEL BOGDANKA GROUP
CONSOLIDATED FINANCIAL STATEMENTS

for the financial year from 1 January 2011 to 31 December 2011

BOGDANKA, MARCH 2012

Contents of the Financial Statements

1. The Group composition and its core business ... 7
1.1 Assumption of going concern ... 7
2. Description of key accounting principles applied ... 8
2.1 Basis of preparation ... 8
2.2 Consolidation ... 13
2.3 Information regarding seasonality ... 13
2.4 Reporting on activity segments ... 13
2.5 Measurement of items expressed in foreign currencies ... 13
2.6 Tangible fixed assets ... 14
2.7 Intangible fixed assets ... 15
2.8 Impairment of non-financial assets ... 16
2.9 Financial assets ... 16
2.10 Stock ... 16
2.11 Trade debtors ... 17
2.12 Cash and cash equivalents ... 17
2.13 Share capital ... 17
2.14 Trade creditors ... 17
2.15 Loans and borrowings ... 17
2.16 Current income tax and deferred tax ... 18
2.17 Employee benefits ... 18
2.18 Provisions ... 19
2.19 Recognition of revenue ... 19
2.20 Recognition of government grants ... 20
2.21 Leases ... 20
2.22 Dividend payment ... 21
3. Managing financial risk ... 21
3.1 Financial risk factors ... 21
3.2 Managing capital risk ... 23
4. Material accounting estimates and judgments ... 23
5. Information on business segments ... 24
6. Tangible fixed assets ... 25
7. Intangible fixed assets ... 27
8. Financial instruments by type ... 28
8.1. Trade debtors and other receivables ... 29
9. Stock ... 30
10. Cash and cash equivalents ... 30
11. Share capital ... 31
12. Other capitals ... 31
13. Trade creditors and other liabilities ... 31
14. Grants ... 32
15. Loans and borrowings ... 32
16. Deferred income tax ... 33
17. Employee benefits liabilities ... 34
18. Provisions for other liabilities and charges ... 36
19. Revenue on sales ... 37
20. Costs by type ... 38
21. Other income ... 38
22. Other expenses ... 38
23. Other profits/(losses) - net ... 39
24. Financial income and expenses ... 39
25. Income tax ... 39
26. Earnings per share ... 40
27. Dividend per share ... 40
28. Net operating cash inflow ... 41
29. Contingent items ... 42
30. Future contractual liabilities ... 42
31. Transactions with related entities ... 42
32. Events after the balance-sheet date ... 43
33. Approval of the consolidated financial statements ... 44

Consolidated Statement of Financial Position (Balance Sheet)

	Note	31 Dec. 2011	31 Dec. 2010
Assets			
Fixed assets			
Tangible fixed assets	6	2,605,312	2,101,245
Intangible fixed assets	7	9,931	10,955
Investments in associates		-	18
Trade debtors and other receivables	8.1	685	845
Cash and cash equivalents	10	58,288	50,909
		2,674,216	2,163,972
Current assets			
Stocks	9	43,494	60,810
Trade debtors and other receivables	8.1	255,698	126,858
Overpaid income tax		-	4,304
Cash and cash equivalents	10	102,820	472,101
		402,012	664,073
TOTAL ASSETS		**3,076,228**	**2,828,045**
Shareholders' equity			
Shareholders' equity attributable to shareholders of the Parent Undertaking			
Ordinary shares	11	301,158	301,158
Other capital	12	1,261,013	1,081,298
Retained profits		570,896	577,309
Non-controlling interest		**2,133,067**	**1,959,765**
Total shareholders' equity		**9,579**	**9,254**
Liabilities			
Long-term liabilities			
Credit facilities and loans	15	341,000	200,000
Deferred income tax liabilities	16	70,659	54,732
Employee benefits payable	17	113,144	108,582
Provisions for other liabilities and encumbrances	18	76,856	67,314
Grants	14	19,111	19,451
Trade creditors and other liabilities	13	5,796	5,808
		626,566	455,887
Short-term liabilities			
Credit facilities and loans	15	-	50,000
Employee benefits payable	17	34,109	29,709
Current income tax liabilities		2,034	-
Provisions for other liabilities and encumbrances	18	36,698	82,689
Trade creditors and other liabilities	13	234,175	240,741
		307,016	403,139
Total liabilities		**933,582**	**859,026**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**3,076,228**	**2,828,045**

Consolidated Statement of Comprehensive Income

	Note	for the financial year from 1 January to 31 December	
		2011	**2010**
Revenue on sales	19	1,301,349	1,230,447
Costs of products, goods and materials sold	20	(916,696)	(820,763)
Gross profit		**384,653**	**409,684**
Cost of sales	20	(39,008)	(35,885)
Administrative costs	20	(80,013)	(70,217)
Other income	21	5,597	3,902
Other expenses	22	(2,434)	(3,343)
Other profits/(losses) - net	23	(3,056)	(27,669)
Operating profit		**265,739**	**276,472**
Financial income	24	12,535	25,362
Financial expenses	24	(6,293)	(13,546)
Net financial income	24	6,242	11,816
Share in (losses)/ profits of associates		-	(59)
Profit before taxation		**271,981**	**288,229**
Income tax	25	(50,735)	(58,107)
Net profit for the accounting year		**221,246**	**230,122**
including:			
- attributable to the shareholders of the Parent Undertaking		220,921	229,811
- attributable to non-controlling interest		325	311
Total income for the period		**221,246**	**230,122**
including:			
- attributable to the shareholders of the Parent Undertaking	26	220,921	229,811
- attributable to non-controlling interest		325	311
Earnings per share attributable to the Parent Undertaking's shareholders during the year (in PLN per share)			
- basic	26	6.50	6.76
- diluted	26	6.50	6.76

Consolidated Statement of Changes in Shareholders' Equity

	Attributable to the shareholders of the Parent Undertaking					
	Ordinary shares	**Other capital**	**Retained profits**	**Total**	**Non-controlling interest**	**Total shareholders' equity**
As at 1 January 2010	**301,158**	**890,456**	**538,340**	**1,729,954**	**8,943**	**1,738,897**
Total income for the accounting period	-	-	229,811	229,811	311	230,122
Transfer of the result for 2009	-	190,842	(190,842)	-	-	-
As at 31 December 2010	**301,158**	**1,081,298**	**577,309**	**1,959,765**	**9,254**	**1,969,019**
As at January 1, 2011	**301,158**	**1,081,298**	**577,309**	**1,959,765**	**9,254**	**1,969,019**
Total income for the accounting period	-	-	220,921	220,921	325	221,246
Dividends concerning 2010	-	-	(47,619)	(47,619)	-	(47,619)
Transfer of the result for 2010	-	179,715	(179,715)	-	-	-
As at 31 December 2011	**301,158**	**1,261,013**	**570,896**	**2,133,067**	**9,579**	**2,142,646**

Consolidated Cash Flow Statement

	Note	for the financial year from 1 January to 31 December	
		2011	**2010**
Operating cash flow			
Operating cash inflow	28	342,263	443,700
Interest paid		(31)	(12,268)
Income tax paid		(28,430)	(63,197)
Net operating cash flow		313,802	368,235
Investing cash flow			
Acquisition of tangible fixed assets	28	(718,096)	(617,159)
Interest paid regarding investing activity	28	(13,157)	-
Acquisition of intangible fixed assets	7	(616)	(397)
Inflow from the sale of tangible fixed assets	28	233	110
Other net investing cash flow		1,373	(20)
Grant received	28	-	19,451
Interest received		11,153	24,973
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(7,379)	(4,751)
Net investing cash flow		(726,489)	(577,793)
Financing cash flow			
Loans and borrowings received		100,000	-
Loans and borrowings repaid		(9,000)	-
Dividend paid to Parent Undertaking's shareholders		(47,619)	-
Other net financing cash flow		25	
Net financing cash flow		43,406	-
Decrease in cash and cash equivalents		(369,281)	(209,558)
Cash and cash equivalents at beginning of period		472.101	681,659
Cash and cash equivalents at end of period		**102.820**	**472,101**

Notes to the Consolidated Financial Statements
Additional information

1. The Group composition and its core business

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

Parent Undertaking - 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.

The deed of transformation of a state-owned enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A. was drawn up on 1 March 1993 (Rep. A No. 855/1993) by Notary Public Jacek Wojdyło maintaining a Notarial Office in Katowice at ul. Kopernika 26.

The Company was entered in Section B of the Commercial Register of the District Court in Lublin, VIII Commercial Division, under No. H - 2993, on the basis of a valid decision of that Court issued on 30 April 1993 (file ref. No. HB - 2993, Ns. Rej. H 669/93).

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

On 22 June 2009, pursuant to the decision of the Polish Financial Supervision Authority, Series A and C Shares and Rights to Series C Shares were admitted to public trading on the WSE main market. On 25 June 2009, the Company made its debut on the WSE by introducing Rights to Series C Shares to trading. As a result of transactions effected in 2010 regarding the disposal of shares effected by the State Treasury, represented by the Minister of the State Treasury as well as transfer of shares on the basis of contracts on a free-of-charge disposal of shares for the benefit of eligible employees under the Act on Commercialisation and Privatisation, Lubelski Węgiel Bogdanka Spółka Akcyjna has lost the status of the Company owned by the State Treasury.

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 2010, the Parent Undertaking held 88.70% of share in capital of its 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. 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.

1.1 Assumption of going concern

The consolidated financial statements were prepared under the assumption of continued business activity in the foreseeable future by the undertakings comprising the capital group and that there are no circumstances indicating any risk to the continuation of the Group's activities.

If, after the preparation of the consolidated financial statements, the Group's undertakings becomes aware of events which have a significant bearing on these financial statements or which result in the going concern assumption being no longer appropriate for the Group, the Management Board of Lubelski Węgiel Bogdanka

S.A. is authorised to make amendments to the consolidated financial statements until the date of their approval. This does not preclude a possibility to make amendments to the financial statements retrospectively in subsequent periods in connection with rectification of errors or as a result of changes in the accounting policies following from IAS 8.

In the opinion of the Management Board of Lubelski Węgiel BOGDANKA S.A., there are currently no circumstances indicating any threat to continuation of the Group's activities.

2. Description of key accounting principles applied

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

2.1 Basis of preparation

These consolidated financial statements of LW Bogdanka Group were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union.

These consolidated financial statements were prepared according to the historical cost principle, including the valuation at fair value of certain components of tangible fixed assets in connection with assuming fair value as a presumed cost, which was carried out as at 1 January 2005.

The accounting principles presented below were applied in accordance with the continuity principle in all accounting years presented.

Preparing financial statements in accordance with IFRS requires the application of certain significant accounting estimates. It also requires that Management Board exercise its own judgment while applying accounting principles adopted by the Group. Matters which require to be assessed in greater detail, are more complex or those for which assessments and estimates are material from the perspective of the consolidated financial statements, are discussed in note 4.

(a) Standards, revisions and interpretations of existing standards which are not yet effective and have not been previously applied by the Group.

- **IFRS 9 "Financial Instruments Part 1: Classification and Measurement"**

IFRS 9 published by the International Accounting Standards Board on 12 November 2009 replaces those parts of IAS 39 which relate to the classification and measurement of financial assets. In October 2010, IFRS 9 was supplemented to address the classification and measurement of financial liabilities. The new standard is effective to annual periods beginning on or after 1 January 2013.

The standard introduces a model with only two categories of financial assets: financial assets measured at fair value and financial assets measured at amortised cost. The standard requires that an asset be classified when it is initially recognised and according to the financial instrument management model adopted by the entity and reflecting the characteristics of the contractual cash flows from those instruments.

The majority of IAS 39 requirements for the classification and measurement of financial liabilities have been included in IFRS 9 without any changes. The key change is the requirement that an entity should present, in other comprehensive income, the outcome of changes of its own credit risk arising from financial liabilities classified for measurement at fair value through profit and loss.

The Group will apply IFRS 9 as of 1 January 2013.

As at the date of drawing up these consolidated financial statements, IFRS 9 has not been yet endorsed by the European Union.

- **IFRS 10 "Consolidated Financial Statements" published in May 2011.**

IFRS 10 replaces the guidance concerning consolidation included in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". The standard is effective for annual reporting periods beginning on or after 1 January 2013, with earlier application permitted.

The standard determines the principles for presentation and preparation of consolidated financial statements by the entity that controls one or more other entities. The standard sets forth the following three control components: power over the investee; exposure or right to variable returns from involvement with the investee; the ability to use power over the investee to affect the amount of the investor's return.

The Group will apply IFRS 10 as of 1 January 2013.

The group currently analyses the impact of the new standard on the consolidated financial statements. As at the date of drawing up these consolidated financial statements, IFRS 10 has not been yet endorsed by the European Union.

- **IFRS 11 "Joint Arrangements" published in May 2011**

IFRS 11 introduces new accounting regulations with respect to joint arrangements, replacing IAS 31 "Interests in Joint Ventures". The standard is effective for annual reporting periods beginning on or after 1 January 2013, with earlier application permitted.

IFRS 11 introduces new accounting regulations with respect to joint arrangements, replacing IAS 31 "Interests in Joint Ventures". The core principle is that parties to a joint arrangement determine the type of joint initiative in which they are involved by assessing their rights and obligations and account for those rights and obligations in accordance with that type of joint initiative. The standard defines joint arrangement as "a contractual arrangement of which two or more parties have joint control" and specifies more precisely that joint control exists only when "decisions about the relevant activities require the unanimous consent of the parties sharing control".

The Group will apply IFRS 11 as of 1 January 2013.

The Group currently analyses the impact of the new standard on the consolidated financial statements. As at the date of drawing up these consolidated financial statements, IFRS 11 has not been yet endorsed by the European Union.

- **IFRS 12 "Disclosure of Interests in Other Entities" published in May 2011**

The objective of the standard is to provide disclosure of information that enables users of financial statements to evaluate the basis of control, the limitations imposed on the consolidated assets and equity & liabilities, the exposure to risk arising from the involvement in structured entities not covered by consolidation, and the involvement of non-controlling holders of interests in operations of the consolidated entities. The entity discloses information about significant subjective judgments and assumptions it has made in determining whether it has control, joint control or significant influence over another entity and in relation to joint ventures having the form of separate entities. The entity is also required to disclose information about changes of facts and circumstances in the reporting period which have an impact on the determination made.

The standard is effective for annual reporting periods beginning on or after 1 January 2013, with earlier application permitted.

The Group will apply IFRS 12 as of 1 January 2013.

The Group currently analyses the impact of the new standard on the consolidated financial statements. As at the date of drawing up these consolidated financial statements, IFRS 12 has not been yet endorsed by the European Union.

- **IFRS 13 "Fair Value Measurement" published in May 2011**

The standard defines fair value, includes guidance for measuring fair value and requires disclosures about fair value measurements. According to the standard, fair value is the price that may be received when selling an asset concerned (or transferring a liability) to a participant on the principal market i.e. the market with the greatest volume and level of activity for assets or liabilities of that type). If the principal market does not exist, the price from the most advantageous market (i.e. the market on which the entity could receive the best price) should be applied.

The standard is effective for annual reporting periods beginning on or after 1 January 2013, with earlier application permitted.

The Group will apply IFRS 13 as of 1 January 2013.

The Group currently analyses the impact of the new standard on the consolidated financial statements. As at the date of drawing up these consolidated financial statements, IFRS 13 has not been yet endorsed by the European Union.

- **Amendments to IAS 1 "Presentation of Financial Statements" published in June 2011**

The amendments from June 2011 require the entities to group together and present on an aggregate basis those items in other comprehensive income which in subsequent periods may be transferred to the profit and loss account. The amendments also reaffirm that items in other comprehensive income and profit and loss account should be presented as either a single statement or two consecutive statements.

The Group will apply the amendments to IFRS 1 as of 1 July 2012.

The Group currently analyses the impact of the new standard on the consolidated financial statements. As at the date of drawing up these consolidated financial statements, the amendments to IAS 1 have not been yet endorsed by the European Union.

- **Amendments to IAS 19 "Employee Benefits" published in June 2011**

The amendments from June 2011 contribute to significant improvements to IAS 19 as follows: the amended standard requires recognition of changes in defined benefit liabilities and benefit plan assets immediately when occurred, which eliminates the corridor approach and speeds up the recognition of past service costs; changes in defined benefit liabilities and plan assets are divided into three categories: service costs, net interest on defined benefit liabilities (assets) and re-measurement of net defined benefit liabilities (assets); and – net interest is calculated using the rate of return from high quality corporate bonds. It may be lower than the rate used currently for calculating the forecasted return from plan assets, which results in lower net income.

The Group will apply the amendments to IAS 19 as of 1 January 2013.

The Group currently analyses the impact of the new standard on the consolidated financial statements. As at the date of drawing up these consolidated financial statements, the amendments to IAS 19 have not been yet endorsed by the European Union.

- **Amended IAS 27 - "Separate Financial Statements"**

The revised IAS 27 "Separate Financial Statements" was published by the International Accounting Standards Board in May 2011, and it is effective for annual periods beginning on or after 1 January 2013.

IAS 27 has been amended in connection with the publishing of IFSR 10 "Consolidated Financial Statements". The purpose of the amended IAS 27 is to define the requirements regarding the disclosure and presenting investments in subsidiaries, joint ventures and associates in a situation when the entity prepares separate financial statements. Guidelines on control and consolidated financial statements were replaced by IFSR 10.

The Group will apply the amended IAS 27 as of 1 January 2013.

The Group currently analyses the impact of the new standard on the consolidated financial statements. The introduction of the amended IAS 27 does not materially affect these consolidated financial statements.

- **"Offsetting Financial Assets and Liabilities" – amendments to IAS 32**

Amendments to IAS 32 "Financial Instruments: Presentation" regarding offsetting assets and liabilities were published by the International Accounting Standards Board in December 2011, and are effective to annual periods beginning on or after 1 January 2014.

The amendments introduce additional explanations to the application of IAS 32, in order to clarify inconsistencies encountered when using certain offsetting criteria. They include explanation of the phrase: "currently has a legally enforceable right of set-off", and clarify that certain mechanisms of gross settlement may be treated as net settlement if relevant conditions are met.

The Group will apply the amendments to IAS 32 as of 1 January 2014.

The introduction of amendments to IAS 32 does not materially affect these consolidated financial statements. As at the date of drawing up these consolidated financial statements, the amendments to IAS 32 have not been yet endorsed by the European Union.

(b) Existing standards, amendments and interpretations to the existing standards which are not applicable to the operations of the Group.

- **Amendments to IFRS 1 – "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"**

Amendments to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters of IFRS" were first published by the International Accounting Standards Board in December 2010 and are effective to annual periods beginning on or after 1 July 2011.

The amendment regarding severe hyperinflation provides an additional exemption where an entity that has been subject to severe hyperinflation re-elects to prepare its financial statements in accordance with the IFRS or is a first-time adopter of the IFRS. This exemption allows the entity to elect to measure its assets and liabilities at fair value and to use that fair value as the presumed cost of such assets and liabilities in the opening balance sheet in its first statement of financial position prepared in accordance with the IFRS.

The International Accounting Standards Board (IASB) also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption in the standard, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of the IFRS prospectively from the date of transition rather than from 1 January 2004. The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market and allows an entity to apply the guidance prospectively from the date of transition to the IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to reconstruct fair value for financial assets and liabilities for periods prior to the date of transition. IFRS 9 was also amended to reflect these changes.

To date, there have been no actions described in IFRS 1 in the existing operations of the Group.

As at the date of drawing up these consolidated financial statements, the amendments to IFRS 1 have not been yet endorsed by the European Union.

- **Amendments to IAS 12 – "Recovery of Underlying Assets" published in December 2010**

In December 2010, the International Accounting Standards Board published Amendment to IAS 12 "Recovery of Underlying Assets". These amendments are effective to annual periods beginning on or after 1 January 2012.

The amendments apply to the measurement of deferred tax assets and deferred tax liabilities relating to investment properties measured at fair value in accordance with IAS 40 "Investment Property" and introduce a rebuttable presumption that the value of an investment property may be recovered entirely through sale. The presumption can be rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits represented by the investment property over time, rather than through sale. SIC-21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets", concerning similar issues with regard to non-depreciable assets measured in accordance with the revaluation model presented in IAS 16 "Tangible Fixed Assets", was incorporated into IAS 12 after the exclusion of guidelines for investment properties measured at fair value.

To date, there have been no actions of significant value described in IAS 12 in the existing operations of the Group. As at the date of drawing up these consolidated financial statements, the amendments to IAS 12 have not been yet endorsed by the European Union.

- **Amended IAS 28 – "Investments in Associates and Joint Ventures"**

The revised IAS 28 "Investments in Associates and Joint Ventures" was published by the International Accounting Standards Board in May 2011, and it is effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 28 resulted from the IASB's project regarding joint ventures. The Board decided to include the principles of disclosing joint ventures with equity method to IAS 28, as the method applies both to joint ventures and associates. Only this exception was amended, other guidelines remained unchanged.

The Group will apply the amended IAS 28 as of 1 January 2013. To date, there have been no actions described in IAS 28 in the existing operations of the Company.

- **Amendments to IFRS 7 "Transfer of Financial Instruments" published in October 2010**

On 7 October 2010, the International Accounting Standards Board issued a document called "Disclosures - Transfers of Financial Assets" (amendments to IFRS 7 Financial Instruments: Disclosures) effective to annual periods beginning on or after 1 July 2011). The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments include tighter requirements for disclosures under IFRS 7 relating to transactions where a financial asset is transferred but is not derecognised, and impose new disclosure requirements relating to assets that have been derecognised but the entity's exposure to those assets has not changed despite the sale of the assets.

To date, there have been no actions described in IFRS 7 in the existing operations of the Group. As at the date of drawing up these consolidated financial statements, the amendments to IFRS 7 have not been yet endorsed by the European Union.

- **Disclosures - "Offsetting Financial Assets and Liabilities" – amendments to IFRS 7**

Amendments to IFSR 7 regarding disclosure of information - offsetting financial assets and liabilities were published by the International Accounting Standards Board in December 2011, and are effective to annual periods beginning on or after 1 January 2013.

The amendments introduce an obligation of new disclosures which will allow the users of financial statements to assess the effects or potential effects of agreements enabling net settlements, including the right of set-off.

The Group will apply the amendments to IFRS 7 as of 1 January 2013.

To date, there have been no actions described in IFRS 7 in the existing operations of the Group. As at the date of drawing up these consolidated financial statements, the amendments to IFRS 7 have not been yet endorsed by the European Union.

- **IFRIC 20 – "Stripping Costs in the Production Phase of a Surface Mine"**

  The interpretation of IFRIC 20 was published by the International Accounting Standards Board in October 2011, and it is effective for annual periods beginning on or after 1 January 2013.

  The interpretation clarifies that the stripping costs are disclosed costs of current production in accordance with the principles of IAS 2 "Stocks", if the benefits derived from stripping have a form of stock production. On the other hand, if stripping leads to benefits such as gaining access to ore deposits, the entity should recognise those costs as a non-current "stripping activity asset", where certain criteria, specified in the interpretation, are met.

  The Group does not conduct activity described in IFRIC 20. The costs of preparatory works at the Group have been disclosed in accordance with IFRIC 20. As at the date of drawing up the present consolidated financial statements, IFRIC 20 has not been yet endorsed by the European Union.

2.2 Consolidation

Subsidiaries

Subsidiary undertakings are all undertakings (including the special purpose vehicles) with respect to which the Group is able to manage their financial and operating policy, which is usually accompanied by holding the majority of the total number of votes in the governing bodies. In assessing whether the Group controls a given undertaking, the existence and influence of potential voting rights which may be exercised or exchanged at the moment is taken into account. Subsidiary undertakings are subject to full consolidation from the date on which the Group takes over control of them. Consolidation ends on the date when the control ceases to exist.
Income and expenses, settlements and unrealised gains on intra-Group transactions are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of a given item of assets being transferred. Where necessary, the accounting policies applied by the subsidiary undertakings were changed to ensure compliance with the accounting policies applied by the Group.
The Group recognises all changes in the interest of the Parent Undertaking's shareholders in equity for as long as the Parent Undertaking controls a given subsidiary undertaking. Any gains or losses on acquisition or sale of equity instruments from or to minority interests are directly recognised in equity of the Parent Undertaking.

2.3 Information regarding seasonality

The production is not seasonal, whereas seasonal character of sales can be noticed in the case of retail sales at a point of coal sale. Sales to individual customers account for 0.2% of the total sales. They do not have any significant impact on the operating and financial activities of the Group.

2.4 Reporting on activity segments

IFRS 8 – "Operating segments" is applicable for the purposes of preparing these consolidated financial statements. That standard requires that consolidated financial statements of the entity present a series of data concerning individual segments, while the approach to segmentation of the entity presented in the consolidated financial statements should be consistent with the division into segments used for the purposes of making strategic management decisions.
The Management Board does not apply division into segments for managing the Group since the Group mainly focuses its activities on the production and sale of coal.

2.5 Measurement of items expressed in foreign currencies

(a) Functional and presentation currency

Items expressed in the financial statements of the Group's individual undertakings are measured in the currency of the basic economic environment in which the given undertaking conducts its operations ("functional currency"). The functional currency of the undertakings comprising the Group is Polish zloty. The consolidated financial statements are presented in Polish zlotys ("PLN"), being the presentation currency of the Group.

(b) Transactions and balances

Transactions expressed in foreign currencies are translated into the functional currency at the exchange rate prevailing on the transaction date. Foreign exchange gains and losses from accounting for such transactions and from the balance sheet measurement of monetary assets and liabilities expressed in foreign currencies are recorded in the consolidated statement of comprehensive income, provided they are not deferred under shareholders' equity, when they qualify for recognition as a cash flow hedge and hedge of a net investment.

2.6 Tangible fixed assets

Tangible fixed assets are the 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.

Tangible fixed assets are initially recognised at acquisition or production cost.

As at initial recognition, the acquisition or production cost of tangible fixed assets 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 tangible fixed assets includes estimated cost of dismantling and removing the asset and restoring the site, which the Group is obliged to incur at the installation of an item of tangible fixed assets or its placement in service. In particular, the initial value of tangible fixed assets includes discounted cost of decommissioning tangible fixed 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 closure recognised in the initial value of tangible fixed assets is depreciated using the same method as that used for the tangible fixed assets to which the cost relates. Depreciation starts as soon as a given tangible asset is placed in service, and continues over a period determined in the closure plan for groups of structures under the estimated mine closure schedule.

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

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

Land is not depreciated. Other items of tangible fixed assets are depreciated using the straight-line method or the unit-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 tangible fixed assets are as follows:

Buildings and structures	25-40 years, but not longer than until the estimated date of mine closure
Structures (excavation pits)	Depreciation with the cost-of-production method based on the length of exploited walls
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 tangible fixed assets	3-20 years, but not longer than until the estimated date of mine closure

Depreciation of an item of tangible fixed assets starts when that item is available to be placed in service. 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 closure, sale or placement out of service.

Individual material components of an item of tangible fixed assets whose useful lives are different from the useful life of the entire asset and whose acquisition or production cost is material relative to the acquisition or production cost of the entire asset are depreciated separately, using the depreciation rates which reflect such items' estimated useful lives.

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

If the carrying value of an item of tangible fixed assets exceeds its estimated recoverable value, then the carrying value of that asset is reduced to its recoverable value (note 2.7).

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

Borrowing costs, including interest, fees and commissions on account of liabilities, as well as currency exchange differences arising in relation to borrowings and loans incurred in foreign currencies, to the extent they are recognised as an adjustment of interest expense, which may be directly attributed to acquisition, construction or production of an adapted item of tangible fixed 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 tangible fixed assets. Spare parts and equipment connected with maintenance which may only be used only for certain items of tangible fixed assets are recorded similarly. Other low-value spare parts and equipment connected with maintenance are carried as stock and recognised in the consolidated statement of comprehensive income at the time of their use.

Gain or loss on sale of items of tangible fixed assets is calculated by comparing the revenue from sale with the carrying value, and is recognised in the consolidated statement of comprehensive income under other (loss)/gain, net.

2.7 Intangible fixed assets

(a) Geological information

The acquisition cost of purchased geological information is capitalised. The capitalised cost is amortised over the estimated period of use of the information. Geological information is amortised over a period of 10 years.

(b) 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).

(c) Fees and 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 estimated period of mining use, i.e. until 31 December 2031.

Intangible fixed assets are amortised using the straight-line method.

2.8 Impairment of non-financial assets

Assets with indefinite useful lives, such as goodwill, 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 centres). Impaired non-financial assets, other than goodwill, are tested as at each balance-sheet date to determine whether there are circumstances indicating the possibility of reversing previous impairment charges.

2.9 Financial assets

The Management Board classifies its financial assets at the time of their initial recognition. The category under which financial assets will fall is established depending on the purpose for which they were acquired.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, not classified as derivatives and not traded on any active market. Loans and receivables are included in current assets providing their maturity does not exceed 12 months as of the balance-sheet date, and they are included in the non-current assets if their maturity exceeds 12 months as of the balance-sheet date. Trade and other receivables as well as cash and cash equivalents are presented as loans and receivables.

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

As at the date of the transaction, loans and receivables are recognised at fair value. Subsequently, they are carried at adjusted acquisition or production cost using the effective interest rate method. Loans and receivables are derecognised when the rights to receive cash flows related to them expired or were transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at each balance-sheet date whether there is objective evidence that an item or a group of financial assets may be impaired. A test for impairment of trade debtors is described in note 2.10.

2.10 Stock

Stock is recognised at acquisition or production cost, which however cannot exceed its net selling price. 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.

2.11 Trade debtors

Trade debtors are initially recognised at fair value, and subsequently at adjusted acquisition or amortised production cost using the effective interest rate method, less impairment charges. Impairment charges are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and late payments are considered indicators that the trade receivable is impaired. The amount of the provision is equal to the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is determined through the use of a provision account, and the amount of the loss is presented in the consolidated statement of comprehensive income under selling costs. When a trade receivable becomes uncollectible, it is written off against the provision for trade receivables. Subsequent collection of amounts previously written off is credited against selling costs in the consolidated statement of comprehensive income.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits payable on demand and other highly liquid current investments with original maturities of up to three months. Overdraft facilities are presented in the balance-sheet as an item of current loans and borrowings under current liabilities.

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.

2.13 Share capital

Ordinary shares are classified as shareholders' equity.

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

If a Group's undertaking acquires shares in its share capital (its treasury shares), then the payment, including the marginal costs directly related to acquisition (net of income tax), decrease the equity attributable to the owners of the company until the shares are retired or reissued. If such shares are subsequently reissued, the payment for such shares (net of marginal transaction costs directly related to such payment and applicable tax effects) is recognised in equity attributable to the owners of the company.

2.14 Trade creditors

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

2.15 Loans and borrowings

Loans and borrowings are initially measured at fair value, net of transaction costs incurred. Subsequently, loans and borrowings are carried at adjusted acquisition cost (amortised cost). Any difference between the amounts received (net of transaction cost) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the loan or borrowing using the effective interest rate method.

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer repayment of the liability for at least twelve months as from the balance-sheet date.

Borrowing costs are expensed in the period in which they are incurred, except the costs which increase the value of tangible fixed assets under construction (note 2.5).

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

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

Deferred tax liability resulting from timing differences attributable to investment in subsidiary and associated undertakings is recognised unless the Group controls the timing of the reversal of timing differences and it is probable that the differences will be reversed in the foreseeable future.

2.17 Employee benefits

(a) Retirement and other employee benefits

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

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

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

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's Collective Bargaining Agreements, as well as applicable provisions of law.

The projected 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 expenses in the consolidated statement of comprehensive income in the period in which they arise.

Past service costs arising from plan changes are recognised immediately in the consolidated statement of comprehensive income, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

(b) 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.

2.18 Provisions

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

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

- securing or closing of mines 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 is calculated by an independent consultancy company 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 outlays 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) is recognised as adjustment to the value of tangible fixed assets for which a closure obligation exists.

2.19 Recognition of revenue

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

The Group recognises revenue when the amount of revenue can be measured reliably and when it is probable that the economic benefits will flow to the Group and when certain criteria for each type of the Group's activities are met, as described below. It is deemed that the amount of revenue cannot be measured reliably before all conditional circumstances related to sales are clarified. The Group makes estimates on the basis of historical information, taking into account the customer and transaction type and details of agreements.

(a) Revenue from sales of products, goods for resale and materials

Revenue from sales of products, goods for resale and materials are recognised as soon as the Group's undertaking supplies products to a customer. The supply is deemed to occur when the Group's undertaking has transferred to the buyer the significant risks and rewards of ownership of the products, goods for resale and materials pursuant to terms of delivery defined in the sales agreements. Sales revenue is recognised based on the prices specified in sales agreements, net of estimated rebates and other sales reductions.

(b) 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 value 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.

2.20 Recognition of government grants

The Group applies the below-described method for accounting for government grants to subsidise initial investments under the Regulation of the Minister of Economy of 10 June 2010 (Dz.U. of 2010, No. 109, item 714).

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 fixed 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 Statement of Comprehensive Income proportionately to the depreciation of the fixed 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.

2.21 Leases

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

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

2.22 Dividend payment

Payment of dividend to the Parent Undertaking's shareholders is disclosed as a liability in the Group's financial statement in the period in which the dividend payment is approved by the Parent Undertaking's shareholders.

3. Managing financial risk

3.1 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 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 dividend policy.

(a) Risk of a change in cash flows resulting from a change in interest rates

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

The Group is also exposed to interest rate risk in connection with its current and non-current debt instruments. Loans bearing interest at variable rates result in the Group's exposure to a change in cash flows resulting from changes in interest rates. In 2011 the Group used external financing denominated in the złoty.

The Group's current indebtedness amounts to PLN 341 million. Based on simulations, it was determined that a 1 p.p. change in interest rates would increase or decrease, as applicable, the Group's net profit by an amount lower or equal to PLN 2,773,000.

(b) Credit risk

The Group is exposed to credit risk in connection with cash and cash equivalents, deposits at banks and financial institutions, as well as credit exposures of the Group's customers. When selecting banks and financial institutions, the Group only accepts highly credible entities. In addition, the Group pursues a policy limiting credit exposure connected with particular financial institutions. As regards customers, the Group sells its products to a group of regular customers whose credibility has been proven in the years of cooperation.

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

	2011	**2010**
Cash in hand and bank deposits	161,108	523,010
Current trade debtors	224,302	92,440
Total exposure to credit risk	385,410	615,450
Receivables from 7 key customers	207,597	86,630
Concentration of credit risk under receivables from 7 key customers	93%	94%
Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits)	46%	44%

Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits)	40%	24%
Cash deposited at PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	13%	25%

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. The share of receivables from other customers in total trade debtors is not significant.

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

- Bank Millennium S.A. - long-term Fitch rating: BBB-
- Bank PEKAO S.A. - long-term rating (IDR): A-
- PKO Bank Polski S.A. - Fitch support rating: 2 (no long-term rating was awarded)
- BRE Bank S.A. - long-term Fitch rating: A
- Bank Ochrony Środowiska S.A. - long-term Fitch rating (IDR): BBB

(c) *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 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.

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 values given that the discount effect on the value is insignificant.

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Balance as at 31 December 2011				
Loans and borrowings	19,290	38,797	333,229	-
Trade creditors and other liabilities	231,335	2,094	6,090	2,029

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Balance as at 31 December 2010				
Loans and borrowings	61,144	73,762	143,346	-
Trade creditors and other liabilities	192,712	10,533	15,800	5,267

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.

(a) *sensitivity analysis of the financial result*

Based on the 2011 data concerning the Group's core business, the sensitivity of the financial result to changes in market risk factors (price of coal and interest rates) 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 by 4.88%. Similarly, a 1% decrease in the coal price reduces the result on sales by 4.88%. 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 sales	-73.26%	-48.84%	-24.42%	-9.77%	-4.88%	0.00%	4.88%	9.77%	24.42%	48.84%	73.26%

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

3.2 Managing capital risk

The Group's objective in the area of managing capital risk is to protect the Group's ability to continue as going concern, deliver returns for shareholders and benefits to other interested parties, and maintain 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.

The Group has contracted a bank loan for the financing of current operations and investment activities. The table below shows the relation between the net debt and the capital employed in the Group:

	31 Dec. 2011	**31 Dec. 2010**
Total loans	341,000	250,000
Less: cash and cash equivalents	(161,108)	(523,010)
Net debt / (liquid assets)	179,892	(273,010)
Total shareholders' equity	2,142,646	1,969,019
Employed capital	2,322,538	1,696,009

4. Material accounting estimates and judgments

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

The Group makes estimates and assumptions relating to the future. By definition, such accounting estimates are rarely identical with the actual results. Below, the estimates and assumptions which bear a significant risk that

a material adjustment will have to be made to the carrying value of assets and liabilities in the following financial year are discussed.

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

Based on the current coal reserves and estimated production capacities, the mine's life has been estimated to continue until 2034. However, the actual date of the mine closure may differ from the Group's estimates. This follows from the fact that the length of the mine's life has been estimated using the current coal reserves only. Over the next few years, the Group plans to expand its mining area by adding K-3, K-6 and K-7 reserves which may significantly prolong the mine's life. The Group has already commenced work on acquiring licenses necessary to add these reserves to the mining area.

Estimate concerning provision for mining plant closure

The Group creates a provision for costs of closure of a mining plant, 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 include assumptions regarding the mine's life, expected inflation rate and long-term discount rates, as well as the forecasted nominal unit costs of closing individual facilities, which are calculated by independent experts. Any changes to these assumptions affect the carrying value of the provision.

Assumptions regarding the life of the mine have been described above.

Adopted inflation ratios for 2012-2034 range from 2.2% to 3.8%.

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.

If the actual interest rates departed from the Management Board's estimates by 10%, the carrying value of provisions would be PLN 414,000 higher or PLN 413,000 lower.

Retirement 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. Major assumptions regarding the provisions for employee benefits are disclosed in note 17. Any changes to these assumptions affect the carrying value of the provisions for employee benefits.

5. Information on business segments

(a) Key reporting structure - industry segments

The Group's core business is production and sale of coal. In 2011, revenue from sales of other products and services amounted to PLN 76,659,000 (in 2010: PLN 39,431,000), representing, respectively, 5.89% in 2011 and 3.2% in 2010 of total sales revenue.

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

(b) Supplementary reporting structure - geographical segments

The Group operates primarily in Poland. In 2011, revenue from foreign sales amounted to PLN 479,000 (in 2010: PLN 828,000), representing, respectively, 0.04% and 0.07% of total revenue in each of the years. The Group does not hold 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 analyses financial data which is in agreement with the consolidated financial statements prepared in accordance with the IFRS.

6. Tangible fixed assets

	Land	Buildings and structures (including mining excavations)	Plant and equipment	Vehicles	Other tangible fixed assets	Tangible fixed assets in construction	Total
As at 1 January 2010							
Cost or assessed value	3,101	1,391,301	723,819	93,171	15,203	296,905	2,523,500
Depreciation	-	(538,296)	(368,968)	(48,840)	(8,669)	-	(964,773)
Net book value	**3,101**	**853,005**	**354,851**	**44,331**	**6,534**	**296,905**	**1,558,727**
As at 31 December 2010							
Net book value at beginning of year	3,101	853,005	354,851	44,331	6,534	296,905	1,558,727
Presentation adjustment	68	-	-	-	-	-	68
Increases	-	3,472	38	-	-	693,143	696,653
Transfer from fixed assets in construction	3,809	146,121	205,996	7,360	543	(363,829)	-
Decreases*	(3,809)	(8,932)	(377)	(200)	(12)	(4,370)	(17,700)
Depreciation	-	(80,675)	(49,469)	(5,150)	(1,209)	-	(136,503)
Net book value	**3,169**	**912,991**	**511,039**	**46,341**	**5,856**	**621,849**	**2,101,245**
As at 31 December 2010							
Cost or assessed value	3,169	1,487,336	922,696	99,634	15,641	621,849	3,150,325
Depreciation	-	(574,345)	(411,657)	(53,293)	(9,785)	-	(1,049,080)
Net book value	**3,169**	**912,991**	**511,039**	**46,341**	**5,856**	**621,849**	**2,101,245**
As at 31 December 2011							
Net book value at beginning of year	3,169	912,991	511,039	46,341	5,856	621,849	2,101,245
Increases	-	7,605	-	-	-	699,307	706,912
Transfer from fixed assets in construction	1,304	620,643	298,998	9,813	1,268	(932,026)	-
Decreases*	(623)	(14,431)	(106)	(169)	(1,588)	(2,704)	(19,621)
Depreciation	-	(111,614)	(65,699)	(4,994)	(917)	-	(183,224)
Net book value	**3,850**	**1,415,194**	**744,232**	**50,991**	**4,619**	**386,426**	**2,605,312**
As at 31 December 2011							
Cost or assessed value	3,850	2,029,838	1,212,676	104,694	14,529	386,426	3,752,013
Depreciation	-	(614,644)	(468,444)	(53,703)	(9,910)	-	(1,146,701)
Net book value	**3,850**	**1,415,194**	**744,232**	**50,991**	**4,619**	**386,426**	**2,605,312**

* the item includes creating, releasing and using the write-offs revaluating tangible fixed assets

The write-offs revaluating tangible fixed assets are made based on the analysis of individual tangible fixed assets and tangible fixed assets under construction taking into account their technological usefulness.

Tangible fixed assets are classified to the following groups:

- tangible fixed assets used in full,
- tangible fixed assets fully unserviceable,
- tangible fixed assets partially unserviceable.

The revaluation write-offs are made in full amount for the tangible fixed assets fully unserviceable**.** The revaluation write-offs created for tangible fixed assets partially unserviceable were calculated as per cent, based on a detailed usefulness analysis.

Write-offs revaluating tangible fixed assets are presented in the table below:

	Land	**Buildings and structures (including mining excavations)**	**Plant and equipment**	**Tangible fixed assets in construction**	**Total**
As at 1 January 2010	**-**	**9,580**	**1,490**	**120**	**11,190**
Creating revaluation write-offs due to impairment of value	3,809	-	-	-	3,809
Using the write-off created	-	(2,614)	(37)	-	(2,651)
As at 31 December 2010	**3,809**	**6,966**	**1,453**	**120**	**12,348**
Creating revaluation write-offs due to impairment of value	519	645	-	1,031	2,195
Using the write-off created	-	(2,966)	-	(558)	(3,524)
As at 31 December 2011	**4,328**	**4,645**	**1,453**	**593**	**11,019**

The creation, releasing and using the revaluation write-off due to impairment of value as at 31 December 2011 was disclosed in the consolidated statement of comprehensive income under other the 'other net profits / losses' item.

Depreciation of tangible fixed assets is disclosed in the consolidated statement of comprehensive income as follows:

	2011	**2010**
Costs of products, goods and materials sold	(176,207)	(130,702)
Selling costs	(384)	(273)
Administrative costs	(6,633)	(5,528)
	(183,224)	**(136,503)**

7. Intangible fixed assets

	Computer software	**Fees, licences**	**Geological information**	**Other**	**Total**
As at 1 January 2010					
Cost or assessed value	3,635	4,449	10,789	225	19,098
Amortisation	(2,624)	(894)	(3,302)	(79)	(6,899)
Net book value	1,011	3,555	7,487	146	12,199
As at 31 December 2010					
Net book value at beginning of year	1,011	3,555	7,487	146	12,199
Presentation adjustment	106	(62)	(26)	(86)	(68)
Increases	304	93	-	-	397
Amortisation	(199)	(149)	(1,211)	(14)	(1,573)
Net book value	**1,222**	**3,437**	**6,250**	**46**	**10,955**
As at 31 December 2010					
Cost or assessed value	4,045	4,480	10,763	60	19,348
Amortisation	(2,823)	(1,043)	(4,513)	(14)	(8,393)
Net book value	1,222	3,437	6,250	46	10,955
As at 31 December 2011					
Net book value at beginning of year	1,222	3,437	6,250	46	10,955
Presentation adjustment	-	(41)	41	-	-
Increases	498	118	-	-	616
Amortisation	(261)	(213)	(1,153)	(13)	(1,640)
Net book value	**1,459**	**3,301**	**5,138**	**33**	**9,931**
As at 31 December 2011					
Cost or assessed value	4,339	4,444	11,235	47	20,065
Amortisation	(2,880)	(1,143)	(6,097)	(14)	(10,134)
Net book value	**1,459**	**3,301**	**5,138**	**33**	**9,931**

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

	2011	**2010**
Costs of products, goods and materials sold	(1,577)	(1,506)
Selling costs	(3)	(3)
Administrative costs	(60)	(64)
	(1,640)	**(1,573)**

8. Financial instruments by type

	Loans and receivables	Total
31 December 2011		
Assets as disclosed in the Consolidated statement of financial position		
Trade debtors	224,302	224,302
Cash and cash equivalents	161,108	161,108
Total	**385,410**	**385,410**

	Other financial liabilities	Total
Liabilities as disclosed in the Consolidated statement of financial position		
Loans and borrowings	341,000	341,000
Trade creditors and other financial liabilities	186,307	186,307
Total	**527,307**	**527,307**

Interest paid	
Interest	12,486
Fees and commissions	702
Total	**13,188**

	Loans and receivables	Total
31 December 2011		
Assets as disclosed in the Consolidated statement of financial position		
Trade debtors	224,302	224,302
Cash and cash equivalents	161,108	161,108
Total	**385,410**	**385,410**

	Other financial liabilities	Total
Liabilities as disclosed in the Consolidated statement of financial position		
Loans and borrowings	341,000	341,000
Trade creditors and other financial liabilities	186,307	186,307
Total	**527,307**	**527,307**

Interest paid	
Interest	12,486
Fees and commissions	702
Total	**13,188**

	Loans and receivables	Total
31 December 2011		
Assets as disclosed in the Consolidated statement of financial position		
Trade debtors	224,302	224,302

8.1. Trade debtors and other receivables

	31 Dec. 2011	31 Dec. 2010
Trade debtors	229,459	97,263
Less: write-off revaluating accounts receivable	(5,157)	(4,823)
Net trade debtors	**224,302**	**92,440**
Deferred expenses and rebates	10,974	9,726
Other accounts receivable	20,422	24,692
short-term	**255,698**	**126,858**
Deferred expenses and rebates	320	845
Other accounts receivable	365	-
Long-term	**685**	**845**
Total trade debtors and other receivables	**256,383**	**127,703**

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

All receivables of the Group are expressed in PLN.

Changes in the write-off revaluating trade debtors are presented below:

	2011	2010
As at 1 January	**4,823**	**6,410**
Creating a write-off	4,601	3,581
Receivables written down during the year as uncollectible	(117)	(101)
Reversal of unused amounts	(4,150)	(5,067)
As at 31 December	**5,157**	**4,823**

Creating and releasing the write-off for the impairment of value was disclosed in the consolidated statement of comprehensive income.

Other categories of trade debtors and other accounts receivable do not included items of reduced value.

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

	31 Dec. 2011	31 Dec. 2010
Up to 1 month inclusive	4,456	33
1 to 3 months	2	3,033
3 to 6 months	9	-
6 to 12 months	70	81
above 12 months	620	1,676
	5,157	**4,823**

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

	31 Dec. 2011	31 Dec. 2010
Up to 1 month inclusive	1,407	186

1 to 3 months	210	83
3 to 6 months	96	10
6 to 12 months	258	25
above 12 months	70	-
	2,041	**304**

Maximum exposure to credit risk as at the reporting date is the fair value of each category of accounts receivable described above. The Parent Undertaking has a bank loan secured with the transfer of receivables from the sale of coal.

9. Stock

	31 Dec. 2011	31 Dec. 2010
Materials	29,537	31,126
write-offs due to permanent impairment of value	(68)	(8)
production in progress	405	526
Write-off for revaluating to the sale price, likely to achieve, of the production in progress	-	(335)
Finished goods	13,990	30,863
Write-off for revaluating to the sale price, likely to achieve, of the finished goods	(370)	(1,362)
	43,494	**60,810**

Cost of stock disclosed under "Cost of products, goods and materials sold" amounted to PLN 916,696,000 in 2011 (2010: PLN 820,763,000).

Changes in the write-off for revaluating to the sale price, likely to achieve, and for impairment of stocks are presented below:

	2011	2010
As at 1 January	**1,705**	**963**
Creating the write-off for revaluating	438	1,705
Release of a write-off used	(1,705)	(963)
As at 31 December	**438**	**1,705**

Creating and release of a write-off revaluating the value of stock was presented in the consolidated statement of comprehensive income in the 'other net profit / (loss)' item.

10. Cash and cash equivalents

	31 Dec. 2011	31 Dec. 2010
Cash in banks and at hand	2,953	18,934
Bank deposits	158,155	504,076
	161,108	**523,010**

including:

Long-term*	58,288	50,909
Short-term	102,820	472,101
	161,108	**523,010**

* cash with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 58,288,000 as at 31 December 2011, (2010: PLN 50,909,000) and primarily comprises the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine. Cash and bank deposits are expressed 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 value. Interest rates are based on WIBOR rates which stood at the following levels (1M WIBOR):

2011 – 3.9% - 4.8%

2010 – 3.6% - 3.7%

11. Share capital

	Number of shares ('000)	**Ordinary shares - par value**	**Hyperinflation adjustment**	**Total**
As at 1 January 2010	34,014	170,068	131,090	301,158
As at 31 December 2010	34,014	170,068	131,090	301,158
As at 1 January 2011	34,014	170,068	131,090	301,158
As at 31 December 2011	34,014	170,068	131,090	301,158

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

12. Other capitals

Pursuant to the Articles of Association, the Parent Undertaking can create supplementary capital and other reserve capitals, the purpose of which is determined by provisions of law and resolutions of decision-making bodies.

13. Trade creditors and other liabilities

	31 Dec. 2011	**31 Dec. 2010**
Trade creditors	43,651	54,818
Accruals	34,109	29,709
Other liabilities, including:	108,547	136,120
the Company Social Benefits Fund,	6,448	5,465
Liabilities due security deposit	3,725	3,859
Investment liabilities	68,524	103,527

Other liabilities	29,850	23,269
Total financial liabilities	186,307	220,647
Non-financial liabilities - social security and other tax payable	53,664	25,902
Total trade creditors and other liabilities	**239,971**	**246,549**
including:		
Long-term	5,796	5,808
Short-term	234,175	240,741
	239,971	**246,549**

14. Grants

	31 Dec. 2011	31 Dec. 2010
Long-term liabilities		
Grants	19,111	19,451
	19,111	**19,451**

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

	31 Dec. 2011	31 Dec. 2010
Long-term:		
Bank loans:	341,000	200,000
- PKO BP S.A.	241,000	200,000
- PEKAO S.A.	100,000	-
Short-term:		
Bank loans:	-	50,000
- PKO BP S.A.	-	50,000
	341,000	**250,000**

The bank loan matures on 31 December 2014 and bears interest equal to 3M WIBOR + bank margin. Details on maturity dates of the loan are presented in note 3.1. Information on security interest for bank loans received in provided in note 29.

The fair value of loans does not significantly differ from their carrying value.

The Group takes out loans in PLN.

As at 31 December 2011, the Group had an unused overdraft credit line at Bank Millenium S.A. of PLN 30,000,000.

16. Deferred income tax

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

	31 Dec. 2011	**31 Dec. 2010**
Deferred income tax assets		
- to be realised after 12 months	26,203	40,553
- to be realised within 12 months	8,290	3,940
	34,493	44,493
Deferred income tax liabilities		
- to be realised after 12 months	99,341	96,700
- to be realised within 12 months	5,811	2,525
	105,152	99,225
Deferred income tax liabilities (net)	**70,659**	**54,732**

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:

Deferred income tax assets	**Employee benefits and similar liabilities**	**Unpaid remuneration and other benefits**	**Provision for real property tax**	**Other**	**Total**
As at 1 January 2010	23,620	1,917	7,500	6,048	39,085
(Decrease)/increase of the financial result	2,646	231	1,545	986	5,408
As at 31 December 2010	26,266	2,148	9,045	7,034	44,493
(Decrease)/increase of the financial result	1,713	(1,343)	(6,629)	(3,741)	(10,000)
As at 31 December 2011	**27,979**	**805**	**2,416**	**3,293**	**34,493**

Deferred income tax liabilities	**Valuation of fixed assets**	**Costs of panel strengthening**	**Provision for mine closure – net***	**Property tax receivable**	**Other**	**Total**
As at 1 January 2010	**90,114**	**1,922**	**5,013**	**-**	**314**	**97,363**
Decrease/(increase) of the financial result	2,766	(700)	(298)	-	94	1,862
As at 31 December 2010	92,880	1,222	4,715	-	408	99,225
Decrease/(increase) of the financial result	1,631	254	359	3,227	456	5,927
As at 31 December 2011	**94,511**	**1,476**	**5,074**	**3,227**	**864**	**105,152**

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

17. Employee benefits liabilities

	31 Dec. 2011	**31 Dec. 2010**
Liabilities as disclosed in the Consolidated statement of financial position		
- Retirement and disability benefits	28,497	30,460
- Long service awards	42,068	39,909
- Coal allowances in kind	70,272	62,752
- Other benefits for employees	6,416	5,170
	147,253	**138,291**

	2011	**2010**
Costs as disclosed in the Consolidated statement of comprehensive income		
- Retirement and disability benefits	1,250	3,204
- Long service awards	10,717	9,875
- Coal allowances in kind	10,321	12,124
- Other benefits for employees	4,907	3,552
	27,195	**28,755**

Amounts disclosed in the Consolidated statement of comprehensive income are as follows:

	2011	**2010**
Liabilities at the beginning of period	138,291	124,926
Costs of current employment	10,996	34,102
Interest expense	7,455	7,804
Actuarial profit/(loss)	8,744	(13,151)
Disclosed in total in the employee benefits costs	**27,195**	**28,755**
Benefits paid	(18,233)	(15,390)
Liabilities at end of period	**147,253**	**138,291**
including:		
- long-term	113,144	108,582
- short-term	34,109	29,709

Amounts disclosed in the Consolidated statement of comprehensive income in 2011 are as follows:

	Benefits during employment	**Post-employment benefits**	**Total**
Liabilities at the beginning of period	41,548	96,743	138,291
Costs of current employment	9,100	1,896	10,996
Interest expense	2,260	5,195	7,455
Actuarial profits/(losses)	4,264	4,480	8,744
Disclosed in total in the employee benefits costs	**15,624**	**11,571**	**27,195**

Amounts disclosed in the Consolidated statement of comprehensive income in 2010 are as follows:

	Benefits during employment	**Post-employment benefits**	**Total**
Liabilities at the beginning of period	39,349	85,577	124,926
Costs of current employment	6,936	27,166	34,102
Interest expense	2,232	5,572	7,804
Actuarial losses / (profits)	4,259	(17,410)	(13,151)
Disclosed in total in the employee benefits costs	**13,427**	**15,328**	**28,755**

Employee benefits costs are disclosed in the Consolidated statement of comprehensive income as follows:

	2011	**2010**
Costs of products, goods and materials sold	24,837	26,320
Selling costs	133	146
Administrative costs	2,225	2,289
Disclosed in total in the employee benefits costs	**27,195**	**28,755**

Main actuarial assumptions made:

	2011	**2010**
Discount rate	6.00%	5.75%
Increase in remunerations in the subsequent year	1.00%	3.50%
Increase in remunerations in 2013-2020 / 2012-2019	1.00%	1.64200%
Increase in remunerations after 2020	1.00%	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:

	2011	**2010**
Men	12.69	12.69
Women	22.94	22.94

18. Provisions for other liabilities and charges

	Mine closure	**Mining damage**	**Legal claims**	**Real property tax**	**Total**
As at 1 January 2010	**63,079**	**6,680**	**1,699**	**55,217**	**126,675**
Including:					
Long-term	63,079	-	-	-	63,079
Short-term	-	6,680	1,699	55,217	63,596
Recognition in Consolidated statement of comprehensive income					
- Creation of additional provisions	1,333	3,457	13,183	12,272	30,245
- Release of an unused provision	-	-	(4,252)	-	(4,252)
- Interest	-	-	171	4,720	4,891
- Discount settlement	2,902	-	-	-	2,902
- Use of the provision	-	(3,042)	2,219	(9,635)	(10,458)
As at 31 December 2010	**67,314**	**7,095**	**13,020**	**62,574**	**150,003**
Including:					
Long-term	67,314	-	-	-	67,314
Short-term	-	7,095	13,020	62,574	82,689
Recognition in Consolidated statement of comprehensive income					
- Creation of additional provisions	5,218	3,860	2,549	6,917	18,544
- Use of the provision	-	(2,835)	-	(7,033)	(9,868)
- Release of an unused provision	-	(2,760)	(2,398)	(46,552)	(51,710)
- Interest	-	-	1,580	681	2,261
- Discount settlement	4,324	-	-	-	4,324
As at 31 December 2011	**76,856**	**5,360**	**14,751**	**16,587**	**113,554**
Including:					
Long-term	76,856	-	-	-	76,856
Short-term	-	5,360	14,751	16,587	36,698

(a) *Mine closure*

The Group creates a provision for costs of liquidating a mining plant, which it is obliged to incur under current laws. The value of closing the mine calculated as at 31 December 2011 amounts to PLN 76,856,000.

(b) *Removing mining damage*

Given the need of removing mining damage, the Group creates a provision for mining damage. As at 31 December 2011, the estimated value of works necessary for damage removal is: PLN 5,360,000.

(c) *Legal claims*

The amount disclosed constitutes a provision for certain legal claims filed against the Group by customers and suppliers. The amount of the provision is disclosed in the Consolidated statement of comprehensive income as "Other net profit / (loss)". In the Management Board's opinion, supported by an appropriate legal opinion, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 31 December 2011.

(d) *Real property tax*

The amount disclosed constitutes a provision for real property tax. While preparing statements for real property tax, the Parent Undertaking (like other mining companies in Poland) does not take into account the value of buildings and equipment located in mining excavations for the purpose of calculating this tax.

In previous years, the Parent Undertaking created provision for a real property tax based on full value of mine excavations. In connection with a ruling of the Constitutional Tribunal of 13 September 2011 and justification given to that extent, related to the charging of real property tax on mining excavations or their parts, as well as in connection with the currently prevailing line of decisions given by administrative courts (provided it is upheld), there are chances that the Parent Undertaking may obtain resolutions consisting in dismissal of a portion of the tax proceedings because the tax liability has become barred by statute of limitations. The amount of the provision created as at 31 December 2011 covers the arrears on account of real property tax for the years 2007-2011, calculated based on identified objects in excavations, which may be subject to real property tax. The values connected with real property tax are disclosed in the Consolidated statement of comprehensive income under "Cost of products, goods and materials sold". The provision so estimated in the amount of PLN 16,587,000 is recognised in the books as at 31 December 2011 (31 December 2010: PLN 62,574,000).

Based on the above, in connection with the payments of the real property tax made on account of mining excavations for the years 2004-2006, as at 31 December 2011 the Parent Undertaking calculated income due for those years for an excess payment of the real property tax, in the amount of PLN 16,289,000.

	2011
Disclosed receivables from communes on account of the disputed real property tax on underground mine excavations – net	16,289
Release of a provision on account of the disputed real property tax – net	46,552
Impact on pre-tax profit	**62,841**

19. Revenue on sales

	2011	**2010**
Sales of coal	1,224,690	1,191,016
Sales of ceramics	8,678	7,868
Other activities	43,807	22,442
Sales of goods and materials	24,174	9,121
Total revenue on sales	**1,301,349**	**1,230,447**

20. Costs by type

	2011	**2010**
Amortisation/depreciation	184,864	138,076
Materials and energy used	410,323	345,867
Contracted services	355,736	282,341
Employee benefits	424,053	397,557
Entertainment and advertising expenses	9,493	12,361
Taxes and charges	24,360	23,128
Other costs by type	18,902	18,176
Total costs by type	**1,427,731**	**1,217,506**
Selling costs	(39,008)	(35,885)
Administrative costs	(80,013)	(70,217)
Activities for own needs	(384,184)	(288,396)
Release of a provision for the real property tax	(46,552)	-
Change in products	16,412	(10,391)
Cost of products sold	**894,386**	**812,617**
Value of goods and materials sold	22,310	8,146
Costs of products, goods and materials sold	**916,696**	**820,763**

21. Other income

	2011	**2010**
Compensations and damages received	992	801
Other	4,605	3,101
of which:		
- Release of used provisions for liabilities	5	1,807
- Liquidated damages	252	56
- Release of revaluation write-offs	1,551	372
Total other income	**5,597**	**3,902**

22. Other expenses

	2011	**2010**
Donations	(296)	(1,767)
Enforcement fees and penalties	(304)	(256)
Compensation	(1,565)	(1,320)
Other	(269)	-
Total other expenses	(2,434)	(3,343)

23. Other profits/(losses) - net

	2011	2010
Profit / (loss) on sale of tangible fixed assets	(232)	(1,714)
Currency exchange differences	(215)	(5,500)
Revaluation of stock	(370)	(1,705)
Creating revaluation write-offs for tangible fixed assets	(2,195)	(3,809)
Provision for mining damage	1,735	(415)
Other	(1,779)	(14,526)
of which:		
- Creation of other provisions	(148)	(13,192)
Total other net losses	**(3,056)**	**(27,669)**

24. Financial income and expenses

	2011	2010
Interest income on short-term bank deposits	11,153	24,973
Other	1,382	389
Financial income	12,535	25,362
Interest expenses:		
- bank loans	-	(9,891)
- settlement of discount on long-term provisions	(4,635)	(2,902)
- creation of a provision and revaluation write-offs regarding interest	(1,626)	(183)
Other	(32)	(3)
Fees and commissions	-	(750)
Financial expenses	**(6,293)**	**(13,546)**
Net financial income/expenses	**6,242**	**11,816**

25. Income tax

	2011	2010
Current tax	34,808	61,653
Deferred tax	15,927	(3,546)
	50,735	**58,107**

	2011	2010
Profit before taxation	271,981	288,229
Tax calculated at the rate of 19%	51,676	54,764

Non-taxable income	(15,916)	(4,859)
Costs not carried as costs of sales	14,975	8,202
Decrease in financial result by the income tax	**50,735**	**58,107**

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

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

However, in the light of applicable tax regulations, it may not be ruled out that such costs could be classified for the purpose of corporate income tax in a way that differs from the classification presented by the Group, which could potentially result in adjustments in corporate income tax settlements and the payment of an additional amount of tax. Such amount would be significant.

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

26. Earnings per share

(a) Basic

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

	2011	**2010**
Earnings attributable to the Parent Undertaking's shareholders	220,921	229,811
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN per share)	**6,50**	**6,76**

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. The Parent Undertaking does not have instruments causing dilution of potential ordinary shares. Diluted earnings per share are therefore equal to basic earnings per share of the Parent Undertaking.

27. Dividend per share

In compliance with Resolution No. 24 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 10 June 2011, the profit for 2010 in the amount of PLN 47,619,000 has been designated for distribution to the Parent Undertaking's shareholders. Dividend for 2010 was paid on 26 August 2011. The dividend rate due to shareholders of the Parent Undertaking is presented in the table below.

	2011	**2010**
Dividend paid	47,619	-
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
Dividend per share (in PLN per share)	**1.40**	**0.00**

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

28. Net operating cash inflow

	2011	**2010**
Profit before taxation	271,981	288,229
- Depreciation of tangible fixed assets (note 6)	183,224	136,503
- Amortisation of intangible fixed assets (note 7)	1,640	1,573
- Loss on sale of tangible fixed assets (see below)	232	1,714
- Net financial income (note 24)	(6,242)	(11,816)
- Shares in losses/profits of associates	-	59
- Change in employee benefits liabilities (note 17)	8,962	13,365
- Changes in provisions (note 18)	(36,449)	23,328
- Creating revaluation write-offs for fixed assets	2,195	3,809
- Other flows	(75)	715
- Stock	17,316	(10,428)
- Trade debtors and other receivables	(128,680)	(9,748)
- Trade creditors and other liabilities	28,159	6,397
Operating cash inflow	**342,263**	**443,700**

Balance-sheet change in liabilities	(6,578)	94,962
Change in investment liabilities	34,737	(67,605)
Grant received	-	(19,451)
Change in interest paid	-	(1,509)
Change in liabilities for the purposes of the consolidated cash flow statement	**28,159**	**6,397**

Increase in tangible fixed assets	696,516	684,764
Interest paid regarding investing activity	(13,157)	-
Change in investment liabilities	34,737	(67,605)
Acquisition of tangible fixed assets	**718,096**	**617,159**

In the consolidated cash flow statement, the amount of inflows from the sale of tangible fixed assets is comprised of:

	2011	**2010**
Net book value	465	1,824
Loss on sale of tangible fixed assets	(232)	(1,714)
Inflow from the sale of tangible fixed assets	**233**	**110**

29. Contingent items

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

Potential arrears in the real property tax may result primarily from discrepancies between the approach of the Group and that of tax authorities applied to the determining of the subject of taxation with respect to structures located in mining excavations and calculating their value. The maximum amount of that contingent liability equals the amount of provision for the real property tax released in 2011 (note 18).

The item provisions for legal claims shows a provision for legal claims regarding remuneration for co-inventors of an invention covered by patent No. 206048, used at the Parent Undertaking. Given that, according to an opinion of the Parent Undertaking's legal advisor, it is currently not possible to assess whether the amount of the claim in question is justified, the Parent Undertaking 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 Undertaking when calculating remunerations for inventors. The amount of remuneration will be subject to analysis of court experts or experts accepted by both parties. The value of that contingent liability corresponds to the difference between the value of the claim and the amount of the created provision and amounts to PLN 18.3 million.

In connection with the conclusion of the long-term loan agreements with PKO Bank Polski S.A. and PEKAO S.A., the Parent Undertaking issued blank promissory notes with declaration, covering the amount corresponding to the amount of debt under the loans plus interest and other Bank's costs, for the purpose of securing the repayment of the abovementioned loans. The value of the used portion of the loans as at 31 December 2011 amounted to PLN 341 million and has been disclosed as liability in the Consolidated statement of financial position of the Group. Further, the loan agreements provide for collaterals in the form of deduction from the Parent Undertaking's bank account and transfer of receivables from the sale of coal up to the amount of liability under the loan plus interest.

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:

	2011	**2010**
Tangible fixed assets	267,044	346,844
	267,044	**346,844**

31. Transactions with related entities

Information on transactions with the Management Board and the Supervisory Board

	2011	**2010**
Remuneration of Management Board members	**4,162**	**2,785**
Including:		
Annual award	860	481

Long-service award	-	108
Bonus for innovative projects	14	36
Other benefits	47	29
Remuneration of the Supervisory Board members	**348**	**299**

32. Events after the balance-sheet date

After the balance-sheet date, to the best of the Group's knowledge, no material event occurred, which could affect the result for 2011 and were not disclosed in the consolidated financial statements.

By the publication date of these consolidated financial statements, the following material events affecting the Group's operations in 2012 occurred:

On 23 January 2012 Agreement UW/LW/01/2012 was signed with Elektrownia Kozienice S.A. with registered office in Świerże Górne, concerning the supply of power coal for the needs of a newly built power block in Elektrownia Kozienice S.A. The Agreement was concluded for the term from the date of its execution until 31 December 2036. The estimated net value of the Agreement at supply prices of the current year amounts to PLN 11,248 billion, without taking into account volume quantity tolerance of +/- 5% stipulated by the Agreement.

In addition, on 23 January 2012 the Company signed Annex No. 1 to the existing Long-Term Agreement for the supply of power coal No. UW/LW/01/2010 until 31 December 2025. In consequence of execution of the new Agreement and Annex No. 1 to the existing Long-Term Agreement, the Parties are bound by two long-term agreements with their aggregate value in the years 2011-2036 amounting at the current prices to about PLN 22,772 billion.

33. Approval of the consolidated financial statements

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 19 March 2012, it approves these consolidated financial statements of the Group for the period from 1 January to 31 December 2011, for publication.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Mirosław Taras	President of the Management Board
Krystyna Borkowska	Vice-President of the Board for Economic and Financial Affairs – Chief Accountant
Waldemar Bernaciak	Vice-President of the Board for Commerce, and Logistics
Zbigniew Stopa	Vice-President of the Board for Technical Affairs
Lech Tor	Member of the Management Board elected by the employees