LUBELSKI WĘGIEL BOGDANKA GROUP
CONSOLIDATED FINANCIAL STATEMENTS

for the financial year from 1 January 2012 to 31 December 2012

BOGDANKA, MARCH 2013

Contents of the Financial Statements

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Consolidated Statement of Financial Position (Balance Sheet)

	Note	31 Dec. 2012	31 Dec. 2011
Assets			
Fixed assets			
Tangible fixed assets	6	2,969,791	2,605,312
Intangible fixed assets	7	23,116	9,931
Deferred income tax assets	16	1,890	-
Trade debtors and other receivables	8.1	825	685
Cash and cash equivalents	10	68,031	58,288
		3,063,653	2,674,216
Current assets			
Stocks	9	55,383	43,494
Trade debtors and other receivables	8.1	238,605	255,698
Overpaid income tax		6,964	-
Cash and cash equivalents	10	120,551	102,820
		421,503	402,012
TOTAL ASSETS		**3,485,156**	**3,076,228**
Shareholders' equity			
Shareholders' equity attributable to shareholders of the Parent Undertaking			
Ordinary shares	11	301,158	301,158
Other capital	12	1,345,888	1,261,013
Retained profits		639,335	570,896
		2,286,381	2,133,067
Non-controlling interest		**9,993**	**9,579**
Total shareholders' equity		**2,296,374**	**2,142,646**
Liabilities			
Long-term liabilities			
Credit facilities and loans	15	421,000	341,000
Deferred income tax liabilities	16	75,051	70,659
Employee benefits payable	17	152,111	113,144
Provisions for other liabilities and encumbrances	18	89,861	76,856
Grants	14	18,122	19,111
Trade creditors and other liabilities	13	16,963	5,796
		773,108	626,566
Short-term liabilities			
Credit facilities and loans	15	20,000	-
Employee benefits payable	17	40,557	34,109
Current income tax liabilities		-	2,034
Provisions for other liabilities and encumbrances	18	45,998	36,698
Dividend payable		4	-
Trade creditors and other liabilities	13	309,115	234,175
		415,674	307,016
Total liabilities		**1,188,782**	**933,582**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**3,485,156**	**3,076,228**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Consolidated Statement of Comprehensive Income

	Note	for the financial year from 1 January to 31 December 2012	2011
Revenue on sales	19	1,835,801	1,301,349
Costs of products, goods and materials sold	20	(1,330,611)	(916,696)
Gross profit		**505,190**	**384,653**
Cost of sales	20	(43,963)	(39,008)
Administrative costs	20	(97,696)	(80,013)
Other income	21	4,065	5,597
Other expenses	22	(1,822)	(2,434)
Other profits/(losses) - net	23	(8,426)	(3,056)
Operating profit		**357,348**	**265,739**
Financial income	24	11,833	12,535
Financial expenses	24	(10,856)	(6,293)
Net financial income	24	977	6,242
Profit before taxation		**358,325**	**271,981**
Income tax	25	(68,543)	(50,735)
Net profit for the accounting year		**289,782**	**221,246**
including:			
- attributable to the shareholders of the Parent Undertaking		289,368	220,921
- attributable to non-controlling interest		414	325
Total income for the period		**289,782**	**221,246**
including:			
- attributable to the shareholders of the Parent Undertaking	26	289,368	220,921
- attributable to non-controlling interest		414	325
Earnings per share attributable to the Parent Undertaking's shareholders during the year (in PLN per share)			
- basic	26	8.51	6.50
- diluted	26	8.51	6.50

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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 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**
As at 1 January 2012	**301,158**	**1,261,013**	**570,896**	**2,133,067**	**9,579**	**2,142,646**
Total income for the accounting period	-	-	289,368	289,368	414	289,782
Dividends concerning 2011	-	-	(136,054)	(136,054)	-	(136,054)
Transfer of the result for 2011	-	84,875	(84,875)	-	-	-
As at 31 December 2012	**301,158**	**1,345,888**	**639,335**	**2,286,381**	**9,993**	**2,296,374**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Consolidated Cash Flow Statement

	Note	for the financial year from 1 January to 31 December 2012	2011
Operating cash flow			
Operating cash inflow	28	739,729	342,263
Interest paid		(2,962)	(31)
Income tax paid		(75,038)	(28,430)
Net operating cash flow		661,729	313,802
Investing cash flow			
Acquisition of tangible fixed assets	28	(568,401)	(718,096)
Interest paid regarding investing activity	28	(19,785)	(13,157)
Acquisition of intangible fixed assets		(14,892)	(616)
Inflow from the sale of tangible fixed assets	28	221	233
Other net investing cash flow		11	1,373
Interest received		7,852	11,153
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(9,743)	(7,379)
Net investing cash flow		(604,737)	(726,489)
Financing cash flow			
Loans and borrowings received		100,000	100,000
Loans and borrowings repaid		-	(9,000)
Interest and commission on loans and borrowings paid		(3,211)	-
Dividend paid to Parent Undertaking's shareholders		(136,050)	(47,619)
Other net financing cash flow		-	25
Net financing cash flow		(39,261)	43,406
Increase / (Decrease) in cash and cash equivalents		17,731	(369,281)
Cash and cash equivalents at beginning of period		102,820	472,101
Cash and cash equivalents at end of period		**120,551**	**102,820**

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.

In accordance with resolution of the Management Board of the National Depository for Securities No. 74/13 of 24 January 2013, on 4 February 2013 the National Depository registered 34,754 shares of the Company and marked them with code PLLWBGD00016. On the same date 34,754 employee shares were introduced to the WSE. As at today, there are 135 registered series B shares outstanding.

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 2012, 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 adopted for the first time in 2012

The following amendments to the existing standards published by the International Accounting Standards Board and endorsed by the European Union come into force in the beginning of the year 2012:

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"–** transfer of financial assets (endorsed by the European Union on 22 November 2011, applicable to annual periods beginning on or after 1 July 2011). The objective of the amendments is to improve the quality of information on transferred financial assets which continue to be, at least partially, recognised by the undertaking because they have not qualified for derecognition; and on financial assets which are not presented by the undertaking as they have qualified for derecognition but continue to be used by the undertaking.

  To date, there have been no actions described in IFRS 7 in the existing operations of the Group.

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

Upon approval of these consolidated financial statements, the Group did not apply the following standards, standard amendments and interpretations which were published and endorsed by the European Union for use within the European Union but which were not effective yet:

- **IFRS 10 "Consolidated Financial Statements"** (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board in May 2011, and endorsed by the European Union on 11 December 2012. The standard replaces consolidation guidelines included in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" by implementing a uniform consolidation model for all entities based on control. According to IFRS 10, control depends on whether the investor has power over the investee, exposure or right to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's return.

  The Group will apply IFRS 10 as from 1 January 2014. At present, the Group analyses the impact of the new standard on the consolidated financial statements.

- **IFRS 11 "Joint Arrangements"** (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board in May 2011, and endorsed by the European Union on 11 December 2012. IFRS 11 introduces new accounting regulations with respect to joint arrangements, and replaces IAS 31 "Interests in Joint Ventures". The ability to apply the proportional consolidation method in relation to jointly controlled entities has been removed. Furthermore, IFRS 11 eliminates jointly controlled assets and leaves a distinction into joint operations and joint venture. Joint operations are joint arrangements in which the parties have joint control over rights to the assets and liabilities. Joint venture is a joint arrangement in which the parties have joint control over rights to the net assets.

  The Group will apply IFRS 11 as from 1 January 2014. At present, the Group analyses the impact of the new standard on the consolidated financial statements.

- **IFRS 12 "Disclosures of Shares in Other Entities"** (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board in May 2011, and endorsed by the European Union on 11 December 2012. The new standard will require more disclosures about both entities covered by consolidation and entities not covered by consolidation in which the undertaking is involved. The objective of IFRS 12 is to provide information so that the users of financial statements may evaluate the basis of control, restrictions imposed on consolidated assets and liabilities, exposure to risk arising from involvement in structured entities not covered by consolidation and involvement of non-controlling interests in the operations of consolidated entities.

  The Group will apply IFRS 12 as from 1 January 2014. At present, the Group analyses the impact of the new standard on the consolidated financial statements.

- **IFRS 13 "Fair Value Measurement"** (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board in May 2011, and endorsed by the European Union on 11 December 2012. The standard defines fair value, includes guidance for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not change, however, the requirements in respect of what elements should be measured or disclosed at fair value.

  The Group will apply IFRS 13 as from 1 January 2013. At present, the Group analyses the impact of the new standard on the consolidated financial statements.

- **IAS 27 "Separate Financial Statements"** (revised in 2011, effective for annual periods beginning on or after 1 January 2014), was published by the ISAB in May 2011, and endorsed by the European Union on 11 December 2012. The requirements regarding separate financial statements have not changed and are included in the revised IAS 27. Other parts of IAS 27 have been replaced by IFRS 10.

The Group will apply IAS 27 as from 1 January 2014. At present, the Group analyses the impact of the new standard on the consolidated financial statements.

- **IAS 28 "Investments in Associates and Joint Ventures"** (revised in 2011, effective for annual periods beginning on or after 1 January 2014), was published by the ISAB in May 2011, and endorsed by the European Union on 11 December 2012. IAS 28 was amended in consequence of publishing IFRS 10, IFRS 11 and IFRS 12.

  The Group will apply amended IAS 28 as from 1 January 2014. To date, there have been no actions described in IAS 28 in the existing operations of the Group.

- **Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" –** hyperinflation and elimination of strict deadlines for the entities adopting IFRS for the first time (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board on 20 December 2010, and endorsed by the European Union on 11 December 2012. The first amendment changes the references in the Standard to the fixed date of "1 January 2004" to „date of transition to IFRS". In consequence, first-time adopters of IFRS will not have to transform the operations of derecognition which took place before the date of transition into IFRS. The second amendment gives guidance regarding resumption to present IFRS financial statements after a period of inability to comply with IFRS because of severe hyperinflation of the functional currency.

  The Group will apply the amendments to IFRS 1 as from 1 January 2013. To date, there have been no actions described in IFRS 1 in the existing operations of the Group.

- **Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards"** – Government loans (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board in March 2011, and endorsed by the European Union on 4 March 2013. The amendment specifies how first-time adopters of IFRS should account for government loans with a below-market rate of interest at the time of transition to IFRS. The amendment also extends exemptions from retroactive application of IFRS to first-time adopters of IFRS analogously to exemptions made available to undertakings which currently prepare IFRS financial statements when that requirement was added in 2008 to IAS 20 "Accounting for Government Grants and Disclosure".

  The Group will apply the amendments to IFRS 1 as from 1 January 2013. At present, the Group analyses the impact of the new standard on the consolidated financial statements.

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** – Offsetting Financial Assets and Liabilities (effective for annual periods beginning on or after 1 January 2013), published by the IASB in December 2011, and endorsed by the European Union on 13 December 2012. The amendments require disclosure of information about all recognised financial instruments which have been set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments that give right to offsetting in accordance with a relevant agreement or similar arrangements, even if they have not been set off in accordance with IAS 32.

  The Group will apply the amendments to IFRS 7 as from 1 January 2013. To date, there have been no actions described in IFRS 7 in the existing operations of the Group.

- **Amendments to IAS 1 "Presentation of Financial Statements" –** presentation of items of other comprehensive income (applicable to annual periods beginning on or after 1 July 2012), published by the International Accounting Standards Board in June 2011. The amendments require that entities preparing financial statements in accordance with IFRS present these items in other comprehensive income which 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 IAS 1 as from 1 January 2013. At present, the Group analyses the impact of the new standard on the consolidated financial statements.

- **Amendments to IAS 12 "Income Taxes"** – Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012), published by the IASB in December 2010, and endorsed by the European Union on 11 December 2012. IAS 12 requires the undertakings to measure deferred tax assets depending on whether the undertaking plans to recover the asset through its use or sale. For assets measured in accordance with IAS 40 "Investment Property" the assessments whether such assets will be recovered through their use or sale may be difficult and subjective. The amendments solve that problem by making a presumption that the asset value is recovered usually upon its sale.

  The Group will apply the amendments to IAS 12 as from 1 January 2013. To date, there have been no actions of significant value described in IAS 12 in the existing operations of the Group.

- **Amendments to IAS 19 "Employee Benefits" –** amendments to accounting principles for benefits after the employment term (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board in June 2011. The amendments contribute to significant improvements by: (1) eliminating the option to defer gains and losses, known as the "corridor approach", contributing to better comparability and true and fair picture of the presentation; (2) improving the presentation of changes in assets and liabilities arising from defined employee benefits, including by implementing a requirement to present changes arising from revaluation in other comprehensive income, thus separating those changes from those which are the consequence of usual operations of the undertaking; (3) increasing disclosure requirements for the characteristics of defined employee benefits, thus improving the quality of information on the characteristics of defined employee benefits and on the risks faced by the undertaking in connection with participation in such benefits.

  The Group will apply the amendments to IAS 19 as from 1 January 2013. At present, the Group analyses the impact of the new standard on the consolidated financial statements.

- **Amendments to IAS 32 "Financial Instruments: Presentation" –** offsetting of financial assets and liabilities (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board in December 2011, endorsed by the European Union on 13 December 2012. The amendments specify more precisely the principles of offsetting and focus on four key areas: (a) clarification of the meaning of "to have a legally enforceable right to set off"; (b) simultaneous offsetting and settlement; (c) offsetting collaterals; (d) settlement unit for offsetting purpose.

  The Group will apply the amendments to IAS 32 as from 1 January 2014. The introduction of amendments to IAS 32 does not materially affect these consolidated financial statements.

- **IFRIC 20 Interpretation** "**Stripping Costs in the Production Phase of a Surface Mine"** (applicable to annual periods beginning on or after 1 January 2013), published by the International Accounting Standards Board in October 2011, endorsed by the European Union on 11 December 2012. The Interpretation specifies that stripping costs in surface mining operations should be recognised as an additional component of the existing asset (or as an increase thereof) and depreciated over the anticipated useful life of the identified resources which have become available because of stripping (using the production unit method, unless another method is more appropriate).

  The Group does not conduct activities described in IFRIC 20. The costs of preparatory works at the Group have been disclosed in accordance with IFRIC 20.

c) Standards and interpretations adopted by IASB, but not yet endorsed by the European Union

IFRS as approved by the EU currently do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following interpretations, which as at 31 December 2012 have not yet been accepted for application.

- **IFRS 9 "Financial Instruments"** (applicable to annual periods beginning on or after 1 January 2015), published by the International Accounting Standards Board in November 2009. In September 2010 the IASB published revised IFRS 9, which specified new requirements with respect to settlement of financial liabilities and transferred the requirements regarding derecogition of assets and liabilities from IAS 39. The standard establishes one approach to determine whether financial assets are measured at amortised cost or fair value, replacing numerous principles set forth in IAS 39. The approach in IFRS 9 is based on the assessment how the undertaking manages its financial instruments (i.e. based on business model assessment) and the assessment of characteristics of contractual cash flows connected with financial assets. The new standard also requires the application of one method to evaluate impairment, replacing numerous impairment evaluation methods set forth by IAS 39. The new requirements regarding the settlement of financial liabilities concern the problem of changes in financial profit/loss resulting from re-issuer's decision to measure its own indebtedness at fair value. The IASB decided to maintain the current measurement at amortised cost with respect to most of the liabilities, amending only regulations regarding own credit risk. Under the new requirements, if the undertaking decides to measure the liabilities at fair value, it has to present a change in value resulting from changes of own credit risk not in the income statement but in other comprehensive income.

- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"** – mandatory effective date and transitional provisions, published by the IASB in December 2011. The amendment moves the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments also provide for an exemption from the obligation to transform comparative data in the financial statements in connection with the adoption of IFRS 9. Originally the exemption was available only to the undertakings which decided to adopt IFRS 9 before 2012. Instead, additional disclosures are required regarding the effects of transition to the new standards, drawn up in such a way so as to help the investors understand the impact of initial adoption of IFRS 9 on the classification and measurement of financial instruments.

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interest in Other Entities"** – explanations to transitional provisions (effective for annual periods beginning on or after 1 January 2013), published by the ISAB in June 2012. The objective of the amendments is to provide additional explanations to transitional provisions in IFRS 10, IFRS 11 and IFRS 12 so as to „limit the requirements to transform comparative data only to the preceding comparative period". Amendments were also made to IFRS 11 and IFRS 12 to eliminate the requirements to present comparative data for periods earlier than the directly preceding period.

- **Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment undertakings"** (effective for annual periods beginning on or after 1 January 2013) – were published by the IASB in October 2012. The amendments enable not to cover by consolidation those subsidiaries which satisfy a definition of investment undertakings e.g. some investment funds. Investments in such subsidiaries will be measured at fair value through profit or loss in accordance with IFRS 9 or IAS 39.

- **Amendments to various standards "Improvements to IFRS (2012)"** – amendments made under the annual IFRS improvements project and published in May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34), primarily oriented at eliminating inconsistencies and specifying terminology (applicable to annual periods beginning on or after 1 January 2013). The amendments specified more precisely the required accounting treatment in situations wherein previously freedom of interpretation was allowed. The most important are new or amended requirements regarding: (1) resumed application of IFRS 1, (2) borrowing costs under IFRS 1, (3) more precisely specified requirements regarding comparative information, (4) classification of equipment for service purposes, (5) impact of income tax on distribution of equity instruments to owners, (6) segment information on total assets and liabilities in interim financial statements.

The Group estimated that the aforesaid standards, interpretations and standard amendments would not materially impact these consolidated financial statements, if they had been adopted by the Group as at the reporting date.

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 0.5% 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.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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 2012 the Group used external financing denominated in the złoty.

The Group's current indebtedness amounts to PLN 441 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 4.21 million.

(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:

	2012	**2011**
Cash in hand and bank deposits	188,582	161,108
Current trade debtors	192,341	224,302
Total exposure to credit risk	380,923	385,410
Receivables from 7 key customers	174,741	207,597
Concentration of credit risk under receivables from 7 key customers	94%	93%
Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits)	45%	46%
Cash deposited at PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	18%	13%
Cash deposited at BRE Bank S.A. (expressed as % of total cash and bank deposits)	16%	1%
Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits)	8%	40%

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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 Fitch rating was awarded), long-term credit rating (by Standard and Poor's): A — with a stable outlook

- 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 2012				
Loans and borrowings	40,476	435,392	-	-
Trade creditors and other liabilities	304,481	4,320	12,958	4,319
	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

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.

(d) sensitivity analysis of the financial result

Based on the 2012 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.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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 4.89%. Similarly, a 1% decrease in the coal price reduces the result on sales by 4.89%. 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	-73.30%	-48.87%	-24.43%	-9.77%	-4. 89%	0.00%	4.89%	9.77%	24.43%	48.87%	73.30%

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. 2012	**31 Dec. 2011**
Total loans	441,000	341,000
Less: cash and cash equivalents	(188,582)	(161,108)
Net debt	252,418	179,892
Total shareholders' equity	2,296,374	2,142,646
Employed capital	2,548,792	2,322,538

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 covered by a license 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 2013-2034 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 4,689,000 higher or PLN 4,467,000 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 2012, revenue from sales of other products and services amounted to PLN 59,277,000 (in 2011: PLN 76,659,000), representing, respectively, 3.23% in 2012 and 5.89% in 2011 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 2012, revenue from foreign sales amounted to PLN 795,000 (in 2011: PLN 479,000), representing, respectively, 0.04% and 0.04% 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.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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 2011							
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**
As at 31 December 2012							
Net book value at beginning of year	**3,850**	**1,415,194**	**744,232**	**50,991**	**4,619**	**386,426**	**2,605,312**
Increases	91	25,121	3,478	83	85	644,521	673,379
Transfer from fixed assets in construction	573	370,617	280,104	9,069	901	(661,264)	-
Decreases*	(176)	(7,416)	(80)	(47)	-	(2,136)	(9,855)
Depreciation	-	(212,258)	(79,740)	(6,123)	(924)	-	(299,045)
Net book value	**4,338**	**1,591,258**	**947,994**	**53,973**	**4,681**	**367,547**	**2,969,791**
As at 31 December 2012							
Cost or assessed value	4,338	2,384,845	1,491,002	111,825	15,437	367,547	4,374,994
Depreciation	-	(793,587)	(543,008)	(57,852)	(10,756)	-	(1,405,203)
Net book value	**4,338**	**1,591,258**	**947,994**	**53,973**	**4,681**	**367,547**	**2,969,791**

* 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.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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 2011	**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**
Creating revaluation write-offs due to impairment of value	142	756	-	1,061	1,959
Using the write-off created	(35)	(258)	-	(756)	(1,049)
As at 31 December 2012	**4,435**	**5,143**	**1,453**	**898**	**11,929**

The creation, releasing and using the revaluation write-off due to impairment of value as at 31 December 2012 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:

	2012	**2011**
Costs of products, goods and materials sold	(289,446)	(176,207)
Selling costs	(359)	(384)
Administrative costs	(9,240)	(6,633)
	(299,045)	**(183,224)**

7. Intangible fixed assets

	Computer software	**Fees, licences**	**Geological information**	**Other**	**Total**
As at 1 January 2011					
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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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**
As at 31 December 2012					
Net book value at beginning of year	**1,459**	**3,301**	**5,138**	**33**	**9,931**
Increases	479	75	14,313	25	14,892
Decreases	-	-	-	(11)	(11)
Amortisation	(288)	(214)	(1,153)	(41)	(1,696)
Net book value	**1,650**	**3,162**	**18,298**	**6**	**23,116**
As at 31 December 2012					
Cost or assessed value	4,656	4,497	25,548	22	34,723
Amortisation	(3,006)	(1,335)	(7,250)	(16)	(11,607)
Net book value	**1,650**	**3,162**	**18,298**	**6**	**23,116**

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

	2012	**2011**
Costs of products, goods and materials sold	(1,641)	(1,577)
Selling costs	(3)	(3)
Administrative costs	(52)	(60)
	(1,696)	**(1,640)**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

8. Financial instruments by type

	Loans and receivables	Total
31 December 2012		
Assets as disclosed in the Consolidated statement of financial position		
Trade debtors	192,341	192,341
Cash and cash equivalents	188,582	188,582
Total	**380,923**	**380,923**

	Other financial liabilities	Total
Liabilities as disclosed in the Consolidated statement of financial position		
Loans and borrowings	441,000	441,000
Trade creditors and other financial liabilities	286,815	286,815
Total	**727,815**	**727,815**

Interest paid	
Interest	22,938
Fees and commissions	100
Total	**23,038**

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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

8.1. Trade debtors and other receivables

	31 Dec. 2012	31 Dec. 2011
Trade debtors	193,562	229,459
Less: write-off revaluating accounts receivable	(1,221)	(5,157)
Net trade debtors	**192,341**	**224,302**
Deferred expenses and rebates	17,663	10,974
Other accounts receivable	28,601	20,422
Short-term	**238,605**	**255,698**
Deferred expenses and rebates	459	320
Other accounts receivable	366	365
Long-term	**825**	**685**
Total trade debtors and other receivables	**239,430**	**256,383**

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:

	2012	2011
As at 1 January	**5,157**	**4,823**
Creating a write-off	341	4,601
Receivables written down during the year as uncollectible	(20)	(117)
Reversal of unused amounts	(4,257)	(4,150)
As at 31 December	**1,221**	**5,157**

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. 2012	31 Dec. 2011
Up to 1 month inclusive	24	4,456
1 to 3 months	-	2
3 to 6 months	-	9
6 to 12 months	6	70
above 12 months	1,191	620
	1,221	**5,157**

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:

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

	31 Dec. 2012	**31 Dec. 2011**
Up to 1 month inclusive	1,617	1,407
1 to 3 months	87	210
3 to 6 months	75	96
6 to 12 months	630	258
above 12 months	72	70
	2,481	**2,041**

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. 2012	**31 Dec. 2011**
Materials	42,423	29,537
write-offs due to permanent impairment of value	(809)	(68)
production in progress	523	405
Write-off for revaluating to the sale price, likely to achieve, of the production in progress	(98)	-
Finished goods	15,917	13,990
Write-off for revaluating to the sale price, likely to achieve, of the finished goods	(2,573)	(370)
	55,383	**43,494**

Cost of stock disclosed under "Cost of products, goods and materials sold" amounted to PLN 1,330,611,000 in 2012 (2011: PLN 916,696,000).

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

	2012	**2011**
As at 1 January	**438**	**1,705**
Creating the write-off for revaluating to the sale price, likely to achieve, of the production in progress, finished goods and materials	3,480	438
Release of a write-off used for revaluating to the sale price, likely to achieve, of the finished goods	(438)	(1,705)
As at 31 December	**3,480**	**438**

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. 2012	31 Dec. 2011
Cash in banks and at hand	8,568	2,953
Bank deposits	180,014	158,155
	188,582	**161,108**
including:		
Long-term*	68,031	58,288
Short-term	120,551	102,820
	188,582	**161,108**

* cash with restricted liquidity

Value of cash with restricted liquidity as at 31 December 2012 amounted to PLN 72,329,000, including PLN 68,031,000 (2011: PLN 58,288,000) as 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):

2012 – 4.2% - 4.9%

2011 – 3.9% - 4.8%

11. Share capital

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
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
As at 1 January 2012	34,014	170,068	131,090	301,158
As at 31 December 2012	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.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

13. Trade creditors and other liabilities

	31 Dec. 2012	31 Dec. 2011
Trade creditors	104,351	43,651
Accruals	-	34,109
Other liabilities, including:	182,464	108,547
the Company Social Benefits Fund,	8,954	6,448
Liabilities due security deposit	3,237	3,725
Investment liabilities	114,821	68,524
Other liabilities	55,452	29,850
Total financial liabilities	286,815	186,307
Non-financial liabilities - social security and other tax payable	39,263	53,664
Total trade creditors and other liabilities	**326,078**	**239,971**
including:		
Long-term	16,963	5,796
Short-term	309,115	234,175
	326,078	**239,971**

14. Grants

	31 Dec. 2012	31 Dec. 2011
Long-term liabilities	18,122	19,111
Grants		
	18,122	**19,111**

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. 2012	31 Dec. 2011
Long-term:		
Bank loans:	421,000	341,000
- PKO BP S.A.	241,000	241,000
- PEKAO S.A.	180,000	100,000
Short-term:		
Bank loans:	20,000	-
- PEKAO S.A.	20,000	-
	441,000	**341,000**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

The bank loans mature on 31 December 2014 and bear interest equal to 3M WIBOR + bank margin. Details on maturity dates of the loans 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 2012, the Group had no unused overdraft credit line.

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. 2012	**31 Dec. 2011**
Deferred income tax assets		
- to be realised after 12 months	30,016	26,203
- to be realised within 12 months	15,961	8,290
	45,977	34,493
Deferred income tax liabilities		
- to be realised after 12 months	116,057	99,341
- to be realised within 12 months	3,081	5,811
	119,138	105,152
Deferred income tax assets (net)	**1,890**	**-**
Deferred income tax liabilities (net)	**75,051**	**70,659**

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 2011	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
(Decrease)/increase of the financial result	8,628	997	(995)	2,854	11,484
As at 31 December 2012	36,607	1,802	1,421	6,147	45,977

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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 2011	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**
Decrease/(increase) of the financial result	12,027	1,391	270	948	(650)	13,986
As at 31 December 2012	**106,538**	**2,867**	**5,344**	**4,175**	**214**	**119,138**

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

17. Employee benefits liabilities

	31 Dec. 2012	**31 Dec. 2011**
Liabilities as disclosed in the Consolidated statement of financial position		
- Retirement and disability benefits	36,019	28,497
- Long service awards	61,918	42,068
- Coal allowances in kind	85,785	70,272
- Other benefits for employees	8,946	6,416
	192,668	**147,253**

	2012	**2011**
Costs as disclosed in the Consolidated statement of comprehensive income		
- Retirement and disability benefits	12,111	1,250
- Long service awards	29,421	10,717
- Coal allowances in kind	19,329	10,321
- Other benefits for employees	7,670	4,907
	68,531	**27,195**

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

	2012	**2011**
Liabilities at the beginning of period	147,253	138,291
Costs of current employment	13,791	10,996
Interest expense	8,123	7,455
Actuarial profits	46,617	8,744
Disclosed in total in the employee benefits costs	**68,531**	**27,195**
Benefits paid	(23,116)	(18,233)
Liabilities at end of period	**192,668**	**147,253**
including:		
- long-term	152,111	113,144
- short-term	40,557	34,109

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Amounts disclosed in the Consolidated statement of comprehensive income in 2012 are as follows:

	Benefits during employment	**Post-employment benefits**	**Total**
Liabilities at the beginning of period	43,578	103,675	147,253
Costs of current employment	10,951	2,840	13,791
Interest expense	2,403	5,720	8,123
Actuarial profits	23,737	22,880	46,617
Disclosed in total in the employee benefits costs	**37,091**	**31,440**	**68,531**

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	4,264	4,480	8,744
Disclosed in total in the employee benefits costs	**15,624**	**11,571**	**27,195**

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

	2012	**2011**
Costs of products, goods and materials sold	62,630	24,837
Selling costs	329	133
Administrative costs	5,572	2,225
Disclosed in total in the employee benefits costs	**68,531**	**27,195**

Main actuarial assumptions made:

	2012	**2011**
Discount rate	4.50%	6.00%
Increase in remunerations in the subsequent year	4.00%	1.00%
Increase in remunerations in 2014-2022	2.30%	1.00%
Increase in remunerations after 2022	1.00%	1.00%

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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:

	2012	**2011**
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 2011	**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
- 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
- Use of the provision	-	(2,835)	-	(7,033)	(9,868)
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
Recognition in Consolidated statement of comprehensive income					
- Creation of additional provisions	8,624	11,970	31,339	5,213	57,146
- Use of the provision	-	(2,507)	(38)	(2,752)	(5,297)
- Release of an unused provision	-	(1,353)	(25,011)	(11,763)	(38,127)
- Interest	-	-	1,985	2,217	4,202
- Discount settlement	4,381	-	-	-	4,381
As at 31 December 2012	**89,861**	**13,470**	**23,026**	**9,502**	**135,859**
Including:					
Long-term	89,861	-	-	-	89,861
Short-term	-	13,470	23,026	9,502	45,998

(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 2012 amounts to PLN 89,861,000.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

(b) Removing mining damage

Given the need of removing mining damage, the Group creates a provision for mining damage. As at 31 December 2012, the estimated value of works necessary for damage removal is: PLN 13,470,000.

(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 2012.

(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 underground mining excavations or the equipment located in them for the purpose of calculating this tax.

The position taken by the Constitutional Tribunal in its ruling of 13 September 2011, confirmed subsequently by a line of decisions given by administrative courts, is that real property tax is not chargeable on mining excavation understood as empty space in the rock mass which has been created as a result of carrying out mining works. At the same time, the Constitutional Tribunal did not exclude in the above ruling that mining excavations may contain objects constituting structures within the meaning of the Act on Local Charges and Taxes on which real property tax may be chargeable. If it is determined that mining excavations contain objects constituting structures within the meaning of the Act on Local Charges and Taxes. The assessment of taxable base cannot include the value of works which consist in performing the mining excavation.

Although the above ruling by the Constitutional Tribunal has not resolved finally and unequivocally what elements of the equipment in mining excavations are chargeable with real property tax, in addition until now there is no position to that extent in a line of decisions given by administrative courts, nevertheless, bearing in mind the above position by the Constitutional Tribunal – even if it were finally established that mining excavations belonging to the Parent Undertaking contain any structures within the meaning of the Act on Local Charges and Taxes, the amount of real property tax, if any, on such objects should be, according to the Parent Undertaking, significantly (many times) lower that the amounts of tax determined to date in decisions issued by first instance tax authorities wherein the adopted taxable base was the value of the entire mining excavations together with their equipment set forth in the fixed asset records.

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 disclosed in the books at 31 December 2012 in the amount of PLN 9,502,000 (31 December 2011: PLN 16,587,000) represents a provision for liability, if any, covering real property tax and interest for the years 2008-2012 in the event it is determined by the tax authorities that the Parent Undertaking's mining excavations contain structures on which real property tax is chargeable. The amount of such provision has been estimated based on initial [general] analysis of types of equipment in mining excavations and preliminary estimation of its value.

Based on the above, in connection with the payments of the real property tax made for 2007 for the excavations, the Parent Undertaking calculated that as at 31 December 2012 income due for the excess payment of the real property tax amounts to PLN 8,279,000.

	2012	2011
Disclosed receivables from communes on account of the disputed real property tax on underground mine excavations – net	8,279	16,289

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Release of a provision on account of the disputed real property tax – net	11,763	46,552
Impact on pre-tax profit	**20,042**	**62,841**

19. Revenue on sales

	2012	2011
Sales of coal	1,769,341	1,224,690
Sales of ceramics	6,749	8,678
Other activities	46,539	43,807
Sales of goods and materials	13,172	24,174
Total revenue on sales	**1,835,801**	**1,301,349**

20. Costs by type

	2012	2011
Amortisation/depreciation	300,741	184,864
Materials and energy used	461,834	410,323
Contracted services	439,190	355,736
Employee benefits	498,342	424,053
Entertainment and advertising expenses	9,121	9,493
Taxes and charges	32,799	24,360
Other costs by type	24,077	18,902
Total costs by type	**1,766,104**	**1,427,731**
Selling costs	(43,963)	(39,008)
Administrative costs	(97,696)	(80,013)
Activities for own needs	(289,086)	(384,184)
Release of a provision for the real property tax	(9,502)	(46,552)
Change in products	(8,767)	16,412
Cost of products sold	**1,317,090**	**894,386**
Value of goods and materials sold	13,521	22,310
Costs of products, goods and materials sold	**1,330,611**	**916,696**

21. Other income

	2012	2011
Compensations and damages received	1,179	992
Other	2,886	4,605
of which:		
- Release of used provisions for liabilities	279	5

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

- Liquidated damages	-	252
- Release of revaluation write-offs	789	1,551
Total other income	**4,065**	**5,597**

22. Other expenses

	2012	2011
Donations	(318)	(296)
Enforcement fees and penalties	(8)	(304)
Compensation	(1,414)	(1,565)
Other	(82)	(269)
Total other expenses	**(1,822)**	**(2,434)**

23. Other profits/(losses) - net

	2012	2011
Profit / (loss) on sale of tangible fixed assets	49	(232)
Currency exchange differences	1,057	(215)
Creating the write-off for revaluating to the sale price, likely to achieve, of the production in progress, finished goods and materials	(3,480)	(370)
Creating and using revaluation write-offs for tangible fixed assets	5,119	(2,195)
Provision for mining damage	(8,110)	1,735
Other	(3,061)	(1,779)
of which:		
- Creation of other provisions	(2,583)	(148)
Total other net losses	**(8,426)**	**(3,056)**

24. Financial income and expenses

	2012	2011
Interest income on short-term bank deposits	7,951	11,153
Other including interest regarding the Mine Closure Fund	3,882	1,382
Financial income	11,833	12,535
Interest expenses:		
- bank loans and commission on loans	(3,253)	-
- settlement of discount on long-term provisions	(4,681)	(4,635)
- creation of a provision and revaluation write-offs regarding interest	(2,922)	(1,626)
Other	-	(32)
Financial expenses	(10,856)	(6,293)
Net financial income/expenses	**977**	**6,242**

25. Income tax

	2012	2011
Current tax	66,041	34,808
Deferred tax	2,502	15,927
	68,543	**50,735**

	2012	2011
Profit before taxation	358,325	271,981
Tax calculated at the rate of 19%	68,082	51,676
Non-taxable income	(22,663)	(15,916)
Costs not carried as costs of sales	23,124	14,975
Decrease in financial result by the income tax	**68,543**	**50,735**

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.

	2012	2011
Earnings attributable to the Parent Undertaking's shareholders	289,368	220,921
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN per share)	**8.51**	**6.50**

(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. 26 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 27 April 2012, the profit for 2011 in the amount of PLN 136,054,000 has been designated for distribution to the Parent Undertaking's shareholders. Dividend for 2011 was paid on 14 August 2012. The dividend rate due to shareholders of the Parent Undertaking is presented in the table below.

	2012	**2011**
Dividend paid	136,050	47,619
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
Dividend per share (in PLN per share)	**4.00**	**1.40**

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

	2012	**2011**
Profit before taxation	358,325	271,981
- Depreciation of tangible fixed assets (note 6)	299,045	183,224
- Amortisation of intangible fixed assets (note 7)	1,696	1,640
- Profit / (Loss) on sale of tangible fixed assets	(49)	232
- Result of income and expenses connected with changes in tangible fixed assets	(9,751)	-
- Financial income	(1,788)	(6,242)
- Change in employee benefits liabilities (note 17)	45,415	8,962
- Changes in provisions	16,514	(36,449)
- Creating and using revaluation write-offs for fixed assets	(5,119)	2,195
- Other flows	(709)	(75)
- Stock	(11,889)	17,316
- Trade debtors and other receivables	16,953	(128,680)
- Trade creditors and other liabilities	31,170	28,159
Operating cash inflow	**739,729**	**342,263**
Balance-sheet change in liabilities	86,141	(6,578)
Change in investment liabilities	(54,971)	34,737
Change in liabilities for the purposes of the consolidated cash flow statement	**31,170**	**28,159**
Increase in tangible fixed assets	643,157	696,516

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Interest paid regarding investing activity	(19,785)	(13,157)
Change in investment liabilities	(54,971)	34,737
Acquisition of tangible fixed assets	**568,401**	**718,096**

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

	2012	**2011**
Net book value	172	465
Profit on sale of tangible fixed assets	49	(232)
Inflow from the sale of tangible fixed assets	**221**	**233**

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 real property tax may primarily result from existing discrepancies between the stance of the Parent Undertaking and that of tax authorities as to what is subject to this tax. The issue revolves around the question of whether in the Parent Undertaking's mining excavations there are any structures within the meaning of the Act on Local Taxes and Charges which would be subject to the property tax. The discrepancies may also occur with regard to the value of particular facilities — in the event that it is agreed that the facilities are subject to the property tax. The maximum amount of that contingent liability equals the amount of provision for the real property tax released in 2012 (note 18).

The item provisions for legal claims shows a provision for legal claims regarding remuneration for co-inventors of inventions covered by patent Nos. 206048 and 209043, 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 30.1 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 2012 amounted to PLN 441 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.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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:

	2012	2011
Tangible fixed assets	131,870	267,044
	131,870	**267,044**

31. Transactions with related entities

Information on transactions with the Management Board and Supervisory Board members and proxies

	2012	2011
Remuneration of Management Board members and proxies	**3,954**	**4,162**
Including:		
Annual award	161	860
Long-service award	75	-
Severance pay	180	-
Retirement allowance	60	-
Bonus for innovative projects	-	14
Remuneration during the period of an inactive leave	180	-
Other benefits	57	47
Remuneration of the Supervisory Board members	**605**	**348**

32. Information on the auditor responsible for auditing the report and the auditor's fee

Information on the auditor responsible for auditing the Group's financial statements and the auditor's fee is contained in section 10 of the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for a period from 1 January 2012 to 31 December 2012.

33. 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 2012 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 2013 occurred:

- on 15 January 2013 the Parent Undertaking signed the Annual Agreement for the supply of power coal in 2013. The Agreement is attached as Appendix 4 to Long-Term Agreement No. UW/LW/01/2010 concluded with ENEA Wytwarzanie S.A. with its registered office in Świerże Górne. The value of the Annual Agreement for the supplies in 2013 amounts to PLN 755 million net at current prices. As a result of concluding the Annual Agreement, the net value of the entire Long-Term Agreement amounts to PLN 11,494 million.

34. Approval of the consolidated financial statements

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 14 March 2013, it approves these consolidated financial statements of the Group for the period from 1 January to 31 December 2012, for publication.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Zbigniew Stopa	President of the Management Board
Waldemar Bernaciak	Vice-President of the Board for Commerce, and Logistics
Roger de Bazelaire	Vice-President of the Board for Economic and Financial Affairs
Krystyna Borkowska	Vice-President of the Board – Chief Accountant
Krzysztof Szlaga	Member of the Management Board for Procurement and Investments
Lech Tor	Member of the Management Board elected by the employees