LUBELSKI WĘGIEL BOGDANKA SPÓŁKA AKCYJNA

FINANCIAL STATEMENTS

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

BOGDANKA, MARCH 2018

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(IN PLN '000)

STATEMENT OF FINANCIAL STANDING (BALANCE SHEET)

	Note	As at 31 December 2017	2016
Assets			
Non-current assets			
Property, plant and equipment	4	3,150,847	2,670,355
Intangible assets	6	59,691	47,202
Non-current investments	7	75,601	75,601
Trade and other receivables	8	239	4,083
Cash and cash equivalents	10	121,806	111,218
Total non-current assets		3,408,184	2,908,459
Current assets			
Inventories	9	60,707	70,037
Trade and other receivables	8	207,523	243,167
Overpaid income tax	25.4	22,803	9,004
Non-current assets held for sale	5	-	4,330
Cash and cash equivalents	10	416,827	513,432
Total current assets		707,860	839,970
TOTAL ASSETS		**4,116,044**	**3,748,429**
Equity			
Ordinary shares	11	301,158	301,158
Other capitals	12	1,615,010	1,473,128
Retained profits	12	968,459	495,380
Total equity		2,884,627	2,269,666
Liabilities			
Non-current liabilities			
Deferred income tax liability	25.3	205,233	55,926
Provisions for employee benefits	17	117,344	207,445
Provisions for other liabilities and charges	18	114,448	117,423
Grants	14	13,148	13,705
Financing liabilities on account of bond issue	15	-	300,000
Trade and other liabilities	13	42,675	43,030
		492,848	737,529
Current liabilities			
Provisions for employee benefits	17	36,218	56,031
Financing liabilities on account of bond issue	15	301,911	300,080
Provisions for other liabilities and charges	18	85,544	70,601
Grants	14	560	600
Trade and other liabilities	13	314,336	313,922
		738,569	741,234
Total liabilities		1,231,417	1,478,763
TOTAL EQUITY AND LIABILITIES		**4,116,044**	**3,748,429**

Notes presented on pages 10-79 constitute an integral part of these financial statements.

(IN PLN '000)

INCOME STATEMENT

	Note	For the financial year from 1 January to 31 December	
		2017	2016
Revenue	19	1,777,273	1,781,776
Costs of products, goods and materials sold	20	(861,576)	(1,431,941)
Gross profit		915,697	349,835
Selling costs	20	(41,999)	(43,637)
Administrative expenses	20	(32,948)	(85,577)
Other income	21	4,088	16,710
Other costs	22	(1,115)	(2,037)
Other net loss	23	(2,815)	(9,485)
Profit on operating activities		840,908	225,809
Finance income	24	16,725	16,307
Finance costs	24	(24,829)	(26,921)
Profit before taxation		832,804	215,195
Income tax	25.1	(159,523)	(39,299)
Net profit for the financial year		**673,281**	**175,896**

Earnings per share attributable to owners of the Company during the year (in PLN per share)	Note		
- basic	26	19.79	5.17
- diluted	26	19.79	5.17

Notes presented on pages 10-79 constitute an integral part of these financial statements.

(IN PLN '000)

STATEMENT OF COMPREHENSIVE INCOME

	Note	for the financial year from 1 January to 31 December 2017	2016
Net profit for the financial year		**673,281**	**175,896**
Other comprehensive income for the reporting period: Items which never will be subject to reclassification to profit or loss for the current period:			
Actuarial gains (losses) of defined benefit schemes	17	(30,008)	(7,663)
Income tax relating to non-transferrable items	25.1	5,702	1,456
Items which never will be subject to reclassification to profit or loss for the current period – total		(24,306)	(6,207)
Items which are or may be subject to reclassification to profit or loss for the current period:			
Cash flow hedges			
- Profit/(loss) for period		-	-
- Adjustments resulting from transferring amounts to initial values of hedged items		-	-
Income tax relating to transferrable items		-	-
Items which are or may be subject to reclassification to profit or loss for the current period - total		-	-
Other net comprehensive loss for the reporting period		(24,306)	(6,207)
Other net comprehensive income for the reporting period - total		**648,975**	**169,689**

Notes presented on pages 10-79 constitute an integral part of these financial statements.

(IN PLN '000)

STATEMENT ON MOVEMENTS IN SHAREHOLDERS' EQUITY

	Note	Ordinary shares	Other capital		Retained profits	Total equity
			Other capital – transfer of profit / loss	Other capital related to the Management Options Scheme		
As at 1 January 2017		**301,158**	**1,469,289**	**3,839**	**495,380**	**2,269,666**
Total net comprehensive income for the reporting period:		-	-	-	648,975	648,975
- net profit		*-*	*-*	*-*	*673,281*	*673,281*
- other comprehensive income		*-*	*-*	*-*	*(24,306)*	*(24,306)*
Dividend for 2016		-	-	-	(34,014)	(34,014)
Transfer of the result for 2016	27	-	141,882	-	(141,882)	-
As at 31 December 2017		**301,158**	**1,611,171**	**3,839**	**968,459**	**2,884,627**
As at 1 January 2016		**301,158**	**1,747,318**	**9,752**	**47,662**	**2,105,890**
Total net comprehensive income for the reporting period:		-	-	-	169,689	169,689
- net profit		*-*	*-*	*-*	*175,896*	*175,896*
- other comprehensive income		*-*	*-*	*-*	*(6,207)*	*(6,207)*
Coverage of loss for 2015	27	-	(278,029)	-	278,029	-
Change in the value of the Management Options Scheme – derecognition of forfeited options	12	-	-	(5,913)	-	(5,913)
As at 31 December 2016		**301,158**	**1,469,289**	**3,839**	**495,380**	**2,269,666**

Notes presented on pages 10-79 constitute an integral part of these financial statements.

(IN PLN '000)

CASH FLOW STATEMENT

	Note	for the financial year from 1 January to 31 December	
		2017	2016
Cash flow from (used in) operating activities			
Cash inflow from operating activities*		626,367	676,198
Interest received and paid		(2,093)	5,115
Income tax paid		(28,501)	(23,104)
Net cash flow from (used in) operating activities		**595,773**	**658,209**
Cash flow from (used in) investing activities			
Acquisition of property, plant and equipment		(360,721)	(252,548)
Interest paid regarding investing activities	16.1	(3,126)	(3,412)
Acquisition of intangible assets		(156)	(5,515)
Inflow from the sale of property, plant and equipment		3,922	41
Interest received		6,770	7,340
Dividend received	24	9,778	2,032
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund	10	(10,588)	(20,346)
Net cash flow from (used in) investing activities		**(354,121)**	**(272,408)**
Cash flow from (used in) financing activities			
Bond redemption	15	(300,000)	(100,000)
Interest and commissions paid regarding financing activities	16.1	(4,243)	(12,380)
Dividend paid to Company shareholders	27	(34,014)	-
Net cash flow from (used in) financing activities		**(338,257)**	**(112,380)**
Net increase / (decrease) in cash and cash equivalents		(96,605)	273,421
Cash and cash equivalents at beginning of period		513,432	240,011
Cash and cash equivalents at end of period		**416,827**	**513,432**

**detailed list of cash inflow from (used in) operating activities is presented in table on page 9.*

(IN PLN '000)

CASH INFLOW FROM (USED IN) OPERATING ACTIVITIES

	Note	for the financial year from 1 January to 31 December 2017	2016
Profit before taxation		832,804	215,195
- Depreciation of non-current assets	4	346,435	351,403
- Amortisation of intangible assets	6	1,562	1,555
- Profit/(loss) on sale of property, plant and equipment		460	(38)
- Profit/(loss) on liquidation of plant, property and equipment		10,522	15,894
- Actuarial losses as recognised in the statement of comprehensive income	17	(30,008)	(7,663)
- Change in provisions for employee benefits	17	(109,914)	15,479
- Changes in provisions		21,108	(3,603)
- Other flows		38	46
- Dividend received	24	(9,778)	(2,032)
- Change in the value of the Management Options Scheme – derecognition of forfeited options	12	-	(5,913)
- Reversal of impairment losses of current assets		(495,982)	-
- Creating and using impairment losses of property, plant and equipment		1,284	6,105
- Change in inventories	9	9,330	31,415
- Change in trade and other receivables	8	39,488	(7,836)
- Change in trade and other liabilities		9,018	66,191
Cash inflow from (used in) operating activities		**626,367**	**676,198**
Balance-sheet change in liabilities and grants		(538)	79,382
Set-off of income tax overpaid with other taxes payable		10,187	26,225
Change in investment liabilities		(631)	(39,416)
Change in liabilities for the purposes of the cash flow statement		**9,018**	**66,191**
Increase in non-current assets	4	355,772	272,359
Disclosure of non-current assets		-	(1,411)
Other non-cash adjustments		(1,639)	(415)
Change in investment liabilities		9,714	(14,573)
Interest paid regarding investing activities		(3,126)	(3,412)
Acquisition of property, plant and equipment		**360,721**	**252,548**
Increase in intangible assets	6	10,501	30,358
Change in investment liabilities		(10,345)	(24,843)
Acquisition of intangible assets		**156**	**5,515**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1 Information about the Company

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

On 26 March 2001, Lubelski Węgiel Bogdanka Spółka Akcyjna was registered in the Register of Entrepreneurs of the National Court Register, under KRS No. 0000004549. At present the register is maintained by the District Court Lublin-Wschód in Lublin, with the seat in Świdnik, VI Commercial Division of the National Court Register.

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

The Company's core business activity, pursuant to the Polish Classification of Activity (PKD 0510Z), is hard coal mining.

The Company is the Parent in the Lubelski Węgiel Bogdanka Group. The Group prepares consolidated financial statements in accordance with IFSR for the period from 1 January to 31 December 2017. For the purpose of full understanding of the financial standing and results of the Company's operations, these financial statements should be read in conjunction with the consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial period ended on 31 December 2017. The financial statements are available at the Company's website at www.lw.com.pl on the date as announced in a current report stating the date of publication of the Company's financial statements as well as the Group's consolidated financial statements for the financial period ended on 31 December 2017.

On 14 September 2015, ENEA S.A. announced a tender offer for the shares of the Company and it declared its intention to acquire up to 64.57% of the total vote at the General Shareholders Meeting of the Company. The transaction settlement took place on 29 October 2015. As a result of the transaction, ENEA S.A. along with its subsidiary acquired the total of 66% of shares in the Company, as a result of which the Company became a part of the ENEA Group of which ENEA S.A. with registered office in Poznań is the parent.

1.2 Assumption of the Company going concern

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

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

2. DESCRIPTION OF KEY ACCOUNTING PRINCIPLES (POLICIES) APPLIED

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

2.1 Basis of preparation

These financial statements of LW BOGDANKA S.A. were drawn up on the basis of the International Financial Reporting Standards and related interpretations announced in Regulations of the European Commission, as endorsed by the European Union.

The financial statements were prepared according to the historical cost principle except for derivative instruments measured at fair value as well as share-based payments, including the valuation at fair value of certain components of property, plant and equipment in connection with assuming fair value as a deemed cost, which was carried out as at 1 January 2005.

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

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

The financial statements were prepared using the same accounting principles for the current and comparative periods.

These financial statements follow the same accounting principles (policies) and calculating methods as the latest approved annual financial statements.

2.1.1. Material values based on professional assessment and estimates

Accounting estimates as well as the professional judgement of the Management Board regarding current and future events in individual fields are required for the preparation the financial statements on the basis of the International Financial Reporting Standards and in accordance with the accounting policies.

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

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

Moreover, the Company estimated the recoverable value of cash-flow generating units for the purpose of analysing impairment losses as at 31 December 2017. Note 4.3 contains detailed information on the estimates and assumptions made for the analysis carried out as at the end of 2017.

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

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

	Value of the items related to the estimate made in the financial statements in PLN '000		Accounting policy	Details of the assumptions and calculations of the material estimate
	2017	2016		
Property, plant and equipment	3,150,847	2,670,355	note 2.3 and 2.6	note 4
Provision for employee benefits	153,562	263,476	note 2.17	note 17
Intangible assets	59,691	47,202	note 2.4 and 2.6	note 6
Provision for mining plant decommissioning and land reclamation	114,448	117,423	note 2.18	note 18
Deferred income tax liability	205,233	55,926	note 2.16	note 25.3
Management Options Issue	3,839	3,839	note 2.17	note 12

As compared to information provided in the most recent annual financial statements for 2016, the estimated life of the mine has changed, which is a result of obtaining the mining licence for the "Ostrów" deposit. The period was extended from 2043 to 2051 and was estimated on the basis of available coal resources with an account taken of an average level of extraction.

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

The mine's life is currently estimated to extend to 2051 (previously 2043). The estimate is made on the basis of current resources of coal held, covered with the licence, and the estimated production capacities. However, the actual date of the mine closure may differ from the Company's estimates. This follows from the fact that the length of the mine's life has been estimated using the current coal reserves only, available as at the balance-sheet date. The drop in demand for the Company's coal will cause a decrease in mining below its production capacity, which will translate into extending the mine's life.
On 17 November 2017 the Company was granted a mining licence for the "Ostrów" deposit with the exploitable resources of approximately 186 million tonnes. Obtaining this licence is key for the plan to double the exploitable resources of LWB and means that the mine's life span will be extended to approx. 50 years (which entails the necessity to incur significant outlays for the construction of new infrastructure, including the construction of a new shaft).
LWB pursues efforts to extend the mining area in the coming years by joining the "Orzechów" deposit (at the moment the Company holds a prospecting licence for the "Orzechów" deposit). The Company continues its efforts aiming at obtaining mining licences for the K-6 and K-7 deposits.

The change in the mine's life materially affected actuarial valuation of provisions for employee benefits, depreciation and, to a smaller extent, the provision for the costs of mine closure and land reclamation.

- Impact of the change in the mine's life on depreciation

It is estimated that extending the mine's life span up until 2051 did not affect materially the cost of depreciation in 2017 (the impact was approx. PLN 0.4 million). This change however will affect the cost of depreciation next year (according to the Company's estimates, the figure will be approx. PLN 4.5 million).

- Impact of the change in the mine's life on valuation of provisions for employee benefits

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

- Impact of the change in the mine's life on the provision for mine closure and land reclamation

It is estimated that extending the mine's life to 2051 resulted in a decrease in the provisions for costs of mine closure and land reclamation by approx. PLN 7.0 million, of which PLN 0.6 million was included in the income statement, and approx. PLN 6.4 million - in the statement of financial position as a reduction of "Property, plant and equipment".

Valuation of provisions for employee benefits

- Change in assumptions regarding the coal allowance benefit

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

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

- Assumptions regarding the actuarial valuation of provisions for employee benefits

The current value of employee benefits depends on a number of factors which are determined with the use of actuarial methods on the basis of certain assumptions. The assumptions used to determine the provision and expenses related to employee benefits include assumptions concerning discount rates as well as the indicator of growth of the given benefit's basis. Key assumptions regarding provisions for employee benefits are presented in Note 17. Any changes to these assumptions affect the carrying value of the provisions for employee benefits.

As at 31 December 2017 and 31 December 2016, an analysis was carried out with respect to sensitivity of the results of valuation to a change in the financial discount rate and to changes in the planned increases in bases in the range from -1 p.p. to +1 p.p.

Carrying amount of individual provisions and values of the provisions calculated on the basis of other assumptions is presented in the tables below:

(IN PLN '000)

As at 31 December 2017:

Provision	Carrying amount	Financial discount rate		Planned increases in bases	
		-1 p. p.	+1 p. p.	-1 p. p.	+1 p. p.
Pays upon retirement due to old age	42,112	46,233	38,581	38,982	46,012
Pays upon retirement due to disability	430	461	402	408	457
Long-service award	90,704	97,767	84,478	84,164	98,779
Death benefits	3,165	3,451	2,915	2,915	3,472
Total	**136,411**	**147,912**	**126,376**	**126,469**	**148,720**

As at 31 December 2016:

Provision	Carrying amount	Financial discount rate		Planned increases in bases	
		-1 p.p.	-1 p.p.	-1 p.p.	-1 p.p.
Pays upon retirement due to old age	32,830	35,758	30,313	30,272	36,108
Pays upon retirement due to disability	268	289	250	250	292
Long-service award	80,871	86,952	75,492	75,368	87,851
Death benefits	2,727	2,967	2,516	2,513	2,996
Coal allowances	114,876	136,303	98,281	97,833	137,931
Total	**231,572**	**262,269**	**206,852**	**206,236**	**265,178**

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

As at 31 December 2017:

Provision	Carrying amount	Deviations			
		Financial discount rate		Planned increases in bases	
		-1 p. p.	+1 p. p.	-1 p. p.	+1 p. p.
Pays upon retirement due to old age	42,112	4,121	(3,531)	(3,130)	3,900
Pays upon retirement due to disability	430	31	(28)	(22)	27
Long-service award	90,704	7,063	(6,226)	(6,540)	8,075
Death benefits	3,165	286	(250)	(250)	307
Total	**136,411**	**11,501**	**(10,035)**	**(9,942)**	**12,309**

(IN PLN '000)

As at 31 December 2016:

Provision	Carrying amount	Deviations			
		Financial discount rate		Planned increases in bases	
		-1 p.p.	-1 p.p.	-1 p.p.	-1 p.p.
Pays upon retirement due to old age	32,830	2,928	(2,517)	(2,558)	3,278
Pays upon retirement due to disability	268	21	(18)	(18)	24
Long-service award	80,871	6,081	(5,379)	(5,503)	6,980
Death benefits	2,727	240	(211)	(214)	269
Coal allowances	114,876	21,427	(16,595)	(17,043)	23,055
Total	**231,572**	**30,697**	**(24,720)**	**(25,336)**	**33,606**

The results of balance-sheet valuation as at 31 December 2017, broken down by maturity periods, are presented in the table below:

Payment period	Pays upon retirement due to old age	Pays upon retirement due to disability	Long-service award	Death benefits	Total
2018*	9,112	52	9,659	244	**19,067**
2019	1,293	46	7,395	241	**8,975**
2020	1,141	41	6,499	232	**7,913**
2021	1,786	36	6,886	221	**8,929**
2022	1,482	32	7,325	216	**9,055**
Remainder	27,298	223	52,940	2,011	**82,472**
Total	**42,112**	**430**	**90,704**	**3,165**	**136,411**

** Value of benefits for payment in 2018 includes payments resulting from the acquired retirement rights and long-service awards for persons who achieved retirement age, but remain in the employment relationship.*

- Generation Change Programmes - Stage 1: *Voluntary Redundancy Programme - updating the number and structure of people participating in the Programme*

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

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

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

(IN PLN '000)

Provision for mining plant decommissioning and land reclamation

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

- Sensitivity to changes regarding the life of the mine.

Assumptions regarding the life of the mine have been described above. In the case that the life of the mine assumed as at 31 December 2017 was extended by 1 year, the carrying value of the provision for the cost of mine closure (Mine Closure Fund) and land reclamation would be lower by PLN 843,000, and in the case that the life of the mine was extended by 10 years, the carrying value of the provision would be lower by PLN 8,150,000. At the same time, in the case that the life of the mine was shortened by 1 year, the carrying value of the provision for the cost of mine closure (Mine Closure Fund) and land reclamation would be higher by PLN 848,000, and in the case that the life of the mine was shortened by 10 years, the carrying value of the provision would be higher by PLN 8,775,000.

- Sensitivity to changes of inflation and discount rates

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

The calculation of the provision was significantly affected by the discount rate which reflects the change in money value over time. For the purpose of assumptions, a discount rate based on the treasury bills yield was adopted and as at 31 December 2017 it amounted to 3.26% (as at 31 December 2016: 3.20%).

If the adopted inflation rates departed from the Management Board's estimates by 1 p.p., the carrying amount of provisions would be PLN 44,773,000 higher (in the event of inflation rates higher by 1 p.p.) or PLN 32,450,000 lower (in the event of inflation rates lower by 1 p.p.).

The impact of changing the financial discount on the carrying amount of the provisions for the Mine Closure Fund and land reclamation as at 31 December 2017 and 31 December 2016 is presented in the table below:

As at 31 December 2017:

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

As at 31 December 2016:

Change in the financial discount	-0.25 p. p.	0 p. p.	+0.25 p. p.	+1 p. p.
Value of the provision for Mine Closure Fund and costs of land reclamation	125,370	117,423	109,997	90,506

The analysis indicates that when the financial discount rate goes up as at 31 December 2017 by 0.25 p.p., the provision for the Mine Closure Fund and land reclamation is lower by PLN 9,034,000, and the financial discount rate is higher by 1 p.p., the provision for the Mine Closure Fund and land reclamation goes down by PLN 31,977,000. When the financial discount rate goes down as at 31 December 2017 by 0.25 p.p., the provision for the Mine Closure Fund and land reclamation is higher by PLN 9,832,000. At the same time, no impact of the financial rate going down by 1 p.p. is presented, because it would mean that the discount rate falls beneath the assumed inflation level, which is groundless in the Company's opinion.

Other key estimates and judgements have not changed since the publication of the annual financial statements for 2016.

2.1.2. New standards and interpretations

Amendments to the existing standards applied by the Company for the first time in 2017

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

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

The introduction of the aforesaid standard amendments did not impact materially the current accounting policy of the Company.

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

When approving these financial statements, the Company was not applying the following standards and standard amendments which were published by the International Accounting Standards Board and endorsed by the European Union for use within the European Union but which were not effective yet:

- IFRS 9 – "Financial Instruments" - was issued by the IASB on 24 July 2014 and replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 sets forth the requirements for recognition and measurement, impairment, de-recognition, and hedge accounting.

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

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

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

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

- IFRS 15 "Revenue from Contracts with Customers", published by the International Accounting Standards Board on 28 May 2014 - was approved by the European Union on 22 September 2016, and is applicable to annual periods beginning on or after 1 January 2018.
- IFRS 16 "Leases" - was issued by IASB on 13 January 2016. In accordance with IFRS 16 a lessee discloses the right to use an asset as well as the liability for the lease. The right to use an asset is treated similarly as other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessors continue to classify leases as operating or finance, with IAS 17's approach to lessor accounting. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.
- Amendments to IFRS 4 "Insurance Contracts" – application of IFRS 9 "Financial Instruments" along with IFRS 4 "Insurance Instruments" – endorsed by the EU on 3 November 2017 (applicable to annual periods beginning on or after 1 January 2018 or in the moment of the application of IFRS 9 "Financial Instruments" for the first time),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" – explanations to IFRS 15 "Revenue from Contracts with Customers" – endorsed by the EU on 31 October 2017 (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRS (2014–2016 Cycle)" – amendments made under the annual procedure of amending IFRS (IFRS 1, IFRS 12, and IAS 28), primarily oriented at eliminating inconsistencies and specifying terminology (amendments to IFRS 12 are applicable to annual periods beginning on or after 1 January 2017; amendments to IFRS 1 and IAS 28 are applicable to annual periods beginning on or after 1 January 2018).

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

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

IFRS 15 will be applied by the Company starting as of 1 January 2018 using the retrospective method with the total effect of the first-time application of IFRS 15. The analysis carried out showed that such operation will not cause any need to adjust the balance of retained profits (no adjustments that would result in the adjustment of retained profits in the opening balance). Taking into account the type of transactions effected by the Company, the application of the above standard will not have a material impact on the accounting principles applied to date. The most significant effect will be a change in the presentation of revenue and costs in connection with the Company providing coal transport service – the so called "przewoźne". On the basis of the performed analysis it was determined that if the Company is an intermediary/agent (within the meaning of IFRS 15), the netting of revenue (circa PLN 13.7 million per annum) and costs on that account (circa PLN 11.5 million per annum) will be necessary, which in the end will result in the disclosure under revenue of only the margin on the transaction in the amount of PLN 2.2

million. The statement of financial position as used by the Company to date will show new items of "Contract assets" and "Contract liabilities", however, because sale transactions are nearly in all cases accounted for on a monthly basis, the Company expects that significant balances in those items will be rare.

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

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

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

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

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

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

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

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

- equity instruments measured through other comprehensive income,

- financial assets measured at amortised cost,

- financial assets measured at fair value through other comprehensive income,

- financial assets measured at fair value through profit or loss.

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

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

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

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

Standards, amendments to the existing standards and interpretations adopted by IASB, but not yet endorsed by the European Union

At present, the IFRS endorsed by the European Union do not differ substantially from the regulations adopted by the International Accounting Standards Board (IASB), save for the following standards, standard amendments or interpretations which as at 22 March 2018 were not endorsed for use in the European Union (the effective dates below refer to standards in full versions):

- IFRS 14 "Regulatory Deferral Accounts" – the European Commission has decided to withhold the process of endorsing this temporary standard for use in the European Union until the final version of IFRS 14 is issued.
- IFRS 17 "Insurance Contracts" (applicable to annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, as well as later amendments (effective date of the amendments was deferred until research on the equity method is finished).
- Amendments to IAS 19 "Employee Benefits" – amendment, restriction or settlement of a plan (applicable to annual periods beginning on or after 1 January 2019). According to the amendments it is required that once the plan is amended, the updated assumptions for valuation should be applied in order to determine current costs of services and net interest for the remaining portion of the reporting period.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Non-current shares in associates and joint ventures (applicable to annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 2 "Share-Based Payments" – classification and measurement of the share-based payments (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (applicable to annual periods beginning on or after 1 January 2019).
- Amendments to various standards "Improvements to IFRS (2015–2017 Cycle)" – are applicable to annual periods beginning on or after 1 January 2019.
- IFRIC 22 Interpretation "Foreign Currency Transactions and Advance Consideration" (applicable to annual periods beginning on or after 1 January 2018).

- IFRIC 23 Interpretation "Uncertainty over Income Tax Treatments" (applicable to annual periods beginning on or after 1 January 2019).
- Amendments to IAS 40 "Investment Properties" – transfers of investment properties (applicable to annual periods beginning on or after 1 January 2018).

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

At the same time, hedge accounting for the portfolio of financial assets and liabilities whose principles have not been adopted for use by the European Union yet still remain outside the regulations endorsed by the European Union. According to the Company's estimates, the application of hedge accounting to the portfolio of financial assets and liabilities in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" would not have any adverse impact on the financial statements if it was adopted for application at the balance-sheet date.

2.2 Measurement of items expressed in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

2.3 Property, plant and equipment (Note 4)

Property, plant and equipment are non-current assets:

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

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

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

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

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

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

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

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

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

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

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

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

If the carrying value of an item of non-current assets exceeds its estimated recoverable value, then the carrying value of that asset is reduced to its recoverable value (Note 2.6).

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

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

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

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

2.4 Intangible assets (Note 6)

Geological information

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

Computer software

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

Fees, licences

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

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

2.5 Non-current investments (Note 7)

Shares and equity interests in subsidiary and associated undertakings are measured at acquisition cost less impairment charges.

Gain or loss on sale of investments is calculated by comparing the revenue with their carrying amount, and is recognised in the income statement under "Finance income/costs."

2.6 Impairment of non-financial assets (Note 4.3)

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

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

2.7 Financial assets (Note 16)

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 receivables as well as cash and cash equivalents are presented as loans and receivables.

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

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

The Company 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 2.9.

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

2.8 Inventories (Note 9)

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

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

2.9 Trade debtors (Note 8)

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

2.10 Cash and cash equivalents (Note 10)

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

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

2.11 Non-current assets designated for sale (Note 5)

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

2.12 Share capital (Note 11)

Ordinary shares are classified as the equity.

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

2.13 Trade creditors (Note 13)

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

2.14 Financial liabilities measured at amortised cost (Notes 15 and 16)

The category of financial liabilities measured at amortised cost includes liabilities under loans and borrowings (not occurring as at 31 December 2017 and 31 December 2016) and liabilities under issued bonds.

At initial recognition, liabilities in this group are measured at fair value less transaction expenses which are directly attributable to the acquisition or issue of a financial liability.

At the balance sheet date, liabilities in this group are measured at amortised cost using the effective interest rate method. In determination of the adjusted purchase price the costs connected with obtaining a loan or borrowing and discounts or bonuses received at settlement of the liability are to be taken into account. The difference between net inflows and the value of repurchase is disclosed in revenue or finance costs during the period when the loan or the borrowing are used.

Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer repayment of the liability for at least 12 months as from the balance-sheet date. Bonds issued with an original redemption date of up to 12 months following the balance-sheet date, for which the Company has the right to issue further bond series (under the granted tranche) for refinancing of a previous issue (the roll-up), are charged to non-current liabilities, unless the final redemption date under the whole tranche falls within the period shorter than 12 months following the balance-sheet date.

Borrowing costs are expensed in the period in which they are incurred, except the costs which increase the value of construction in progress (note 2.3).

2.15 Financial derivatives (Note 16)

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

2.16 Current income tax and deferred tax (Note 25)

Tax Group

An agreement for the Tax Group of Lubelski Węgiel BOGDANKA for the period 2017-2019 was signed on 28 September 2016. The LWB Tax Group was registered by the Head of the Lublin Tax

Office in Lublin under Tax Reg. No. (NIP): 1030000927 by virtue of a decision dated 25 October 2016. Since 2017 the LWB Tax Group has comprised the following companies: Lubelski Węgiel Bogdanka S.A., MR Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o., and EkoTrans Bogdanka sp. z o.o.

The LWB Tax Group is represented by the Parent, Lubelski Węgiel Bogdanka S.A.

Current tax

Current liabilities under income tax are calculated in accordance with the tax laws applicable or actually implemented as at the balance-sheet date in the country where the Company operates and generates 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

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

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

2.17 Employee benefits (Note 17)

Retirement and other employee benefits

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

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

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

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

Provisions are calculated on a case-by-case basis, separately for each employee. Provisions are calculated on the basis of the projected amount of a benefit which the Company 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 forecast amount of a benefit is calculated using, inter alia, the projected amount of the base used to calculate a given benefit, estimate of how much that base will increase until a given employee acquires the right to the benefit, and a percentage ratio which reflects the employee's length of service.

As at the balance-sheet date, the resulting amount is discounted using the actuarial method, then it is decreased by the amount of the Company'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 Company 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 Company's statistical data. The risk of full work disability and death are computed on the basis of statistical data.

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

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

Profit-sharing programmes and bonus programmes

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

Share-based payments

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

2.18 Provisions (Note 18)

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

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

Provision for a mine closure and land reclamation

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

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

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

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

2.19 Recognition of revenue (Note 19)

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

When recognising the revenue, the Company follows IAS 18 "*Revenue*". The Company recognises revenue when the amount of revenue can be measured reliably and when it is probable that the economic benefits will flow to the Company and when certain criteria for each type of the Company'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 Company makes estimates on the basis of historical information, taking into account the customer and transaction type and details of agreements.

Revenue from sales of products, goods for resale and materials

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

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

Interest income

Interest income is recognised proportionately to the lapse of time at the effective interest rate method. Whenever a receivable is impaired, the Company 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.

Dividend income

Dividend income is recognised once the shareholders' rights to the receipt of a dividend are determined and disclosed under "Finance income."

This income refers to dividends from the subsidiaries: Łęczyńska Energetyka Sp. z o.o., RG Bogdanka Sp. z o.o., MR Bogdanka Sp. z o.o. and EkoTRANS Bogdanka Sp. z o.o.

2.20 Recognition of government grants (Note 14)

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

According to IAS 20.3, grants related to assets are defined as government grants whose objective is to finance non-current assets. Under IAS 20, government grants must be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

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

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

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

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

2.21 Lease (Note 30)

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 (Note 27)

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

(IN PLN '000)

3. INFORMATION ON BUSINESS SEGMENTS

Key reporting structure - industry segments

The Company's core business is production and sale of coal. In 2017, revenue from sales of other products and services amounted to PLN 45,669,000 (in 2016: PLN 51,165,000), representing, 2.57% in 2017 and 2.87% in 2016, respectively, of total revenue.

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

Supplementary reporting structure - geographical segments

The Company operates primarily in Poland. In 2017, revenue from sales of other products and services outside Poland amounted to PLN 25,564,000 (in 2016: PLN 31,225,000), representing, 1.43% in 2017 and 1.75% in 2016, respectively, of total revenue. The Company does not hold the related assets or liabilities outside Poland.

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

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

Division into mining fields

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

Key coal customers

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

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

(IN PLN '000)

4. NON-CURRENT ASSETS

	Land	Buildings and structures total	Buildings and structures including excavations	Plant and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
As at 1 January 2017								
Cost or assessed value	8,741	2,713,892	1,959,954	2,021,374	95,124	21,969	157,623	5,018,723
Amortisation/depreciation	-	(1,269,874)	(988,667)	(1,009,116)	(55,003)	(14,375)	-	(2,348,368)
Net book value	**8,741**	**1,444,018**	**971,287**	**1,012,258**	**40,121**	**7,594**	**157,623**	**2,670,355**
As at 31 December 2017								
Net book value at beginning of year	8,741	1,444,018	971,287	1,012,258	40,121	7,594	157,623	2,670,355
Increases	-	-	-	-	-	1,018	354,754	355,772
Transfer from construction in progress	928	245,022	237,332	48,725	1,199	894	(296,768)	-
Reversal of impairment losses	-	352,852	176,825	242,985	1,124	-	-	596,961
(Creating)/use of impairment losses	-	17,039	17,003	108	-	-	1,195	18,342
Decreases	-	(36,711)	(27,534)	(127)	(60)	(4)	(2,717)	(39,619)
Amortisation/depreciation	-	(194,535)	(170,118)	(139,744)	(9,726)	(2,430)	-	(346,435)
Reclassification of impairment losses to depreciation	-	(51,495)	(32,095)	(52,820)	(214)	-	-	(104,529)
Net book value	9,669	1,776,190	1,172,700	1,111,385	32,444	7,072	214,087	3,150,847
As at 31 December 2017								
Cost or assessed value	9,669	3,088,882	2,160,368	2,304,097	96,767	23,665	214,087	5,737,167
Amortisation/depreciation	-	(1,312,692)	(987,668)	(1,192,712)	(64,323)	(16,593)	-	(2,586,320)
Net book value	**9,669**	**1,776,190**	**1,172,700**	**1,111,385**	**32,444**	**7,072**	**214,087**	**3,150,847**

As at 1 January 2016								
Cost or assessed value	5,523	2,645,244	1,899,401	1,958,119	94,199	20,596	143,584	4,867,265
Amortisation/depreciation	-	(1,127,067)	(868,947)	(880,012)	(53,674)	(12,958)	-	(2,073,711)
Net book value	5,523	1,518,177	1,030,454	1,078,107	40,525	7,638	143,584	2,793,554
As at 31 December 2016								
Net book value at beginning of year	5,523	1,518,177	1,030,454	1,078,107	40,525	7,638	143,584	2,793,554
Increases	-	13	-	1,371	316	-	270,659	272,359
Transfer from construction in progress	3,200	170,454	141,559	68,608	5,450	1,447	(249,159)	-
Reclassification to assets held for sale	-	(13)	-	(896)	(21)	-	-	(930)
(Creating)/use of impairment losses	139	7,671	6,563	-	-	-	(7,352)	458
Decreases	(121)	(43,049)	(22,303)	(377)	(23)	(4)	(109)	(43,683)
Amortisation/depreciation	-	(209,235)	(184,986)	(134,555)	(6,126)	(1,487)	-	(351,403)
Net book value	8,741	1,444,018	971,287	1,012,258	40,121	7,594	157,623	2,670,355
As at 31 Dec. 2016								
Cost or assessed value	8,741	2,713,892	1,959,954	2,021,374	95,124	21,969	157,623	5,018,723
Amortisation/depreciation	-	(1,269,874)	(988,667)	(1,009,116)	(55,003)	(14,375)	-	(2,348,368)
Net book value	**8,741**	**1,444,018**	**971,287**	**1,012,258**	**40,121**	**7,594**	**157,623**	**2,670,355**

(IN PLN '000)

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

No collateral was established on property, plant and equipment.

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

	for the financial year from 1 January to 31 December	
	2017	2016
Costs of products, goods and materials sold	(337,393)	(344,515)
Selling costs	(451)	(457)
Administrative expenses	(8,591)	(6,431)
As at 31 December	**(346,435)**	**(351,403)**

4.1 Property, plant and equipment - workings

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

As at 31 December 2017:

Item	Quantity [items]	Length [m]	Initial value	Depreciation	Net value as at the balance-sheet date	Depreciation level in the given group
Galleries disclosed under non-current assets, depreciated by using a natural method, including:	38	25,071	524,917	379,816	145,101	72%
- depreciated until December 2017	*25*	*13,152*	*472,614*	*379,816*	*92,798*	*80%*
Galleries disclosed under non-current assets, depreciated according to useful life	245	93,114	1,337,038	477,497	859,541	36%
Other items, depreciated according to useful life (shafts, shaft towers, dams, reservoirs and other)	32	-	298,413	130,355	168,058	44%
Total as at 31 December 2017	**315**	**118,185**	**2,160,368**	**987,668**	**1,172,700**	**46%**

As at 31 December 2016:

Item	Quantity [items]	Length [m]	Initial value	Depreciation	Impairment losses	Net value as at the balance-sheet date	Depreciation level in the given group
Galleries disclosed under non-current assets, depreciated by using a natural method, including:	31	27,599	590,159	412,195	39,859	138,105	77%
- depreciated until December 2016	*20*	*7,014*	*481,401*	*412,195*	*29,547*	*39,659*	*92%*
Walls disclosed in non-current assets, depreciated with the use periods	235	94,649	1,264,978	455,134	124,666	685,178	46%
Other items depreciated with the use periods (shafts, shaft towers, barrages, tanks etc.)	32	-	298,681	121,338	29,339	148,004	50%
Total as at 31 December 2016	**298**	**122,248**	**2,153,818**	**988,667**	**193,864**	**971,287**	**55%**

(IN PLN '000)

4.2 Property, plant and equipment – construction in progress

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

	As at 31 December	
	2017	2016
Excavations (galleries)	191,152	126,831
Modernisation of the longwall systems lining	-	11,803
Expansion of the waste storage yard in Bogdanka	9,290	6,317
Construction of new mining fields	5,607	5,531
Reinforcement of shaft 1.3 lining	3,708	3,431
Extension of the Mechanical Coal Processing Plant (ZPMW)	189	762
Other	4,141	2,948
As at 31 December	**214,087**	**157,623**

4.3 Impairment losses of property, plant and equipment

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

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

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

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

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

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

Estimating the recoverable value as at 31 December 2017

In analogy to the process of estimating the recoverable value of non-current assets at the end of 2015, also now, considering that it was not possible to determine the fair value for a very large group of assets for which no active market exist, neither are comparable transactions available, the recoverable value of the tested assets was determined in the process of estimating their usable value by employing the discounted cash flow method on the basis of financial projections for 2018-2051 prepared by the Company.

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

- given that individual departments and the internal mine organisation are interrelated, all Company's assets were deemed as one CGU;
- an average annual level of coal sales volume was determined to amount to 9.2 million tonnes in 2018-2030;

- the forecast period from 2018 to 2051 was estimated on the basis of current coal resources available for use, held by the Company as at the balance-sheet date (with the account taken of the resources in the "Ostrów" deposit joined on the basis of the licence obtained on 17 November 2017, available for use with the employment of the existing – as at the balance-sheet date – infrastructure, mainly with respect to shafts), considering the average annual extraction level of 9.2 million tonnes in 2018-2030 (in the subsequent years the average annual extraction level will gradually decrease, which is a consequence of the deposits in the Bogdanka Field beginning to run out and a result of the adopted assumption to use only the infrastructure which is currently available);
- the assumption regarding the price of coal in 2018-2040 was made on the basis of in-house research made for the needs of the Enea Group (the whole model is inflation-related); as from 2040 the assumption regarding the price of coal takes account of inflation at 2.5%;
- starting from 2020, the model takes account of average annual inflation of 2.5% (the assumption compliant with a long-term inflation target set by the National Bank of Poland);
- WACC of 8,27% during the whole period of the forecast, estimated on the basis of the latest economic data (with the risk-free rate of 3.27% and beta 1.0) was taken as a discount rate;
- the average annual level of CAPEX during the forecast period of PLN 323,161,000.

The total value of the Company's assets subject to testing as at 31 December 2017 amounted to PLN 2,205,886,000, while the value of discounted cash flow estimated on the basis of the forecast made (usable value) was PLN 3,166,201,000. As a result of the estimation, it was found as at 31 December 2017 that the estimated recoverable value exceeded the carrying amount of the tested assets by PLN 960,315,000. This amount is much in excess of the impairment losses of PLN 601,062,000 existing in the books (and created at the end of 2015), where the amount of PLN 596,961,000 covered losses allocated to property, plant and equipment, while PLN 4,101,000 covered losses allocated to intangible assets.

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

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

Analysis of model sensitivity for 2017 to a change in the price and the discount

If the assumptions regarding the coal price during the forecast period increase by 1%, the value of the discounted cash flow, based on the model, would amount to PLN 3,357,138,000, while in the event of a 1% drop of the coal price assumptions during the forecast period, the value of the discounted cash flow would amount to PLN 2,975,264,000. This means that in the event of an increase or a decrease of the coal price by 1 p.p., as assumed for the non-current assets recoverable value estimation model prepared as at the end of 2017, the existing impairment loss of assets would be further subject to entire reversal.

If the discount rate higher by 1 p.p. is applied in the above model, the value of the discounted cash flow, based on the model, would amount to PLN 2,916,268,000, while in the event of the discount rate lower by 1 p.p. being applied, the value of the discounted cash flow would amount to PLN 3,444,445,000. This means that in the event of an increase or a decrease of the discount rate by 1 p.p., as assumed for the non-current assets recoverable value estimation model prepared as at the end of 2017, the existing impairment loss of assets would be further subject to entire reversal.

(IN PLN '000)

Other impairment losses

In 2017, in connection with a change in the plans of the Management Board of the Company, as confirmed in the strategy, some of the investment projects with a total value of PLN 1,284,000 which were already started will not be continued in the nearest future (expenditure disclosed under "Construction in progress"). Therefore, the Management Board of the Company decided to create an impairment loss. The remaining changes to the impairment losses in the period were connected with the use of the impairment losses created previously for the purpose of liquidating property, plant and equipment.

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

	Land	Buildings and structures		Plant and equipment	Vehicles	Construction in progress	Total
		total	including excavations				
As at 1 January 2017	**4,394**	**369,891**	**193,828**	**246,280**	**1,124**	**7,352**	**629,041**
Creating impairment loss	-	-	-	-	-	1,284	1,284
Reversal of unused impairment loss		(352,852)	(176,825)	(242,985)	(1,124)	-	(596,961)
Using the impairment loss created	-	(17,039)	(17,003)	(108)	-	(2,479)	(19,626)
As at 31 December 2017	**4,394**	**-**	**-**	**3,187**	**-**	**6,157**	**13,738**
As at 1 January 2016	**4,533**	**377,562**	**200,391**	**246,280**	**1,124**	**-**	**629,499**
Creating impairment loss	-	-	-	-	-	7,352	7,352
Using the impairment loss created	(139)	(7,671)	(6,563)	-	-	-	(7,810)
As at 31 December 2016	**4,394**	**369,891**	**193,828**	**246,280**	**1,124**	**7,352**	**629,041**

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

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

(IN PLN '000)

5. NON-CURRENT ASSETS HELD FOR SALE

	Buildings and structures	Plant and equipment	Vehicles	Total
As at 1 January 2017	13	896	3,421	4,330
Sale of non-current assets held for sale	(13)	(896)	(3,421)	(4,330)
As at 31 December 2017	**-**	**-**	**-**	**-**
As at 1 January 2016	-	-	3,694	3,694
Reclassification to assets held for sale	13	896	21	930
Reclassification to non-current assets	-	-	(294)	(294)
As at 31 December 2016	**13**	**896**	**3,421**	**4,330**

In June 2016, the Company classified for sale non-current assets related to the Building Ceramics Plant, worth PLN 930,000 net. Sale agreement was signed on 13 June 2016 and was finalised in July 2017.

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

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

(IN PLN '000)

6. INTANGIBLE ASSETS

	Computer software	Fees, licences	Geological information	Total
As at 1 January 2017				
Cost or assessed value	7,076	7,223	51,636	65,935
Amortisation	(4,345)	(2,922)	(11,466)	(18,733)
Net book value	**2,731**	**4,301**	**40,170**	**47,202**
As at 31 December 2017				
Net book value at beginning of year	2,731	4,301	40,170	47,202
Increases	36	10,435	30	10,501
Reversal of impairment losses	342	1,082	2,677	4,101
Amortisation	(665)	(739)	(158)	(1,562)
Reclassification of impairment losses to amortisation	(175)	(250)	(126)	(551)
Net book value	2,269	14,829	42,593	59,691
As at 31 December 2017				
Cost or assessed value	7,426	18,866	54,217	80,509
Amortisation	(5,157)	(4,037)	(11,624)	(20,818)
Net book value	**2,269**	**14,829**	**42,593**	**59,691**

As at 1 January 2016				
Cost or assessed value	5,230	6,320	24,032	35,582
Amortisation	(3,956)	(2,281)	(10,939)	(17,176)
Net book value	**1,274**	**4,039**	**13,093**	**18,406**
As at 31 December 2016				
Net book value at beginning of year	1,274	4,039	13,093	18,406
Increases	1,851	903	27,604	30,358
Decreases	(3)	(4)	-	(7)
Amortisation	(391)	(637)	(527)	(1,555)
Net book value	2,731	4,301	40,170	47,202
As at 31 December 2016				
Cost or assessed value	7,076	7,223	51,636	65,935
Amortisation	(4,345)	(2,922)	(11,466)	(18,733)
Net book value	**2,731**	**4,301**	**40,170**	**47,202**

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

	for the financial year from 1 January to 31 December	
	2017	2016
Costs of products, goods and materials sold	(1,521)	(1,525)
Selling costs	(2)	(2)
Administrative expenses	(39)	(28)
Total	**(1,562)**	**(1,555)**

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

(IN PLN '000)

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

Key assumptions regarding the estimation of the recoverable value as at the end of 2017 as well as the findings thereof are described in greater detail in Note 4.3.

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

	Computer software	Fees, licences	Geological information	Total
As at 1 January 2017	342	1,082	4,457	5,881
Reversal of unused impairment loss	(342)	(1,082)	(2,677)	(4,101)
As at 31 December 2017	**-**	**-**	**1,780**	**1,780**
As at 1 January 2016	342	1,082	4,457	5,881
As at 31 December 2016	**342**	**1,082**	**4,457**	**5,881**

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

7. NON-CURRENT INVESTMENTS

	Shares	Total
As at 31 December 2017		
Net book value at beginning of year	75,601	75,601
Net book value at end of year	**75,601**	**75,601**
As at 31 December 2016		
Net book value at beginning of year	75,601	75,601
Net book value at end of year	**75,601**	**75,601**

In 2017 the Company did not perform any new non-current investments.

(IN PLN '000)

8. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017*	2016
Trade debtors	179,547	202,510
Less: impairment losses of accounts receivable	(7,146)	(5,858)
Net trade debtors	172,401	196,652
Accruals and deferrals	28,848	31,664
Other accounts receivable*	6,274	14,851
Current	207,523	243,167
Accruals and deferrals	239	4,083
Non-current	239	4,083
Total trade and other receivables	**207,762**	**247,250**

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

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

All receivables of the Company are expressed in PLN.

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

	for the financial year from 1 January to 31 December	
	2017	2016
As at 1 January	5,858	2,159
Creating impairment loss	3,579	3,780
Receivables written down during the year as uncollectible	(126)	-
Reversal of unused amounts	(2,165)	(81)
Total	**7,146**	**5,858**

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

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

	As at 31 December	
	2017	2016
Up to 1 month	126	4
3 to 6 months	597	73
6 to 12 months	708	-
above 12 months	5,715	5,781
Total	**7,146**	**5,858**

(IN PLN '000)

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

	As at 31 December	
	2017	2016
Up to 1 month	846	825
1 to 3 months	23	15
3 to 6 months	296	21
Total	**1,165**	**861**

Maximum exposure to credit risk as at the reporting date is the fair value of each category of accounts receivable described above. Accounts receivable on coal sales with the total value of PLN 25,645,000 as at 31 December 2017 (31 December 2016: PLN 91,577,000) constitute collateral of liabilities under the bond issue, as well as bank guarantees issued.

9. INVENTORIES

	As at 31 December	
	2017	2016
Materials	52,346	50,245
Finished goods	8,361	19,931
Impairment loss to the sale price, likely to achieve, of the finished goods	-	(139)
Total	**60,707**	**70,037**

Cost of inventories in the income statement was disclosed under "Cost of products, goods and materials sold" totalling PLN 861,576,000 in 2017 (2016: PLN 1,431,941,000).

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

	for the financial year from 1 January to 31 December	
	2017	2016
As at 1 January	139	507
Creating impairment losses of the sale price, likely to achieve, of finished goods	8	139
Use of impairment losses of the sale price, likely to achieve, of the finished goods	(147)	(507)
As at 31 December	**-**	**139**

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

No collateral was established on inventories.

10. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017*	2016
Cash in banks	11,358	7,650
Bank deposits	527,275	617,000
Total	**538,633**	**624,650**
Including:		
*Non-current***	*121,806*	*111,218*
Current	*416,827*	*513,432*
	538,633	*624,650*

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

***cash with restricted liquidity*

Value of cash with restricted liquidity amounted to PLN 122,017,000 as at 31 December 2017, including PLN 121,806,000 (as at 31 December 2016: PLN 111,218,000) of the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine. Cash held by the Company are denominated in PLN and in EUR. As at 31 December 2017, the value of cash held in EUR, translated into PLN, totalled PLN 1,010,000.

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

2017 – 0.4% - 1.85%

2016 – 0.4% - 1.7%

11. SHARE CAPITAL

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

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

12. OTHER CAPITAL

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

Other capital related to the Management Options Scheme

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

- - option allocation date (valuation date) was set to fall on 30 September 2013 for each of the tranches,
- - current price for calculation purposes was a forecast share price of Lubelski Węgiel Bogdanka S.A. as at 30 September 2013,
- - the option life was calculated with the assumption of its maturity falling in the middle of the range between the first and the last possible day of option exercise,
- - risk-free rate was defined as the semi-annual average of weekly prices of 5-year treasury bonds,
- - share price variability was calculated on the basis of annual rates of return on shares of Lubelski Węgiel Bogdanka S.A. using continuous capitalisation for the 4-year period of Company listings,
- - zero dividend rate is assumed in connection with the Management Options Scheme's provisions that set out that dividends to be paid by Lubelski Węgiel Bogdanka S.A. will be deducted from the Option strike price.

As at 31 December 2017, the number of allocated options under the whole Scheme was 1,143,863, and the total value of the Management Options Scheme amounted to PLN 3,839,000 (31 December 2016: PLN 3,839,000). Within this pool, the number of allocated rights (for 2013–2014) to be exercised under the above options is 335,199. In 2016, on the basis of analyses performed, it was determined that there is no possibility of achieving non-market parameters required under the Scheme. Therefore, options valued at PLN 5,913,000 were found to be forfeit, and consequently, derecognised. The total cost of the Scheme disclosed as at 31 December 2017 under "Other capitals" amounted to PLN 3,839,000 (31 December 2016: PLN 3,839,000). The amount PLN 5,913,000 was disclosed in the income statement in 2016 under "Administrative expenses" – as a reduction of costs.

Equity on valuation of cash flow hedges

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

Retained profits

Apart from net earnings for the current year, the amount of retained profits consists of retained earnings, non-transferrable actuarial gain/(loss) on defined benefit schemes and capital arising from fair value measurement of property, plant and equipment as at the date on which the IAS/IFRS were first applied. The increase in 2017 by PLN 473,079,000 results from the recognition of the net profit for the current year in the amount of PLN 673,281,000, actuarial losses on defined benefit schemes in the amount of PLN 24,306,000, transfer of 2016 profit/loss to reserve capital in the amount of PLN 141,882,000 and payment of dividend of PLN 34,014,000.

Components of equity not subject to distribution

Under Article 396.1 of the Commercial Companies Code applicable to the Company, a supplementary fund must be created to cover possible losses; at least 8% of profit for the given financial year must be transferred to the supplementary fund until it amounts to at least a third of the share capital. This portion of the supplementary fund is not available for distribution for the benefit of shareholders. As at 31 December 2016 and 31 December 2015, this value was PLN 100,386,000.

Also actuarial gains/(losses) relating to provisions for post-employment benefits recognised through comprehensive income, are not included in the distribution.

(IN PLN '000)

13. TRADE AND OTHER LIABILITIES

	As at 31 December	
	2017	2016
Trade creditors	127,389	118,042
Other liabilities, including:	170,372	191,223
*Company Social Benefits Fund**	*487*	*12,405*
Liabilities on security deposit	*2,571*	*2,605*
Investment liabilities	*88,650*	*67,881*
Salaries payable	*35,151*	*37,354*
Liabilities on advance payments	*6,905*	*3,697*
Other liabilities	*36,608*	*67,281*
Total financial liabilities	297,761	309,265
Liabilities - social security and other tax payable	59,250	47,687
Trade and other liabilities	**357,011**	**356,952**
Including:		
Non-current	*42,675*	*43,030*
Current	*314,336*	*313,922*
Total	**357,011**	**356,952**

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

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

14. GRANTS

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

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.

(IN PLN '000)

15. FINANCIAL LIABILITIES ON ACCOUNT OF BOND ISSUE

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

Financial liabilities on account of bond issue currently refer to one programme agreement. Under the Programme Agreement concluded by the Company on 23 September 2013 with Bank Polska Kasa Opieki S.A., 3,000 bonds in the aggregate amount of PLN 300,000,000 were issued, to be redeemed by 31 December 2018. The redemption date of bonds in the amount of PLN 75 million in each case is 30 March 2018, 30 June 2018, 30 September 2018, and 30 December 2018. Interest on the bonds is based on WIBOR 3M plus a fixed margin.

Until 30 March 2017 the Company held bonds under the second Programme Agreement concluded by the Company on 30 June 2014 with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego. On 10 March 2017 the Company signed an annex to the abovementioned Programme Agreement. In accordance with that annex, the effective term of the Programme for Tranche I ended on 30 March 2017 and on that day the Company redeemed Series LWB01C300617 bonds of a total value PLN 300,000,000. Therefore, on 30 March 2017, the Company's liabilities under the Programme Agreement of 30 June 2014 were fully repaid and the Agreement expired. Interest on the bonds was based on WIBOR 3M plus a fixed margin.

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

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

(IN PLN '000)

16. FINANCIAL INSTRUMENTS

16.1 Financial instruments by category

	Loans and receivables	Total
Assets as disclosed in the statement of financial standing		
Trade debtors	172,401	172,401
Cash and cash equivalents	538,633	538,633
As at 31 December 2017	**711,034**	**711,034**

	Other financial liabilities	Total
Liabilities as disclosed in the statement of financial standing		
Liabilities doe to bond issue	301,911	301,911
Trade creditors and other financial liabilities	222,944	222,944
Total	**524,855**	**524,855**
Interest and commissions paid		
Interest		7,369
Total		7,369

	Loans and receivables	Total
Assets as disclosed in the statement of financial standing		
Trade debtors	196,652	196,652
Cash and cash equivalents	624,650	624,650
As at 31 December 2016	**821,302**	**821,302**

	Other financial liabilities	Total
Liabilities as disclosed in the statement of financial standing		
Liabilities doe to bond issue	600,080	600,080
Trade creditors and other financial liabilities	189,620	189,620
Total	**789,700**	**789,700**
Interest and commissions paid		
Interest		15,535
Fees and commissions		257
Total		15,792

16.2 Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value.

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

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

As at 31 December 2017 and 31 December 2016 the Company held no financial instruments valued at fair value.

16.3 Financial risk factors

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

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

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

The Company is also exposed to interest rate risk in connection with its current and non-current debt instruments. Loans and bonds bearing interest at variable rates result in the Company's exposure to a change in cash flows resulting from changes in interest rates. Both in 2017 and in 2016 the Company used external financing denominated in the złoty.

At present the Company has no debt in the form of loans. The total debt under the issued bonds amounts to PLN 302 million (as at 31 December 2016 – PLN 600 million). Based on simulations as at 31 December 2017, it was determined that a 1 p.p. change in interest rates would increase or decrease, as applicable, the Group's gross profit by an amount lower or equal to PLN 3.02 million (as at 31 December 2016 – PLN 6.00 million) and increase or decrease, as applicable, the net profit by an amount lower or equal to PLN 2.45 million (as at 31 December 2016 – PLN 4.86 million).

Based on the 2017 and 2016 data concerning the Company's interest bearing assets, the sensitivity of the finance income changes to changes in interest rates has been assessed. The value of assets exposed to the interest rate risk as at 31 December 2017 with respect to bank deposits of free cash amounts to PLN 416,827,000 (as at 31 December 2016 – PLN 513,432,000), and with respect to Mine Closure Fund assets – PLN 121,806,000 (as at 31 December 2016 – PLN 111,218,000). The change in finance income is presented in the table below:

(IN PLN '000)

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

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(4,168)	(2,084)	2,084	4,168

Impact of changes of interest rates on finance income from deposits as at 31 December 2016:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(5,134)	(2,567)	2,567	5,134

The analysis of data as at 31 December 2017 indicates that when interest rate of deposits goes up by 1 p.p., finance income under deposits increases by PLN 4,168,000 (up by PLN 5,134,000 as at 31 December 2016), and so does net profit - by PLN 3,376,000 (up by PLN 4,159,000 as at 31 December 2016). Analogously, when interest rate of deposits goes down by 1 p.p., finance income under deposits is lower by PLN 4,168,000 (decrease by PLN 5,134,000 as at 31 December 2016), and so is net profit - by PLN 3,376,000 (decrease by PLN 4,159,000 as at 31 December 2016).

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

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

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

Impact of changes in interest rates on finance income under funds deposited to the Mine Closure Fund as at 31 December 2016:

Change in interest rate	-1 p. p.	-0.5 p. p.	+0.5 p. p.	+1 p. p.
Estimated impact	(1,112)	(556)	556	1,112

The analysis carried out as at 31 December 2017 indicates that when interest rate of deposits related to the Mine Closure Fund goes up by 1 p.p., finance income under deposits is higher by PLN 1,218,000 (increase by PLN 1,112,000 as at 31 December 2016), and net profit is higher by PLN 987,000 (increase by PLN 901,000 as at 31 December 2016). Analogously, when interest rate of deposits related to the Mine Closure Fund goes down by 1 p.p., finance income under deposits is lower by PLN 1,218,000 (decrease by PLN 1,112,000 as at 31 December 2016), and so is net profit - by PLN 987,000 (decrease by PLN 901,000 as at 31 December 2016).

16.3.2. Foreign currency risk

The Company enters into transactions denominated in foreign currencies. It brings about a risk of exchange rate fluctuations. The Company is exposed mostly to a risk of changes in EUR/PLN and USD/PLN exchange rates. In 2017 no material currency exchange transactions were concluded, a small amount of coal was sold with the USD as the transactional currency. Material currency exchange transactions may occur in the purchases of specialised equipment and machinery used for extraction operations.

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

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

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

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

16.3.3. Credit risk

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

(IN PLN '000)

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

	As at 31 December	
	2017	2016
Cash in hand and bank deposits	538,633	624,650
Current trade debtors	172,401	196,652
Total exposure to credit risk	**711,034**	**821,302**
Receivables from 7 key customers	168,017	183,398
Concentration of credit risk under receivables from 7 key customers	97%	93%
Cash deposited at Banku Gospodarstwa Krajowego S.A. (expressed as % of total cash and bank deposits)	56%	14%
Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits)	41%	82%
Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits)	2%	1%
Cash deposited at mBank S.A. (formerly BRE Bank S.A.) (expressed as % of total cash and bank deposits)	1%	2%
Cash deposited at PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	-	1%

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

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

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

16.3.4. Liquidity risk

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

(IN PLN '000)

On 16 December 2016, the Management Board of the Company entered into a revolving overdraft facility up to PLN 100 million with mBank S.A. (previous revolving overdraft facility dated 21 May 2014 with a limit of up to PLN 150 million expired on 22 May 2016). The company may use this overdraft until 29 November 2018. As at 31 December 2017 the available limit was not used.

The facility is secured with:

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

Loans and borrowings received by the Company are denominated in Polish zlotys.

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

As at 31 December 2017	less than 1 year	1 up to 2 years	2 up to 5 years	more than 5 years
Financing liabilities on account of bond issue	306,572	-	-	-
Trade and other liabilities	180,269	5,381	14,825	34,172

Balance as at 31 December 2016	less than 1 year	1 up to 2 years	2 up to 5 years	more than 5 years
Financing liabilities on account of bond issue	309,238	304,680	-	-
Trade and other liabilities	154,099	5,097	13,985	20,320

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

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

Based on the 2017 data concerning the Company's core business, the sensitivity of the financial result to changes in market risk factors (price of coal) has been assessed.

The assessment indicates that a 1% increase in the unit price of coal (translating into a 1% increase in revenues from the sale of coal) results in a rise of the result on sales (gross profit - administrative expenses - selling costs) by 7.45%. Similarly, a 1% decrease in the coal price reduces the result on sales (gross financial result – administrative expenses – selling costs) by 7.45%. The table below shows changes in the result in other analysed ranges (assuming that other factors remain unchanged).

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in result	-111.74%	-74.49%	-37.25%	-14.90%	-7.45%	0.00%	7,45%	14.90%	37.25%	74.49%	111.74%

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

(IN PLN '000)

16.4 Managing capital risk

The Company's objective in the area of managing capital/financial risk is to protect the Company's ability to continue as going concern, in particular ensuring financing for investments being made as well as ensuring relevant funding for on-going activities to allow the liabilities to be paid on due dates. The Company's objective in the area of managing financial risk includes maintaining the optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company 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 Company focuses on managing cash and cash equivalents, and debts under contracted loans and the bond issue.

The Company has financial liabilities due to the bond issue for the financing of current operations and investment activities. The table below shows the relation between the net debt and the capital employed:

	As at 31 December	
	2017	2016
Financing liabilities on account of bond issue	301,911	600,080
Net of cash and cash equivalents	(538,633)	(624,650)
Net debt	**(236,722)**	**(24,570)**
Total equity	2,884,627	2,269,666
Employed capital	2,647,905	2,245,096

(IN PLN '000)

17. PROVISIONS FOR EMPLOYEE BENEFITS

	As at 31 December	
	2017	2016
Provisions as disclosed in the statement of financial position		
Retirement and disability benefits	42,542	33,098
Long service awards	90,704	80,871
Coal allowances in kind	-	114,876
Voluntary Redundancy Programme	5,143	21,688
Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	15,173	12,943
Total	**153,562**	**263,476**

	for the financial year from 1 January to 31 December	
	2017	2016
Costs recognised in the income statement:		
Retirement and disability benefits	10,305	2,197
Long service awards	20,647	9,855
Coal allowances in kind	(139,663)	6,479
Voluntary Redundancy Programme	(8,021)	21,688
Other benefits for employees (unused holidays, salaries and wages, death benefits etc.)	21,946	16,864
Total	**(94,786)**	**57,083**

Such a significant decrease in provisions for employee benefits (by PLN 109,914,000) primarily results from releasing the provision for coal allowance benefits. On 17 October 2017, the Management Board of the Company signed with the trade unions active at the Company an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners. As a result of signing the agreement, the existing retirees and pensioners, for whom the Company was the last place of employment, have lost their right to free coal. Further, in consequence of the Act on the benefit to compensate for the loss of the right to free coal becoming effective on 12 October 2017, these persons may benefit from a one-off compensation in the amount of PLN 10,000. As a result of signing the agreement, the right to free coal after retirement was also lost by the current employees of the Company, in exchange for a right to receive a one-off additional severance pay for retirees and pensioners.

In view of the above it was necessary to recognise appropriate changes in the Company's books. In connection with the loss of the right to coal allowances after retirement/disability pension, the Company measured again the provision for coal allowance benefits as at 17 October 2017 (date of loss of the right). The updated provision amounted to PLN 145,564,000 and was subsequently fully released. At the same time, in accordance with the concluded agreement, the Company recognised in the books a provision for additional severance pay for retirees and pensioners in the total amount of PLN 7,044,000. In addition, in 2017 compensation in the amount of PLN 23,589,000 was paid to the current employees of the Company in connection with resignation of their right to free coal after retirement/disability pension.
The total effect of all operations connected with coal allowances and the agreement signed in this regard on the result of the Company amounted to circa PLN 114,931,000.

The existing retirees and pensioners who under the agreement lost their right to free coal pursuant to the Act on Compensation Benefit of 12 October 2017, could take advantage of a one-off compensation in the net amount of PLN 10,000 per one eligible person. The Act envisaged that the process of collection applications from retirees/pensioners and the targeted payment of compensation benefits will be carried out by indicated entities to which the Act was applicable, including the Company. The process of collecting applications from retirees/pensioners was carried out in October and November 2017. After the applications had been verified, a list was prepared and sent by the Company to the Industrial Development Agency. Based on that list the Company received funds for the purpose of paying out the compensation benefit. The Company was in this process only an intermediary because a direct obligation for compensation was taken over by the State Treasury. For that reason the Company does not disclose in the financial statements either costs connected with paid compensation or revenue from received subsidy for payment of funds.

(IN PLN '000)

	for the financial year from 1 January to 31 December	
	2017	**2016**
Costs recognised in the statement of comprehensive income regarding the distribution of actuarial gains and losses resulting from demographic assumptions, financial assumption and other changes:		
Retirement and disability benefits	1,310	7,186
Coal allowances in kind	28,632	64
Other benefits for employees (death benefits)	66	413
Total	**30,008**	**7,663**

Change in provisions for employee benefits liabilities:

	for the financial year from 1 January to 31 December	
	2017	**2016**
As at 1 January	263,476	247,997
Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	27,991	52,437
Costs of past employment	(138,520)	(8,162)
Interest expense	6,777	6,294
Actuarial gains/(losses) as recognised in the income statement	8,966	6,514
Actuarial gains/(losses) as recognised in the statement of comprehensive income:	30,008	7,663
Recognised in the comprehensive income, total	(64,778)	64,746
Benefits paid	(45,136)	(49,267)
As at 31 December	**153,562**	**263,476**
Including:		
- non-current	*117,344*	*207,445*
- current	*36,218*	*56,031*

(IN PLN '000)

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

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

	Benefits during employment	Post-employment benefits	Total
Liabilities as at 1 January	112,775	150,701	263,476
Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	22,501	5,490	27,991
Costs of past employment	-	(138,520)	(138,520)
Interest expense	2,613	4,164	6,777
Actuarial gains/(losses) as recognised in the income statement	8,966	-	8,966
Actuarial gains/(losses) as recognised in the statement of comprehensive income:	-	30,008	30,008
Total, as recognised in the statement of comprehensive income	**34,080**	**(98,858)**	**(64,778)**

Amounts disclosed in the income statement and in the statement of comprehensive income in 2016 are as follows:

	Benefits during employment	Post-employment benefits	Total
Liabilities as at 1 January	106,710	141,287	247,997
Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other)	47,192	5,245	52,437
Costs of past employment	(7,311)	(851)	(8,162)
Interest expense	2,212	4,082	6,294
Actuarial gains/(losses) as recognised in the income statement	6,514	-	6,514
Actuarial gains/(losses) as recognised in the statement of comprehensive income:	-	7,663	7,663
Total, as recognised in the statement of comprehensive income	**48,607**	**16,139**	**64,746**

(IN PLN '000)

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

	for the financial year from 1 January to 31 December	
	2017	2016
Costs of products, goods and materials sold	(90,960)	45,735
Selling costs	(569)	310
Administrative expenses	(10,034)	4,744
Finance costs	6,777	6,294
Total, as recognised in the income statement	**(94,786)**	**57,083**
Actuarial gains/(losses) as recognised in the statement of comprehensive income	30,008	7,663
Total, as recognised in the statement of comprehensive income	**(64,778)**	**64,746**

Main actuarial assumptions made:

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

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

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

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

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

(IN PLN '000)

18. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Provision for a mine closure and land reclamation	Mining damage	Legal claims	Real property tax	ZUS claims – contribution for accident insurance	Other	Total
As at 1 January 2017	117,423	4,440	11,522	32,456	20,042	2,141	188,024
Including:							
Non-current	*117,423*	*-*	*-*	*-*	*-*		*117,423*
Current	*-*	*4,440*	*11,522*	*32,456*	*20,042*	*2,141*	*70,601*
Recognition in the statement of financial position							
- Update of the provision created	*(8,274)*	*-*	*-*	*-*	*-*	*-*	*(8,274)*
Recognition in the income statement							
- Creation of additional provisions	*1,541*	*4,434*	*-*	*6,896*	*-*	*5,778*	*18,649*
- Use of the created provision	*-*	*(1,801)*	*-*	*-*	*-*	*(2,101)*	*(3,902)*
- Release of an unused provision	*-*	*(2,639)*	*(216)*	*-*	*-*	*-*	*(2,855)*
- Interest	*-*	*-*	*293*	*3,001*	*1,298*	*-*	*4,592*
- Discount settlement	*3,758*	*-*	*-*	*-*	*-*	*-*	*3,758*
As at 31 December 2017	**114,448**	**4,434**	**11,599**	**42,353**	**21,340**	**5,818**	**199,992**
Including:							
Non-current	*114,448*	*-*	*-*	*-*	*-*		*114,448*
Current	*-*	*4,434*	*11,599*	*42,353*	*21,340*	*5,818*	*85,544*

	Provision for a mine closure and land reclamation	Mining damage	Legal claims	Real property tax	ZUS claims – contribution for accident insurance	Other	Total
As at 1 January 2016	130,179	8,497	26,866	23,881	18,727	3,041	211,191
Including:							
Non-current	*130,179*	*-*	*-*	*-*	*-*		*130.179*
Current	*-*	*8,497*	*26,866*	*23,881*	*18,727*	*3,041*	*81.012*
Recognition in the statement of financial position							
- Update of the provision created	*(17,737)*	*-*	*-*	*-*	*-*	*-*	*(17,737)*
Recognition in the income statement							
- Creation of additional provisions	*1,336*	*4,440*	*700*	*6,580*	*-*	*2,131*	*15,187*
- Use of the created provision	*-*	*(4,972)*	*(16,590)*	*-*	*-*	*(3,031)*	*(24,593)*
- Release of an unused provision	*-*	*(3,525)*	*-*	*-*	*-*	*-*	*(3,525)*
- Interest	*-*	*-*	*546*	*1,995*	*1,315*	*-*	*3,856*
- Discount settlement	*3,645*	*-*	*-*	*-*	*-*	*-*	*3,645*
As at 31 December 2016	**117,423**	**4,440**	**11,522**	**32,456**	**20,042**	**2,141**	**188,024**
Including:							
Non-current	*117,423*	*-*	*-*	*-*	*-*		*117,423*
Current	*-*	*4,440*	*11,522*	*32,456*	*20,042*	*2,141*	*70,601*

Mine closure and land reclamation

The Company creates a provision for costs of mine closure and land reclamation, which it is obliged to incur under current laws. The value of mine closure and land reclamation calculated as at 31 December 2017 amounts to PLN 114,448,000 including a provision for a mine closure of PLN 105,441,000 and a provision for land reclamation of PLN 9,007,000. The change in provision compared to 31 December 2016 is PLN (2,975,000); the increase resulting from creating an additional provision of PLN 1,541,000 and an increase resulting from the discount write-off of PLN 3,758,000 were recognised in the income statement under "Costs of products, goods and materials sold" and "Finance cost", respectively, while a decrease caused by update of assumptions, totalling PLN 8,274,000, was recognised in the statement of financial position as a decrease in "Property, plant and equipment".

Removing mining damage

Given the need of removing mining damage, the Company creates a provision for mining damage. The estimated value of works necessary to remove damage as at 31 December 2017 amounts to PLN 4,434,000, and covers predominantly planned costs which will have to be incurred in connection with removal of damage in buildings, buy-out of developed properties (where damage appeared) and compensations for damage to agricultural land. In 2017 the amount of the unused provision totalled PLN 1,801,000 (PLN 4,972,000 in 2016).

Legal claims

The amount disclosed constitutes a provision for certain legal claims filed against the Company by customers and suppliers. The value of made/released provisions in the current period is disclosed in the income statement under other income/expenses. In the Management Board's opinion, supported by appropriate legal opinions, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 31 December 2017. The provision for legal claims has not changed significantly compared to the end of the prior financial year (31 December 2016).

Real property tax

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

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

Although the above ruling by the Constitutional Tribunal has not resolved finally and unequivocally what elements of the equipment in mining excavations are chargeable with real property tax, in addition until now there is no uniform position to that extent in a line of decisions given by administrative courts.

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

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

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

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

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

In connection with decisions issued by the Commune Heads and the Local Government Appellate Court in Lublin, determining real property tax of the Company for 2008–2012 with respect to all communes, the amounts of real property tax calculated for 2013–2017 were adjusted. The adjustment of the tax provision calculated for the above years was supported by a risk that in tax proceedings relating to these years, the tax authorities will decide in the same way as in relation to 2008–2012. Having taken the above into account, the provision disclosed in the Company's books as at 31 December 2017 (disclosed in the statement of financial position under "Provisions for other liabilities and charges") in the amount of PLN 42,353,000 (31 December 2016: PLN 32,456,000) represents a provision for real property tax liabilities, if any, and interest thereon for 2013-2017 with respect to all communes, should the tax authorities determine that mining excavations of the Parent contain objects constituting structures on which real property tax is chargeable. The values connected with real property tax are disclosed in the income statement under "Cost of products, goods and materials sold."

At the end of 2014 decisions issued by the Commune Heads and determining real property tax for the Company for 2009 (Ludwin and Puchaczów Communes) and for 2009–2012 (Cyców Commune) were upheld by the Local Government Appellate Court, and so it was decided to make the settlement of real property tax receivables and liabilities. As a result of the settlement, a provision created previously in the amount of PLN 11,640,000 was used (mainly by offsetting it against tax overpaid by the Company). In 2015 a similar settlement was made for the period 2010-2012 for the Puchaczów Commune and 2010-2012 for the Ludwin Commune. As a result of the settlement, a provision, created earlier, was used in the amount of PLN 7,926,000 (using the whole amount in a set-off with overpayments made by the Company between 2005 and 2007).

In 2017 the provision was not settled, but a settlement was performed with respect to a portion of the amount of overpaid real property tax, available to the Company, in the total amount of PLN 1,638,000 with current liabilities (monthly payments for 2017) on account of real property tax and the service charge.

It should be stressed that the Company takes all legal steps in order to challenge effectively the grounds for the fact of assessing by tax authorities the real property tax in relation to the infrastructure situated in underground mining excavations. The Parent is going to filing appeals against the decisions of tax authorities to the Regional Administrative Court and next, if necessary, to the Supreme Administrative Court.

Concurrently with the made provision, based on the above, in connection with the payments of the real property tax made in 2014, 2015 and 2017 (overpayments charged to liabilities) on account of mining excavations, as at 31 December 2017 the Company calculated income due for those years for the overpaid real property tax, in the amount of PLN 5,786,000 (as at 31 December 2016: PLN 7,423,000). They are disclosed in the statement of financial position as current assets under "Trade debtors and other receivables".

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

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

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

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

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

(IN PLN '000)

After taking the above into account, the provision disclosed in the Company's books as at 31 December 2017 and amounting to PLN 21,340,000 represents a provision for claims of the Social Security Institution related to a contribution for accident insurance (PLN 3,046,000), the increased percentage rate of that contribution by 50% (PLN 13,352,000) and interest (PLN 4,942,000).

Other

Other provisions refer primarily to a provision, created by the Company, for the cost of purchase of green certificates in the amount of PLN 2,082,000 (as at 31 December 2016: PLN 2,013,000), which were necessary for filing for redemption in relation to the purchase and using electrical energy in 2017. In 2017 the Company used the provision for the purchase of green certificates for 2016, in the amount of PLN 2,013,000.

Furthermore, in order to protect itself against negative financial consequences (if any, if the findings of the inspections are upheld - more information on this subject is provided for in Note 25.2) the Company created a provision, as at 31 December 2017, in the amount of PLN 3,578,000 for the interest on tax arrears (if any) for 2015 on account of the corporate income tax.

19. REVENUE

	for the financial year from 1 January to 31 December	
	2017	**2016**
Sale of coal	1,731,604	1,730,611
Other activities	32,457	39,537
Sale of goods and materials	13,212	11,628
Total revenue	**1,777,273**	**1,781,776**

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

- Contracts for the sale of coal, relating to the core activities of the Company; those contracts may be of two types – with transport service (where the Company arranges transport for the customer) or without transport service. The Company sells coal both to large business customers – mainly to professional energy companies – as well as to smaller companies and private individuals. The sales to professional companies account for the predominant share. The total value of all revenue from the sale of coal in 2017 amounted to PLN 1,731,604,000. At the same time revenue from transport of coal (shown in the above table under „Other activities") amounted in 2017 to PLN 13,664,000.
- Contracts for the sale of goods and materials, relating mainly to the sale of scrap; revenue from such sales accounts for a slight share in the total revenue. The total value of all revenue on that account in 2017 amounted to PLN 13,212,000.
- Contracts relating to the sale of other services, in which the largest portion relates to revenue from renting space in the bath – the so called hook places and closets. The service is provided almost exclusively to the Company's subcontractors (providing services within the scope of mining works to the Company), whose employees are required to use the bath under occupational and safety regulations. The total value of revenue from renting bath space in 2017 amounted to PLN 10,256,000.

(IN PLN '000)

20. COSTS BY TYPE

	for the financial year from 1 January to 31 December	
	2017	2016
Depreciation/amortisation	347,997	352,958
Materials and energy consumption	494,927	423,911
External services	418,889	403,590
Employee benefits	562,352	535,648
Entertainment and advertising costs	6,633	6,443
Taxes, fees and charges	38,183	37,205
Other expenses by type	6,944	28,170
Total costs by type	1,875,925	1,787,925
Activities for the Company's own needs	(284,243)	(195,056)
Accruals and deferrals	6,978	(11,699)
Value of coal obtained from excavations	(63,887)	(70,519)
Provisions and other presentation adjustments between costs by type and by function	(126,659)	23,595
Release of impairment loss on the property, plant and equipment and intangible assets (Note 4.3)	(495,982)	-
Total production cost	912,132	1,534,246
Change in inventory of products	11,571	15,477
Costs of goods and materials sold	12,820	11,432
Own cost of sales, including:	**936,523**	**1,561,155**
- Costs of products, goods and materials sold	*861,576*	*1,431,941*
- Selling costs	*41,999*	*43,637*
- Administrative expenses	*32,948*	*85,577*

(IN PLN '000)

21. OTHER INCOME

	for the financial year from 1 January to 31 December	
	2017	2016
Compensations and damages received	1,237	4,927
Release of unused provision for the claims of the consortium of BUDIMEX S.A., Ferrovial Agroman S.A., and Mostostal Kraków	-	10,125
Other, *including:*	2,851	1,658
- Release of used provisions for liabilities	*786*	*105*
- Release of impairment losses	*2,054*	*131*
- Other income	*11*	*1,422*
Total other income	**4,088**	**16,710**

22. OTHER COSTS

	for the financial year from 1 January to 31 December	
	2017	2016
Grants	(387)	(446)
Enforcement fees and penalties	-	(139)
Compensation	(601)	(1,369)
Other	(127)	(83)
Total other costs	**(1,115)**	**(2,037)**

23. OTHER NET LOSS

	for the financial year from 1 January to 31 December	
	2017	2016
(Profit)/(loss) on sale of non-current assets	(460)	(101)
Currency exchange differences	(104)	(112)
Impairment losses due to impairment of construction in progress	(1,284)	(7,352)
Other, *including:*	(967)	(1,920)
- Creating other provisions	*(431)*	*(672)*
- Other	*(536)*	*(1,248)*
Total other net loss	**(2,815)**	**(9,485)**

(IN PLN '000)

24. FINANCE INCOME AND COSTS

	for the financial year from 1 January to 31 December	
	2017	2016
Interest income on short-term bank deposits	5,026	5,399
Dividend received	9,778	2,032
Release of unused provision for interest on claims of the consortium of BUDIMEX S.A., Ferrovial Agroman S.A., and Mostostal Kraków	-	6,465
Other income, including:	1,921	2,411
- Interest regarding the Mine Closure Fund	*1,705*	*1,832*
Total finance income	16,725	16,307
Interest on bank loans, commissions on loans and bonds	(4,677)	(12,442)
Interest expense on valuation of employee benefits	(6,777)	(6,294)
Settlement of discount on regarding provision for the Mine Closure Fund and land reclamation	(3,758)	(3,645)
Creation of a provision and impairment losses of interest	(7,617)	(2,285)
Provision for interest on claims of the Social Security Institution (ZUS) for contribution for accident insurance	(1,298)	(1,315)
Other cost	(702)	(940)
Total finance costs	(24,829)	(26,921)
Finance cost – net	**(8,104)**	**(10,614)**

25. INCOME TAX

25.1 Tax burden

	for the financial year from 1 January to 31 December	
	2017	2016
Current tax	4,514	19,600
Deferred tax charged into finance income	155,009	19,699
Deferred tax charged into other comprehensive income:	(5,702)	(1,456)
- as actuarial gains/losses as recognised in the statement of comprehensive income	*(5,702)*	*(1,456)*
Total	**153,821**	**37,843**

(IN PLN '000)

25.2 Reconciliation of an effective tax rate

	for the financial year from 1 January to 31 December	
	2017	2016
Profit before taxation	832,804	215,195
Tax calculated at the rate of 19%	158,233	40,887
Tax effect of income permanently excluded from the taxable base, including:	(2,415)	(3,674)
- revenue due in respect of the real property tax	*(223)*	*(136)*
- dividend received from subsidiaries	*(1,858)*	*(386)*
- reversal of unused provision for legal claims	*-*	*(3,152)*
- other	*(334)*	*-*
Tax effect of costs permanently excluded from the taxable base	3,705	2,086
- payment to the National Fund for the Disabled	*856*	*815*
- provision for interest on real property tax	*581*	*382*
- impairment loss for interest receivable from the central budget and interest payable to the central budget	*928*	*250*
- donations	*74*	*85*
- other interest	*482*	*145*
- other	*784*	*409*
Decrease in financial result by the income tax	**159,523**	**39,299**

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

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

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

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

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

(IN PLN '000)

25.3 Deferred income tax

Assets and liabilities regarding the deferred income tax mutually set-off is the Company 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 financial statements:

	As at 31 December	
	2017	2016
Deferred tax assets		
- to be realised after 12 months	*36,034*	*47,291*
- to be realised within 12 months	*10,465*	*19,227*
	46,499	66,518
Deferred income tax liability		
- to be realised after 12 months	*247,088*	*118,013*
- to be realised within 12 months	*4,644*	*4,431*
	251,732	122,444
Deferred tax liabilities (net)	**205,233**	**55,926**

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

Change in deferred income tax assets

Deferred tax assets	Provisions for employee benefits and similar	Unpaid remuneration and other benefits	Provision for real property tax	Other balance-sheet provisions	Provision for mining damage	Other	Total
As at 1 January 2017	50,061	4,348	5,353	5,620	844	292	66,518
(Decrease)/increase of the financial result, including:	(20,884)	(427)	1,310	76	(1)	(93)	(20,019)
- recognised in the income statement	*(26,586)*	*(427)*	*1,310*	*76*	*(1)*	*(93)*	*(25,721)*
- recognised in the statement of comprehensive income	*5,702*	*-*	*-*	*-*	*-*	*-*	*5,702*
As at 31 December 2017	**29,177**	**3,921**	**6,663**	**5,696**	**843**	**199**	**46,499**
As at 1 January 2016	47,119	3,293	4,103	2,695	1,615	5,395	64,220
(Decrease)/increase of the financial result, including:	2,942	1,055	1,250	2,925	(771)	(5,103)	2,298
- recognised in the income statement	*1,486*	*1,055*	*1,250*	*2,925*	*(771)*	*(5,103)*	*842*
- recognised in the statement of comprehensive income	*1,456*	*-*	*-*	*-*	*-*	*-*	*1,456*
As at 31 December 2016	**50,061**	**4,348**	**5,353**	**5,620**	**844**	**292**	**66,518**

(IN PLN '000)

Projections prepared for the Company suggest that tax income will be generated in 2018 and in the subsequent years. Based on these projections, it was concluded that there is no risk of failure to realise deferred tax assets recognised in these financial statements.

Change in deferred income tax liability

Deferred tax liabilities	Valuation of non-current assets	Costs of panel strengthening	Provision for a mine closure and land reclamation, net*	Real property tax receivable	Other	Total
As at 1 January 2017	109,708	4,063	7,503	802	368	122,444
(Decrease)/increase of the financial result, including:	128,669	456	866	(186)	(517)	129,288
- recognised in the income statement	*128,669*	*456*	*866*	*(186)*	*(517)*	*129,288*
As at 31 December 2017	**238,377**	**4,519**	**8,369**	**616**	**(149)**	**251,732**
As at 1 January 2016	90,976	4,083	6,000	802	42	101,903
(Decrease)/increase of the financial result, including:	18,732	(20)	1,503	-	326	20,541
- recognised in the income statement	*18,732*	*(20)*	*1,503*	-	*326*	*20,541*
As at 31 December 2016	**109,708**	**4,063**	**7,503**	**802**	**368**	**122,444**

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

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

25.4 Current income tax - receivables and liabilities

Receivables related to the overpayment of current income tax in the amount of PLN 22,803,000 which are disclosed in the statement of financial position are mainly a result of an overpayment of the Company's corporate income tax due for 2017.

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

26. EARNINGS PER SHARE

Basic

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

	for the financial year from 1 January to 31 December	
	2017	2016
Earnings attributable to owners of the Company	673,281	175,896
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN)	**19,79**	**5,17**

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. As at 31 December 2017, the Company held instruments resulting in dilution of potential ordinary shares due to the introduction of the Management Options Scheme in 2013. As at 31 December 2017 dilution did not occur (the same situation was recorded as at 31 December 2016).

27. DIVIDEND PER SHARE

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

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

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

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

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

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

28. CONTINGENT ITEMS

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

Real property tax

The contingent liability concerning the value of mining excavations from which the Company does not create a provision (provision for real property tax, in its parts deemed as probable by the Company, amounts to PLN 42,353,000 and is presented in Note 18), may primarily result from the existing discrepancies between the position of the Company and the position of tax authorities with respect to the subject of that tax. The issue revolves around the question of whether there are in the mining excavations any structures within the meaning of the Act on Local Taxes and Charges which would be subject to the property tax. The discrepancies may also occur with regard to the value of particular facilities - in the event that it is agreed that the facilities are subject to the real property tax. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2016).

Patent claims

The contingent liability for legal claims related to the fee for co-inventors of inventions covered with patents no. 206048 and 209043 functioning at the Company from which the Company does not create provision may primarily result from impossibility to assess whether the claim in question is justified and different positions taken by the Company and the co-inventors of inventions covered with the abovementioned patents. The value of the possible liability as at the day of publishing these financial statements amounts to PLN 48 million. The Company estimated a provision for remuneration for co-inventors to the best of its knowledge and in line with principles so far applied at the Company when calculating remunerations for inventors. The item provisions for legal claims shows a provision for legal claims regarding remuneration for co-inventors of inventions covered by patents No. 206048 and 209043, used at the Company. The amount of remuneration will be subject to analysis of court experts or experts accepted by both parties, to be made upon drafting a technical opinion regarding the patented inventions. On 24 March 2016 a court expert issued an opinion. Subsequently, during the course of 2016, both parties submitted a number of reservations to the opinion. Further, a court expert was heard as regards the prepared opinion; the hearing, which took place on 4 July 2017, was preceded by drawing an additional opinion by the expert. Another trial took place on 5 September 2017; during the trial the Court made decisions as to considering further evidence motions, including further expert opinions, and requested the parties to specify their arguments to the expert opinions. On 1 December 2017 the Regional Court in Lublin issued a decision admitting the evidence in the form of opinions prepared by the University of Science and Metallurgy (AGH) in Kraków and the Silesian University of Technology in Gliwice, Mining and Geology Faculty. Further actions will depend on the assessment of the opinions. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2016).

Liabilities and contingent assets regarding a dispute with a Consortium

By 31 December 2016 the Company issued to the Consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. ("Consortium") debit notes in the total amount of PLN 34,592,000, on account of contractual damages, liquidated damages for delay in contract performance and lost profit damages. Further, on 7 April 2015, to Arbitration Court at the National Chamber of Commerce in Warsaw received an action filed by the Consortium against the Company. The claim covers primarily a reimbursement of costs incurred by the Consortium due to delayed performance of an agreement and liquidated damages for withdrawal from the agreement attributable to the Company, in the total amount of PLN 27,232,000. In the Company's Management Board's opinion, both the liquidated damages and the claim covering the additional costs are groundless, especially that the delay in the performance of the agreement was attributable to the Consortium.

Given the above, in the Management Board's opinion, moving to the Arbitration Court was a response to charging liquidated damages, contractual damages, and damages for lost profits to the Consortium by the Company. The Company's Management Board believes that it is very unlikely that the dispute will be resolved to the benefit of the Consortium, which would entail a necessity for the Company to pay claims, and that the final financial result of both parties' claims should not be adverse for the Company.

On 18 January 2016, Arbitration Court's Adjudication Panel issued a statement to the effect that it had no jurisdiction over a majority of claims pursued by the Consortium (the Arbitration Court has only decided to have jurisdiction for the recognition of the claim for the return of PLN 15 million being a bank guarantee paid to the Company and issued on order of Mostostal Warszawa S.A.), at the same time issuing a decision, on 21 January 2016, obliging the parties to the arbitration proceedings to file a joint position regarding further course of the proceedings. On 10 June 2016, to Arbitration Court at the National Chamber of Commerce in Warsaw received an action filed by the Consortium regarding the bank guarantee described above; the Company files a response to the action, and requested a dismissal of the Consortium's claims and presented an opinion drafted by experts appointed by the Company. At the turn of 2016 and 2017 the parties exchanged further pleadings. The trials before the Arbitration Court were held between 19 and 21 June 2017. On 29 September 2017, the Arbitration Court at the National Chamber of Commerce in Warsaw issued a judgment dismissing in full the action brought against the Company by the Consortium. With the judgement the procedure before the Arbitration Court was closed. In October 2017 the Company filed with the Court of Appeals in Lublin a motion to recognise the judgement of the Arbitration Court. Further, at the end of November 2017, the Consortium filed an appeal to repeal the judgment of the Arbitration Court. At present, the judgment is not final and legally binding.

In the meantime, on 20 September 2016 the Company filed a statement of claim against the Consortium with the Regional Court in Lublin. The Company requested the court to determine that the alleged claims of the Consortium on account of the agreement did not exist. The claim aims to prove that the Consortium failed to duly perform the agreement, and therefore, the Company was right to charge the Consortium the liquidated damages and withdraw from the agreement. After the Consortium had filed the reply to the statement of claim and the first hearing had been conducted, the parties jointly submitted a motion to the Court to direct the parties to mediation and reached an agreement as to the mediator.

(IN PLN '000)

29. FUTURE CONTRACTUAL LIABILITIES

Investment liabilities

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

	As at 31 December	
	2017	2016
Property, plant and equipment	188,793	7,063
Investment liabilities	**188,793**	**7,063**

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

30. OPERATING LEASE

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

	As at 31 December	
	2017	2016
Less than 1 year	3,790	2,480
From 1 year to 2 years	3,270	395
From 2 to 5 years	2,033	1,082
More than 5 years	24,507	25,341
Minimum future payments	**33,600**	**29,298**

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

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

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

During the period ended on 31 December 2017, the costs of the operating lease recognised in the income statement amounted to PLN 4,783,200 (during the period ended on 31 December 2016: PLN 5,300,200).

According to the Company estimates, in relation to IFRS 16 "Leases" becoming effective, the value of minimum future payments, as disclosed so far, on account of irreversible operating lease agreements will be significantly reduced as in compliance with the new standard a significant portion of agreements will be classified as financial leases.

(IN PLN '000)

31. RELATED PARTY TRANSACTIONS

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

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

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

Purchases primarily include the purchase of heat power, potable water and the maintenance services for sewage installations, central heating, tailwater and water grid. Furthermore, in the previous period Łęczyńska Energetyka Sp. z o.o. conducted works for the benefit of the Parent, with a view to completing the construction of the central air conditioning station in the Bogdanka Field.

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

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

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

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

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

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

In the reporting periods ended on 31 December 2017 and 31 December 2016 the value of trade related to purchase with the following subsidiaries: Łęczyńska Energetyka Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o. and MR Bogdanka Sp. z o.o., and the balance of the Company's liabilities towards these entities as at subsequent balance-sheet dates were as follows:

	for the financial year from 1 January to 31 December	
	2017	2016
Purchases in period, including:	101,370	104,333
- Purchases of services activated on the value of "property, plant and equipment"	*3,526*	*6,920*
Total liabilities at end of period including VAT	12,859	9,979

In the reporting periods ended on 31 December 2017 and 31 December 2016 the value of trade related to sale to the following subsidiaries: Łęczyńska Energetyka Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o. and MR Bogdanka Sp. z o.o., and the balance of the Company's receivables from these associated entities as at subsequent balance-sheet dates were as follows:

(IN PLN '000)

	for the financial year from 1 January to 31 December	
	2017	2016
Sales in period	11,440	10,922
Total receivables at end of period including VAT	1,887	1,704

In the reporting periods ending on 31 December 2017 and 31 December 2016 the value of dividends due and received from subsidiaries - Łęczyńska Energetyka Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o., RG Bogdanka Sp. z o. o. and MR Bogdanka Sp. z o.o. as at subsequent balance-sheet dates were as follows:

	for the financial year from 1 January to 31 December	
	2017	2016
Dividend received from the LW BOGDANKA Group companies	9,778	2,032
- Including prepayment for dividend from 2017	*1,288*	-

In December 2017, the Company received from its subsidiary RG Bogdanka Sp. z o.o. an advance payment for a dividend for 2017 in the amount of PLN 1,288,000.

Transactions with ENEA Group companies

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

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

	for the financial year from 1 January to 31 December	
	2017	2016
Purchases in period	67,654	66,585
Total liabilities at end of period including VAT	13,784	13,459

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

(IN PLN '000)

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

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

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

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

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

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

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

The Company concludes commercial transactions with state administration and local self-government bodies as well as entities owned by the State Treasury of the Republic of Poland.

Key sale transactions include revenue on sales of thermal coal to the following companies: Zakłady Azotowe w Puławach S.A. (Grupa Azoty), PGE Paliwa Sp. z o.o., PGNiG Termika S.A., Energa Elektrownie Ostrołęka S.A. and Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Chełm.

In the reporting periods ending on 31 December 2017 and 31 December 2016, the value of tradeover on account of sales with the above entities and the total receivables of the Company from those entities were as follows:

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

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

(IN PLN '000)

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

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

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

	for the financial year from 1 January to 31 December	
	2017	2016
Remuneration of Management Board members and commercial proxies	**5.698**	**7.070**
Including:		
- Annual award	*1.328*	*498*
- Pay for termination of employment relationship	*-*	*990*
- Other benefits	*14*	*1.354*
Remuneration of the Supervisory Board members	**272**	**123**

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Company's Supervisory Board allocated a total of 1,143,863 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board (removed from the Management Board as of 31 March 2016), received 183,672 Options, and each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak (removed from the Management Board as of 31 March 2016), Roger de Bazelaire (removed from the Management Board as of 23 November 2015) and Krzysztof Szlaga (removed from the position of the President of the Management Board as of 16 February 2018) received 122,448 Options. The remaining 592,847 Options were allocated to senior management officers of key importance for the Company's development. Options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares.

As at 31 December 2017, the number of allocated options under the whole Scheme was 1,143,863, and the total value of the Management Options Scheme amounted to PLN 3,839,000 (31 December 2016: PLN 3,839,000). Details regarding the Scheme are described in Note 12.

33. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT AND THE AUDITOR'S FEE

On 26 June 2015, the Supervisory Board of the Company adopted a resolution on appointing Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (in the past: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa), with registered office in Warsaw, as an entity authorised to:

- Review the Company's financial statements and the Group's consolidated financial statements for the first halves of 2015, 2016 and 2017,

(IN PLN '000)

- audit the financial statements of the Company and the consolidated financial statements of the Group for 2015, 2016 and 2017.

The agreement was signed on 13 August 2015.

Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa has been entered since 7 February 1995 into the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 73.

In addition to the services of auditing and reviewing the financial statements, the auditor provides, or provided other services to the Company, i.e. the examination of the correctness of calculations prepared by the Company with respect to indicators for the purpose of, among other things, bond programmes and the Energy Regulatory Office.

The remuneration of the auditor auditing the financial statements as well as for the Deloitte entities for all services provided in 2017 and 2016 is as follows:

	for the financial year from 1 January to 31 December	
	2017	2016
Auditor's fee	**146**	**166**
Including:		
- Audit of the annual financial statements	*66*	*66*
- Review of the financial statements	*44*	*44*
- Other attestation services	*25*	*20*
- Other certification services (review of indicators)	*11*	*36*

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

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

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

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

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

34. EVENTS AFTER THE BALANCE-SHEET DATE

After the balance-sheet date, to the best of the Company's knowledge, no material event occurred, which could affect the financial result as at 31 December 2017, and were not disclosed in the financial statements.

(IN PLN '000)

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

Except for the events described above, by the publication date of these financial statements, no other material events affecting the Company's operations occurred in 2017.

35. APPROVAL OF THE FINANCIAL STATEMENTS

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

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

Artur Wasil	President of the Management Board
Sławomir Karlikowski	Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility
Stanisław Misterek	Vice-President of the Management Board Economic and Financial Affairs
Adam Partyka	Vice-President of the Management Board Employee and Social Affairs
Marcin Kapkowski	Vice-President of the Management Board Procurement and Investments
Urszula Piątek	Chief Accountant