# LUBELSKI WĘGIEL BOGDANKA S.A.

## FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR

## FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

**BOGDANKA, 21 MARCH 2019**

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## STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

| | Note | As at 31 December | |
|---|---|---|---|
| | | 2018 | 2017 |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 3,181,779 | 3,150,847 |
| Intangible assets | 5 | 58,617 | 59,691 |
| Non-current investments | 6 | 75,601 | 75,601 |
| Trade and other receivables | 7 | 199 | 239 |
| Cash and cash equivalents | 9 | 128,279 | 121,806 |
| Total non-current assets | | 3,444,475 | 3,408,184 |
| **Current assets** | | | |
| Inventories | 8 | 80,896 | 60,707 |
| Trade and other receivables | 7 | 202,693 | 207,523 |
| Overpaid income tax | 24.4 | 11,129 | 22,803 |
| Cash and cash equivalents | 9 | 154,522 | 416,827 |
| Total current assets | | 449,240 | 707,860 |
| **TOTAL ASSETS** | | **3,893,715** | **4,116,044** |
| **Equity** | | | |
| Ordinary shares | 10 | 301,158 | 301,158 |
| Other capitals | 11 | 2,288,291 | 1,615,010 |
| Retained profits | 11 | 341,540 | 968,459 |
| Total equity | | 2,930,989 | 2,884,627 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liability | 24.3 | 213,611 | 205,233 |
| Provisions for employee benefits | 16 | 130,243 | 117,344 |
| Provisions for other liabilities and charges | 17 | 124,207 | 114,448 |
| Grants | 13 | 12,587 | 13,148 |
| Trade and other liabilities | 12 | 39,160 | 42,675 |
| | | 519,808 | 492,848 |
| **Current liabilities** | | | |
| Provisions for employee benefits | 16 | 31,492 | 36,218 |
| Financial liabilities on account of bond issue | 14 | - | 301,911 |
| Provisions for other liabilities and charges | 17 | 79,131 | 85,544 |
| Grants | 13 | 560 | 560 |
| Trade and other liabilities | 12 | 331,218 | 314,336 |
| Contract liabilities | | 517 | - |
| | | 442,918 | 738,569 |
| Total liabilities | | 962,726 | 1,231,417 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,893,715** | **4,116,044** |

## INCOME STATEMENT

| | Note | For the financial year from 1 January to 31 December | |
|---|---|---|---|
| | | 2018 | 2017 |
| Revenue from contracts with customers, including: | 18 | 1,754,896 | 1,777,273 |
| *Core business revenue* | *18* | *1,715,416* | *1,731,604* |

Notes presented on pages 10-93 constitute an integral part of these financial statements.

| | | | |
|---|---|---|---|
| *Additional business revenue* | *18* | *39,480* | *45,669* |
| Costs of products, goods and materials sold | 19 | (1,585,719) | (861,576) |
| Gross profit | | 169,177 | 915,697 |
| Selling costs | 19 | (44,010) | (41,999) |
| Administrative expenses | 19 | (101,088) | (32,948) |
| Other income | 20 | 33,869 | 4,088 |
| Other costs | 21 | (1,048) | (1,115) |
| Other profit/(loss) - net | 22 | 318 | (2,815) |
| Profit on operating activities | | 57,218 | 840,908 |
| Finance income | 23 | 15,338 | 16,725 |
| Finance costs | 23 | (10,830) | (24,829) |
| Profit before taxation | | 61,726 | 832,804 |
| Income tax | 24.1 | (10,129) | (159,523) |
| **Net profit for the financial year** | | **51,597** | **673,281** |

| Earnings per share attributable to owners of the Company during the year (in PLN per share) | Note | | |
|---|---|---|---|
| - basic | 25 | 1.52 | 19.79 |
| - diluted | 25 | 1.52 | 19.79 |

## STATEMENT OF COMPREHENSIVE INCOME

| | Note | for the financial year from 1 January to 31 December | |
|---|---|---|---|
| | | 2018 | 2017 |
| **Net profit for the financial year** | | **51,597** | **673,281** |
| Total other comprehensive loss for the financial period: | | | |
| Items which will never be subject to reclassification to profit or loss for the current period: | | | |
| Actuarial gains (losses) of defined benefit schemes | 16 | (6,463) | (30,008) |
| Income tax relating to non-transferrable items | 24.1 | 1,228 | 5,702 |
| Items which will never be subject to reclassification to profit or loss for the current period - total | | (5,235) | (24,306) |
| Other net comprehensive loss for the reporting period | | (5,235) | (24,306) |
| **Other net comprehensive income for the reporting period - total** | | **46,362** | **648,975** |

Notes presented on pages 10-93 constitute an integral part of these financial statements.

## STATEMENT ON MOVEMENTS IN EQUITY

| | Note | Ordinary shares | Supplementary fund | Other capitals: Other capital - transfer of profit / loss | Other capitals: Other capital related to the Management Options Scheme | Retained profits | Total equity |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2018** | | **301,158** | **702,549** | **908,622** | **3,839** | **968,459** | **2,884,627** |
| Total net comprehensive income for the reporting period: | | - | - | - | - | 46,362 | 46,362 |
| *- net profit* | | - | - | - | - | *51,597* | *51,597* |
| *- other comprehensive loss* | | - | - | - | - | *(5,235)* | *(5,235)* |
| Transfer of the result for 2017 | 26 | - | - | 673,281 | - | (673,281) | - |
| **As at 31 December 2018** | | **301,158** | **702,549** | **1,581,903** | **3,839** | **341,540** | **2,930,989** |
| | | | | | | | |
| **As at 1 January 2017** | | **301,158** | **702,549** | **766,740** | **3,839** | **495,380** | **2,269,666** |
| Total net comprehensive income for the reporting period: | | - | - | - | - | 648,975 | 648,975 |
| *- net profit* | | - | - | - | - | *673,281* | *673,281* |
| *- other comprehensive loss* | | - | - | - | - | *(24,306)* | *(24,306)* |
| Dividend for 2016 | 26 | - | - | - | - | (34,014) | (34,014) |
| Transfer of the result for 2016 | | - | - | 141,882 | - | (141,882) | - |
| **As at 31 December 2017** | | **301,158** | **702,549** | **908,622** | **3,839** | **968,459** | **2,884,627** |

Notes presented on pages 10-93 constitute an integral part of these financial statements.

## CASH FLOW STATEMENT

| | Note | For the financial year from 1 January to 31 December | |
|---|---|---|---|
| | | 2018 | 2017 |
| Cash flow from (used in) operating activities | | | |
| Cash inflow from operating activities* | | 445,419 | 626,367 |
| Interest received and paid | | (10,091) | (2,093) |
| Income tax paid and received | | 8,697 | (28,501) |
| **Net cash flow from (used in) operating activities** | | **444,025** | **595,773** |
| Cash flow from (used in) investing activities | | | |
| Acquisition of property, plant and equipment | | (406,794) | (360,721) |
| Interest paid regarding investing activities | 15.1 | (5,544) | (3,126) |
| Acquisition of intangible assets | | (1,712) | (156) |
| Inflow from the sale of property, plant and equipment | | 3,573 | 3,922 |
| Interest received | | 8,427 | 6,770 |
| Expenditure on other current investments | | (150,000) | - |
| Inflows from other current investments | | 152,136 | - |
| Dividend received | 30 | 1,025 | 9,778 |
| Outflow on account of funds being deposited in the bank account of the Mine Closure Fund | 9 | (6,473) | (10,588) |
| **Net cash flow from (used in) investing activities** | | **(405,362)** | **(354,121)** |
| Cash flow from (used in) financing activities | | | |
| Bond redemption | 14 | (300,000) | (300,000) |
| Interest and commissions paid regarding financing activities | 15.1 | (968) | (4,243) |
| Dividend paid to Company shareholders | 26 | - | (34,014) |
| **Net cash flow from (used in) financing activities** | | **(300,968)** | **(338,257)** |
| Net decrease in cash and cash equivalents | | (262,305) | (96,605) |
| Cash and cash equivalents at beginning of period | | 416,827 | 513,432 |
| **Cash and cash equivalents at end of period** | | **154,522** | **416,827** |

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

## CASH INFLOW FROM (USED IN) OPERATING ACTIVITIES

| | Note | for the financial year from 1 January to 31 December | |
|---|---|---|---|
| | | 2018 | 2017 |
| Profit before taxation | | 61,726 | 832,804 |
| - Depreciation of non-current assets | 4 | 395,605 | 346,435 |
| - Amortisation of intangible assets | 5 | 2,573 | 1,562 |
| - Profit/(loss) on sale of property, plant and equipment | | (2,613) | 460 |
| - Profit/(loss) on liquidation of plant, property and equipment | | 31,422 | 10,522 |
| - Actuarial losses as recognised in the statement of comprehensive income | 16 | (6,463) | (30,008) |
| - Change in provisions for employee benefits | 16 | 8,173 | (109,914) |
| - Changes in provisions | | 932 | 21,108 |
| - Other flows | | (1,344) | 38 |
| - Dividend received | 30 | (1,025) | (9,778) |
| - Reversal of impairment losses of current assets | | - | (495,982) |
| - Creating and using impairment losses of property, plant and equipment | | - | 1,284 |
| - Change in inventories | 8 | (20,189) | 9,330 |
| - Change in trade and other receivables | 7 | 4,870 | 39,488 |
| - Change in trade and other liabilities | | (28,248) | 9,018 |
| **Cash inflow from (used in) operating activities** | | **445,419** | **626,367** |
| Balance-sheet change in liabilities, contract liabilities and grants | | 13,323 | (538) |
| Set-off of income tax overpaid with other taxes payable | | 2,465 | 10,187 |
| Change in investment liabilities | | (44,036) | (631) |
| **Change in liabilities for the purposes of the cash flow statement** | | **(28,248)** | **9,018** |
| Increase in non-current assets | 4 | 454,960 | 355,772 |
| Other non-cash adjustments | | 1,414 | (1,639) |
| Change in investment liabilities | | (44,036) | 9,714 |
| Interest paid regarding investing activities | | (5,544) | (3,126) |
| **Acquisition of property, plant and equipment** | | **406,794** | **360,721** |
| Increase in intangible assets | 5 | 1,712 | 10,501 |
| Change in investment liabilities | | - | (10,345) |
| **Acquisition of intangible assets** | | **1,712** | **156** |

# 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. This Group prepares consolidated financial statements compliant with IFRS for the financial period from 1 January to 31 December 2018. 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 2018. The financial statements are available at the Company's website at www.ri.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 2018.

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

The ultimate controlling entity is the State Treasury.

## 1.2 Assumption of the Company going concern

The 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.

# 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.

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.

Except for the changes described in Note 2.1.2, the financial statements were prepared using the same accounting principles for the current and comparative periods; the financial statements follow the same accounting principles (policies) and calculating methods as the latest 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 amount of assets and liabilities in the following financial year are discussed in this section.

Detailed information on the assumptions is presented in the relevant notes of these 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 amount of assets and liabilities.

| | Value of the items related to the estimate made in the | Accounting policy | Details of the assumptions and |
|---|---|---|---|

| | financial statements in PLN '000 | | | calculations of the material estimate |
|---|---|---|---|---|
| | 2018 | 2017 | | |
| Property, plant and equipment | 3,181,779 | 3,150,847 | note 2.3 and 2.6 | note 4 |
| Provision for employee benefits | 161,735 | 153,562 | note 2.16 | note 16 |
| Intangible assets | 58,617 | 59,691 | note 2.4 and 2.6 | note 5 |
| Provision for mine closure and land reclamation | 124,207 | 114,448 | note 2.17 | note 17 |
| Deferred income tax liability | 213,611 | 205,233 | note 2.15 | note 24.3 |
| Management Options Issue | 3,839 | 3,839 | note 2.16 | note 11 |

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

As compared to information provided in the most recent annual financial statements for 2017, the estimated life of the mine has changed. This period both in 2018 and in 2017 was defined to end in 2051 (which was estimated on the basis of available coal resources with an account taken of an average level of extraction).

*Valuation of provisions for employee benefits*

- Change in assumptions regarding the price of coal allowance benefit

In previous years the change in assumptions regarding the price of coal allowance benefit could have materially affect the valuation of provisions for employee benefits. However on 17 October 2017, the Management Board of the 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, 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, that is why the value of provisions for employee benefits, as disclosed in the statement of financial position, is much less exposed to fluctuations.

- Assumptions regarding the actuarial valuation of provisions for employee benefits

The current value of employee benefits depends on a number of factors which are determined with the use of actuarial methods on the basis of certain assumptions. The assumptions used to determine the provision and expenses related to employee benefits include assumptions concerning discount rates as well as the indicator of growth of the given benefit's basis. Key assumptions regarding provisions for employee benefits are presented in Note 16. Any changes to these assumptions affect the carrying amount of the provisions for employee benefits.

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

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

As at 31 December 2018:

| Provision | Carrying amount | Deviations | |
|---|---|---|---|
| | | Financial discount rate | Planned increases in bases |

| | | -1 p. p. | +1 p. p. | -1 p. p. | +1 p. p. |
|---|---|---|---|---|---|
| Pays upon retirement due to old age | 49,302 | 5,000 | (4,283) | (3,146) | 3,543 |
| Pays upon retirement due to disability | 803 | 68 | (60) | (47) | 52 |
| Long-service award | 96,925 | 7,558 | (6,650) | (5,969) | 6,626 |
| Death benefits | 3,230 | 289 | (253) | (220) | 245 |
| **Total** | **150,260** | **12,915** | **(11,246)** | **(9,382)** | **10,466** |

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** |

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

| Payment period | Pays upon retirement due to old age | Pays upon retirement due to disability | Long-service award | Death benefits | Total |
|---|---|---|---|---|---|
| 2019* | 9,386 | 70 | 10,304 | 257 | **20,017** |
| 2020 | 1,418 | 64 | 7,285 | 241 | **9,008** |
| 2021 | 2,014 | 60 | 7,686 | 227 | **9,987** |
| 2022 | 1,700 | 56 | 8,478 | 217 | **10,451** |
| 2023 | 1,671 | 54 | 6,426 | 216 | **8,367** |
| Remainder | 33,113 | 499 | 56,746 | 2,072 | **92,430** |
| **Total** | **49,302** | **803** | **96,925** | **3,230** | **150,260** |

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

*Provision for mine closure and land reclamation*

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

- Sensitivity to changes regarding the life of the mine.

Assumptions regarding the life of the mine have been described above. In the case that the life of the mine assumed as at 31 December 2018 was extended by 1 year, the carrying amount of the provision for the cost of mine closure and land reclamation would be lower by PLN 867,000, and in the case that the life of the mine was extended by 10 years, the carrying amount of the provision would be lower by PLN 8,397,000. Further, in the case that the life of the mine was shortened by 1 year, the carrying amount of the provision for the cost of mine closure and land reclamation would be higher by PLN 872,000, and in the case that the life of the mine was shortened by 10 years, the carrying amount of the provision would be higher by PLN 9,006,000.

- Sensitivity to changes of inflation and discount rates

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

The calculation of the provision was significantly affected by the discount rate which reflects the change in money value over time. For the purpose of assumptions, a discount rate based on the treasury bills yield was adopted and as at 31 December 2018 it amounted to 3.22% (as at 31 December 2017: 3,26%).

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

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

As at 31 December 2018:

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

As at 31 December 2017:

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

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

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

### 2.1.2. New Accounting Policies

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

*IFRS 15 "Revenue from Contracts with Customers"*

IFRS 15 "Revenue from Contracts with Customers" has been applied with the use of the retrospective method with the total effect of the first-time application of IFRS 15. The fact that the standard was applied for the first time did not lead to an adjustment of the balance of retained profits (no adjustments that would result in the adjustment of retained profits in the opening balance). Taking into account the type of transactions effected by the Company, the application of the above standard does not have a material impact on the accounting principles applied to date. There has been a change to the manner in which revenue and costs of providing coal transport services by the Company are presented in the statements (the so-called "przewoźne"). In the case of that service, the Company acts as an intermediary. As far as the transactions where the Company acts as an intermediary/agent are concerned, as a result of applying the standard and netting revenue and costs, the revenue from other activities in the amount of PLN 14,294,000 disclosed in the Company's income statement was reduced by the costs of the transport services of PLN 10,651,000, and the margin of PLN 3,643,000 was consequently disclosed under revenue only.

As a matter of principle, as a result of applying IFRS 15, the Company's statement of financial position may show new items of "Contract assets" and "Contract liabilities",

however, because sale transactions are nearly in all cases accounted for on a monthly basis, the Company expects that significant balances in those items will be rare. As at 31 December 2018, the Company's statement of financial position only showed "Contract liabilities" in the amount of PLN 517,000.

*IFRS 9 "Financial Instruments"*

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

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

- measured at amortised cost,

- measured at fair value through other comprehensive income,

- measured at fair value through profit or loss.

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

a) Debt instruments - Financial assets measured at amortised cost

Debt instruments held only in order to collect contractual cash flows covering only SPPI (solely payment of principal and interest) are measured at amortised cost. Interest income is calculated using the effective interest method and disclosed under "Interest income" in the income statement. Impairment losses are recognised in accordance with the accounting principle stated in Note 2.1.2.e and presented under "impairment losses on financial assets".

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

Debt instruments with cash flows therefrom being only SPPI, which are held in order to collect contractual cash flows and for sale, are measured at fair value through other comprehensive income. Changes in carrying amount are recognised through other comprehensive income, except for gains and losses from impairment, interest income and foreign exchange gains and losses which are recognised in the profit or loss. In the event of derecognition of a financial asset, the accumulated gain or loss recognised previously under other comprehensive income is transferred from the equity to the profit or loss and recognised as other profit/(loss). Interest income on such financial assets is calculated using the effective interest method and recognised under "interest income". Impairment losses are recognised in accordance with the accounting principle stated in Note 2.1.2.e and presented under "impairment losses on financial assets".

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trade receivables are included under Level 2 or Level 3:

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

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

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

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

f) Modification of financial liabilities

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

Based on the analysis carried out by the Company for the purposes of the application of IFRS 9, it was demonstrated that as at 1 January 2018 there was no need to recognise additional material losses with respect to debt financial assets disclosed in the statement of financial position of the Company as at 31 December 2017.

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

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

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

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

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

- Financial assets and liabilities

Financial assets – classification and measurement

| | IFRS 9 | IFRS 9 | IAS 39 |
|---|---|---|---|
| | 31 December 2018 | 1 January 2018 | 31 December 2017 |
| Financial assets measured at amortised cost: | | | |
| Trade receivables | 161,002 | 172,401 | 172,401 |
| Cash and cash equivalents | 282,801 | 538,633 | 538,633 |
| **Total** | **443,803** | **711,034** | **711,034** |

Financial liabilities – classification and measurement

| | IFRS 9<br>31 December 2018 | IFRS 9<br>1 January 2018 | IAS 39<br>31 December 2017 |
|---|---|---|---|
| Liabilities measured at amortised cost: | | | |
| Trade and other liabilities* | 266,453 | 222,944 | 222,944 |
| Financial liabilities on account of bond issue | - | 301,911 | 301,911 |
| **Total** | **266,453** | **524,855** | **524,855** |

**Trade and other liabilities in accordance with Note 12 cover trade liabilities, investment liabilities and liabilities under advance payments, as well as contract liabilities (from 2018)*

- Trade receivables according to IAS 39 and IFRS 9

| | IFRS 9<br>31 December 2018 | IFRS 9<br>1 January 2018 | IAS 39<br>31 December 2017 |
|---|---|---|---|
| Trade receivables measured at amortised cost: | | | |
| Gross trade receivables | 166,176 | 179,547 | 179,547 |
| Impairment loss on receivables | (5,174) | (7,146) | (7,146) |
| **Total** | **161,002** | 172,401 | 172,401 |

### 2.1.3. New standards and interpretations

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

*a) IFRS 9 "Financial Instruments"*

The impact of IFRS 9 is described in detail no Note 2.1.2.

*b) IFRS 15 "Revenue from Contracts with Customers"*

The impact of IFRS 15 is described in detail no Note 2.1.2.

*c) Clarifications to IFRS 15 "Revenue from Contracts with Customers"*

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

d) *Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions*

Amendment to IFRS 2 provides, for example, guidance for fair value measurement of an obligation under cash-settled share-based payments, guidance for modification of share-based payments from cash-settled to equity-settled, as well as guidance for recognition of an employee's tax obligation from share-based payments.

e) *Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"*

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

f) *Annual Improvements to IFRS 2014-2016 cycle*

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

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

g) *Amendments to IAS 40: Reclassification of Investment Property*

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

h) *IFRIC 22: Transactions in foreign currencies and advance payments*

IFRIC 22 clarifies the accounting principles for transactions in which the entity provides or receives advance payments in foreign currencies.

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

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

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

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

a) *IFRS 16 "Leases"*

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

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

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

The Company will apply IFRS 16 as from 1 January 2019.

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

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

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

*c) Amendments to IAS 28 "Investments in Associates and Joint Ventures"*

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

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

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

*d) IFRIC 23: Uncertainty over Income Tax Treatments*

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

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

*e) Annual Improvements to IFRS 2015-2017 cycle*

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

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

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

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

*f) IAS 19 "Employee Benefits"*

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

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

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

*g) Amendments to References to the Conceptual Framework in IFRS Standards*

Amendments to references to the conceptual framework in IFRS standards will be applicable as of 1 January 2020.

*h) IFRS 3 "Business Combinations"*

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

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

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

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

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

j) *IFRS 14 "Regulatory Deferral Accounts"*

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

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

k) *Amendments to IFRS 10 and IAS 28 regarding sale or contribution of assets between an investor and its associate or joint venture*

Amendments solve the problem of current inconsistency between IFRS 10 and IAS 28. Accounting treatment depends on whether non-monetary assets sold or contributed to an associate or joint venture constitute a business.

If non-monetary assets constitute a business, the investor will disclose the full gain or loss on the transaction. If, however, assets do not satisfy the definition of a 'business', the investor recognises the loss or gain excluding a part representing interests of other investors.

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

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

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

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

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

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

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

The application of IFRS 16 will not affect agreements where the Company is the lessor. Further, in case of agreements where the Company is the lessee, as a result of the application of IFRS 16, as at 1 January 2019, in the statement of financial position under "Right-of-use assets" and "Lease liabilities" the value of PLN 19,128,000 will be disclosed (of which approximately PLN 15,314,000 refers to the perpetual usufruct right to land, PLN 3,814,000 refers to other agreements under which the Company uses the assets).

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

## 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 closure schedule.

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

Subsequent outlays are recognised in the carrying amount of a given item of non-current assets or recognised as a separate item of non-current assets (where appropriate) only when it is probable that future economic benefits associated with that item will flow to the 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:

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

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

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

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

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

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

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

Specialist spare parts with a significant initial value, which are expected to be used for a period longer than one year, are recorded as items of property, plant and equipment. Spare parts and equipment connected with maintenance which may only be used only for certain items of property, plant and equipment are recorded similarly. Other low-value spare parts and equipment connected with maintenance are carried as inventories and recognised in the 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 5)

*Geological information*

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

*Computer software*

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

*Fees, licences*

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

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

## 2.5 Non-current investments (Note 6)

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 flow 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 15)

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

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

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

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

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

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

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

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

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

## 2.8 Inventories (Note 8)

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

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

## 2.9 Trade receivables (Note 7)

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

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

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

## 2.10 Cash and cash equivalents (Note 9)

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

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

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 10)

Ordinary shares are classified as the equity.

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

## 2.13 Financial liabilities (Notes 12, 14 and 15)

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

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

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

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

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

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

*Initial measurement of financial liabilities*

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

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

*Balance-sheet valuation and recognition of revaluations*

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

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

- Financial liabilities measured at amortised cost
  Financial liabilities classified to the category of financial liabilities measured at amortised cost are measured as at each balance-sheet day at amortised cost.

## 2.14 Financial derivatives (Note 15)

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 "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."

## 2.15 Current income tax and deferred tax (Note 24)

*Tax Group*

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

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

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

*Current tax*

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

## 2.16 Provisions for employee benefits (Note 16)

*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.

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 Company 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.

## 2.17 Provisions (Note 17)

*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 made.

*Provision for a mine closure and land reclamation*

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

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

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

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

## 2.18 Recognition of revenue (Note 18)

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

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

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

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

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

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

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

*Moment of revenue recognition*

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

| Product type | Group of products | Moment of revenue recognition | Measure ment method | Measure ment method | Activating factor |
|---|---|---|---|---|---|
| Permanently provided services - consumption | Hook place<br>Use of bath | Over Time *(settled over time)* | Performa nce | Consumpt ion | Beginning of service provision |

| | | | | | |
|---|---|---|---|---|---|
| Delivery of products or services settled in a particular moment | Hard coal<br>Scrap<br>Materials | Point in Time *(settled in a point in time)* | n/a | Event | Delivery / end of service provision |
| Permanently provided services - time lapse | Investor supervision | Over Time *(settled over time)* | Performance | Time lapse | Beginning of service provision |

*Interest income*

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

*Dividend income*

The dividend due is recognised in financial income as at the day when a relevant Company's body adopts a resolution on profit distribution, unless the resolution sets another dividend date.

## 2.19 Recognition of government grants (Note 13)

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.

## 2.20 Lease (Note 29)

*Operating lease*

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

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

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

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.

## 3. INFORMATION ON BUSINESS SEGMENTS

*Key reporting structure - industry segments*

The Company's core business is production and sale of coal. In 2018, revenue on sales of other products and services amounted to PLN 39,480,000 (in 2017: PLN 45,669,000), representing 2.25% in 2018 and 2.57% in 2017, 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 2018, revenue on sales of other products and services outside Poland amounted to PLN 133,000 (in 2017: PLN 25,564,000), representing below 0.01% in 2018 and 1.44% in 2017, 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 2018 and 2017 key customers for the Company's coal, whose share in sales exceeded 10% of the total revenue, were:

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Enea Wytwarzanie Sp. z o.o. | 63% | 56% |
| ENEA Elektrownia Połaniec S.A. (formerly ENGIE Energia Polska S.A.) | 23% | 22% |

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and structures | | Plant and equipment | Vehicles | Other property, plant and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | | total | including excavations | | | | | |
| As at 1 January 2018 | | | | | | | | |
| Cost or assessed value | 9,669 | 3,088,882 | 2,160,368 | 2,304,097 | 96,767 | 23,665 | 214,087 | 5,737,167 |
| Depreciation | - | (1,312,692) | (987,668) | (1,192,712) | (64,323) | (16,593) | - | (2,586,320) |
| Net book value | **9,669** | **1,776,190** | **1,172,700** | **1,111,385** | **32,444** | **7,072** | **214,087** | **3,150,847** |
| As at 31 December 2018 | | | | | | | | |
| Net book value at beginning of year | 9,669 | 1,776,190 | 1,172,700 | 1,111,385 | 32,444 | 7,072 | 214,087 | 3,150,847 |
| Increases | - | 2,414 | - | - | - | 1,470 | 453,587 | 457,471 |
| Transfer from construction in progress | 1,187 | 221,497 | 206,681 | 52,545 | 12,011 | 1,610 | (288,850) | - |
| Decreases | - | (29,582) | (29,573) | (210) | (1,042) | (4) | (96) | (30,934) |
| Depreciation | - | (226,905) | (198,212) | (153,956) | (11,999) | (2,745) | - | (395,605) |
| Net book value | 10,856 | 1,743,614 | 1,151,596 | 1,009,764 | 31,414 | 7,403 | 378,728 | 3,181,779 |
| As at 31 December 2018 | | | | | | | | |
| Cost or assessed value | 10,856 | 3,150,853 | 2,205,109 | 2,339,424 | 93,620 | 25,558 | 378,728 | 5,999,039 |
| Depreciation | - | (1,407,239) | (1,053,513) | (1,329,660) | (62,206) | (18,155) | - | (2817260) |
| **Net book value** | **10,856** | **1,743,614** | **1,151,596** | **1,009,764** | **31.414** | **7,403** | **378,728** | **3,181,779** |

| | Land | Buildings total | 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 |
| 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) |
| 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 |
| 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** |

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

No collateral was established on property, plant and equipment.

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

| | for the financial year from 1 January to 31 December |
|---|---|

| | 2018 | 2017 |
|---|---|---|
| Costs of products, goods and materials sold | (386,664) | (337,393) |
| Selling costs | (475) | (451) |
| Administrative expenses | (8,466) | (8,591) |
| **As at 31 December** | **(395,605)** | **(346,435)** |

## 4.1 Property, plant and equipment – excavations

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

As at 31 December 2018:

| | Quantity [items] | Length [m] | Initial value | Depreciation | Net value as at the balance-sheet date | Depreciation level in the given group |
|---|---|---|---|---|---|---|
| Walls disclosed in non-current assets, depreciated with the cost-of-production method, including: | 30 | 19,267 | 526,126 | (416,431) | 109,695 | 79% |
| *- depreciated until December 2018* | *8* | *8,732* | *89,493* | *(47,027)* | *42,466* | *53%* |
| Walls disclosed in non-current assets, depreciated with the use periods | 234 | 91,937 | 1,379,982 | (499,001) | 880,981 | 36% |
| Other items, depreciated according to useful life (shafts, shaft towers, dams, reservoirs and other) | 31 | - | 299,001 | (138,081) | 160,920 | 46% |
| **Total as at 31 December 2018** | **295** | **111,204** | **2,205,109** | **(1,053,513)** | **1,151,596** | **48%** |

As at 31 December 2017:

| | Quantity [items] | Length [m] | Initial value | Depreciation | Net value as at the balance-sheet date | Depreciation level in the given group |
|---|---|---|---|---|---|---|
| Galleries disclosed under non-current assets, depreciated by using a natural method, including: | 38 | 25,071 | 524,917 | (379,816) | 145,101 | 72% |
| *- depreciated until December 2017* | *25* | *13,152* | *472,614* | *(379,816)* | *92,798* | *80%* |
| Galleries disclosed under non-current assets, depreciated according to useful life | 245 | 93,114 | 1,337,038 | (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%** |

## 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 | |
|---|---|---|
| | 2018 | 2017 |
| Excavations (galleries) | 283,458 | 191,152 |
| Modernisation of the longwall systems | 61,796 | - |
| Expansion of the waste storage yard in Bogdanka | 9,929 | 9,290 |
| Construction of new mining fields | 6,081 | 5,607 |
| Reinforcement of shaft 1.3 lining | 3,708 | 3,708 |
| Modernisation of the main fan station at shaft 1.4. | 4,005 | 361 |
| Purchase of belt conveyors | 2,322 | - |
| Other | 7,429 | 3,969 |
| **As at 31 December** | **378,728** | **214,087** |

## 4.3 Impairment losses of property, plant and equipment

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

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

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

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

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

| | Land | Buildings and structures | | Plant and equipment | Vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | | total | including excavations | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| As at 1 January 2018 | 4,394 | - | - | 3,187 | - | 6,157 | 13,738 |
| **As at 31 December 2018** | **4,394** | **-** | **-** | **3,187** | **-** | **6,157** | **13,738** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 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** |

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

The creation of the impairment losses in 2017 in relation to construction in progress was disclosed in the 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 impairment loss of PLN 104,529,000 which was recognised into depreciation and did not affect the profit/loss of 2017.

## 5. INTANGIBLE ASSETS

| | Computer software | Fees, licences | Geological information | Total |
|---|---|---|---|---|
| As at 1 January 2018 | | | | |
| Cost or assessed value | 7,426 | 18,866 | 54,217 | 80,509 |
| Depreciation | (5,157) | (4,037) | (11,624) | (20,818) |
| **Net book value** | **2,269** | **14,829** | **42,593** | **59,691** |
| As at 31 December 2018 | | | | |
| Net book value at beginning of year | 2,269 | 14,829 | 42,593 | 59,691 |
| Increases | 1,304 | 408 | - | 1,712 |
| Decreases | - | (213) | - | (213) |
| Amortisation | (579) | (1,086) | (908) | (2,573) |
| Net book value | 2,994 | 13,938 | 41,685 | 58,617 |
| As at 31 December 2018 | | | | |
| Cost or assessed value | 8,635 | 18,373 | 54,343 | 81,351 |
| Amortisation | (5,641) | (4,435) | (12,658) | (22,734) |
| **Net book value** | **2,994** | **13,938** | **41,685** | **58,617** |

| | | | | |
|---|---|---|---|---|
| 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 |
| Depreciation | (5,157) | (4,037) | (11,624) | (20,818) |
| **Net book value** | **2,269** | **14,829** | **42,593** | **59,691** |

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

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Costs of products, goods and materials sold | (2,515) | (1,521) |
| Selling costs | (3) | (2) |
| Administrative expenses | (55) | (39) |
| **Total** | **(2,573)** | **(1,562)** |

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

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

For more information please refer to Note 4.3.

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

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

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

## 6. NON-CURRENT INVESTMENTS

| | Shares | Total |
|---|---|---|
| As at 31 December 2018 | | |
| Net book value at beginning of year | 75,601 | 75,601 |
| **Net book value at end of year** | **75,601** | **75,601** |

| | 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** |

Non-current investments are the shares held by the Company in its subsidiaries.

The Company holds shares in the following companies: 88,7% shares in Łęczyńska Energetyka Sp. z o.o.; 100% shares in EkoTRANS Bogdanka Sp. z o.o.; 100% shares in RG Bogdanka Sp. z o.o.; and 100% shares in MR Bogdanka sp. z o.o.

In 2018 the Company did not perform any new non-current investments.

## 7. TRADE AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Trade receivables | 166,176 | 179,547 |
| Write-downs of receivables | (5,174) | (7,146) |
| Net trade receivables | 161,002 | 172,401 |
| Accruals and deferrals | 36,705 | 28,848 |
| Other receivables | 4,986 | 6,274 |
| Current | 202,693 | 207,523 |
| Accruals and deferrals | 199 | 239 |
| Non-current | 199 | 239 |
| **Total trade and other receivables** | **202,892** | **207,762** |

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

All receivables of the Company are expressed in PLN.

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

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| As at 1 January | 7,146 | 5,858 |
| Creating impairment loss | 3,068 | 3,579 |
| Receivables written down during the year as uncollectible | (78) | (126) |
| Reversal of unused amounts | (4,962) | (2,165) |
| **Total** | **5,174** | **7,146** |

Creation and release of impairment losses was disclosed in the income statement under "Selling cost". Other categories of trade receivables 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 | |
|---|---|---|
| | 2018 | 2017 |
| Up to 1 month | 81 | 126 |
| 3 to 6 months | - | 597 |
| 6 to 12 months | 1 | 708 |
| above 12 months | 5,092 | 5,715 |
| **Total** | **5,174** | **7,146** |

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

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Up to 1 month | 71 | 846 |
| 1 to 3 months | 5 | 23 |
| 3 to 6 months | 50 | 296 |
| **Total** | **126** | **1,165** |

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

## 8. INVENTORIES

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Materials | 64,860 | 52,346 |
| Finished goods | 16,036 | 8,361 |
| **Total** | **80,896** | **60,707** |

Cost of inventories in the income statement was disclosed under "Cost of products, goods and materials sold" totalling PLN 1,585,719,000 in 2018 (2017: PLN 861,576,000).

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

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| As at 1 January | - | 139 |
| Creating impairment losses of the sale price, likely to achieve, of finished goods | - | 8 |
| Use of impairment losses of the sale price, likely to achieve, of the finished goods | - | (147) |
| **As at 31 December** | - | - |

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.

## 9. CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Cash in banks | 9,586 | 11,358 |
| Bank deposits | 273,215 | 527,275 |
| **Total** | **282,801** | **538,633** |
| *Including:* | | |
| *Non-current** | *128,279* | *121,806* |
| *Current* | *154,522* | *416,827* |
| | *282,801* | *538,633* |

**cash with restricted liquidity*

Value of cash with restricted liquidity amounted to PLN 129,067,000 as at 31 December 2018, including PLN 128,279,000 (as at 31 December 2017: PLN 122,017,000, including PLN 121,806,000) of the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine, and the remainder refers to funds collected on separate VAT accounts (in compliance with the introduced the "split payment" regulations). Cash held by the Company are denominated in PLN.

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

2018 – 0.45% - 1.41%

2017 – 0.4% - 1.85%

## 10. SHARE CAPITAL

| | Number of shares ('000) | Ordinary shares - par value | Hyperinflation adjustment | Total |
|---|---|---|---|---|
| As at 1 January 2018 | 34,014 | 170,068 | 131,090 | 301,158 |
| As at 31 December 2018 | 34,014 | 170,068 | 131,090 | 301,158 |
| As at 1 January 2017 | 34,014 | 170,068 | 131,090 | 301,158 |
| As at 31 December 2017 | 34,014 | 170,068 | 131,090 | 301,158 |

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

## 11. OTHER CAPITAL

Pursuant to the Articles of Association, the Company can create supplementary capital and other reserve capitals, the purpose of which is determined by provisions of law and resolutions of decision-making bodies. Other capital includes 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 Option Scheme’s provisions that set out that dividends to be paid by Lubelski Węgiel Bogdanka S.A. will be deducted from the Option strike price.

As at 31 December 2018, the number of allocated options under the whole Scheme was 1,143,863, and the total value of the Management Option Scheme amounted to PLN 3,839,000 (31 December 2017: PLN 3,839,000). Within this pool, the number of allocated rights (for 2013-2014) to be exercised under the above options was 335,199.

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

*Equity on valuation of cash flow hedges*

Other capitals may include also derivatives used as cash flow hedges (in the part deemed the efficient hedge) after tax effect. In 2018 and 2017 the 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 decrease in 2018 by PLN 626,919,000 results from the recognition of the net profit for the current year in the amount of PLN 51,597,000, actuarial losses on defined benefit schemes in the amount of PLN 5,235,000 (including losses arising as a result of an adjustment in actuarial assumptions ex-post – PLN 3,945,000, losses arising as a result of a change in demographic assumptions – PLN 12,000) and a transfer of the 2017 profit/loss to reserve capital in the amount of PLN 673,281,000.

*Components of equity not subject to distribution*

Under Article 396.1 of the Commercial Companies Code applicable to the 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 2018 and 31 December 2017, this value was PLN 100,386,000.

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

## 12. TRADE AND OTHER LIABILITIES

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Trade liabilities | 145,140 | 127,389 |
| Other liabilities, including: | 182,343 | 170,372 |
| *Company Social Benefits Fund* | *190* | *487* |
| *Liabilities on security deposit* | *3,396* | *2,571* |
| *Investment liabilities* | *120,796* | *88,650* |
| *Salaries payable* | *38,167* | *35,151* |
| *Liabilities on advance payments* | *-* | *6,905* |
| *Other liabilities* | *19,794* | *36,608* |
| Total financial liabilities | 327,483 | 297,761 |
| Liabilities - social security and other tax payable | 42,895 | 59,250 |
| **Trade and other liabilities** | **370,378** | **357,011** |
| *Including:* | | |
| *Non-current* | *39,160* | *42,675* |
| *Current* | *331,218* | *314,336* |
| **Total** | **370,378** | **357,011** |

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

## 13. GRANTS

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

The grant received should be settled in the full amount on the moment it is amortised in full, sold or if an asset financed with that grant is liquidated. The manner of disclosure of the grant is described in Note 2.19.

## 14. FINANCIAL LIABILITIES ON ACCOUNT OF BOND ISSUE

| | As at 31 December |
|---|---|

| | 2018 | 2017 |
|---|---|---|
| Short-term: | - | 301,911 |
| Issuance of bonds | - | 300,000 |
| *- PEKAO S.A.* | - | *300,000* |
| Interest accrued on bonds: | - | 1,911 |
| *- PEKAO S.A.* | - | *1,911* |
| **Total** | - | **301,911** |

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

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

| | BGK | PEKAO S.A. | TOTAL |
|---|---|---|---|
| As at 1 January 2018 | - | 301,911 | 301,911 |
| Bond redemption | - | (300,000) | (300,000) |
| Accrued interest | - | 4,601 | 4,601 |
| Interest paid | - | (6,512) | (6,512) |
| **As at 31 December 2018** | - | **-** | - |
| | | | |
| As at 1 January 2017 | 150,019 | 450,061 | 600,080 |
| Bond redemption | (150,000) | (150,000) | (300,000) |
| Accrued interest | 869 | 8,410 | 9,279 |
| Interest paid | (888) | (6,560) | (7,448) |
| **As at 31 December 2017** | - | **301,911** | **301,911** |

## 15. FINANCIAL INSTRUMENTS

### 15.1 Financial instruments by category

| | Financial assets measured at amortised cost | Total |
|---|---|---|
| Assets as disclosed in the statement of financial position | | |
| Trade receivables | 161,002 | 161,002 |
| Cash and cash equivalents | 282,801 | 282,801 |
| **As at 31 December 2018** | **443,803** | **443,803** |

| | Liabilities measured at amortised cost | Total |
|---|---|---|
| Liabilities as disclosed in the statement of financial position | | |
| Trade and other financial liabilities as well as contract liabilities | 266,453 | 266,453 |
| **As at 31 December 2018** | **266,453** | **266,453** |

| | | |
|---|---|---|
| Interest and commissions paid | | |
| Interest | 6,512 | 6,512 |
| Total | 6,512 | 6,512 |

| | Loans and receivables | Total |
|---|---|---|
| Assets as disclosed in the statement of financial position | | |
| Trade receivables | 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 position | | |
| Liabilities on account of bond issue | 301,911 | 301,911 |
| Trade and other financial liabilities | 222,944 | 222,944 |
| **As at 31 December 2017** | **524,855** | **524,855** |
| Interest and commissions paid | | |
| Interest | 7,448 | 7,448 |
| Total | 7,448 | 7,448 |

## 15.2 Hierarchy of financial instruments

Hierarchy of financial instruments measured at fair value.

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

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

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

## 15.3 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.

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

### 15.3.1. 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 exposed to interest rate risk particularly in connection with its current and non-current debt instruments and loans. This is so because bonds, loans and bonds bearing interest at variable rates may result in the Company's exposure to a change in cash flows resulting from changes in interest rates. Both in 2018 and in 2017 the Company used external financing denominated in the złoty.

As at the end of 2018 the Company had no debt in the form of loans or bonds. Bonds issued under the Programme Agreement were repaid in full by 31 December 2018. As at the end of 2017 the Company's debt under the issued bonds amounted to PLN 302 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 Company's gross profit by an amount lower or equal to PLN 3.02 million and increase or decrease, as applicable, the net profit by an amount lower or equal to PLN 2.45 million. The Company still has an open overdraft loan agreement with a limit of up to PLN 100 million, however it has not used this limit so far.

Based on the 2018 and 2017 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 2018 with respect to bank deposits of free cash amounts to PLN 154,522,000 (as at 31 December 2017 – PLN 416,827,000), and with respect to Mine Closure Fund assets – PLN 128,279,000 (as at 31 December 2017 – PLN 121,806,000). The change in finance income is presented in the table below:

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

| Change in interest rate | -1 p. p. | -0.5 p. p. | +0.5 p. p. | +1 p. p. |
|---|---|---|---|---|
| Estimated impact | (1,545) | (773) | 773 | 1,545 |

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 |

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

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

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

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

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

### 15.3.2. 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 2018 no material currency exchange transactions were concluded. Such transactions were concluded by the Company in previous years in relation to purchases of specialised plant and equipment, however the Company expects such transactions to reoccur soon as it has become necessary to renew its machine park (specialised plant and equipment used in mining).

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

### 15.3.3. 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 Company 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.

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

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Cash in hand and bank deposits | 282,801 | 538,633 |
| Current trade receivables | 161,002 | 172,401 |
| **Total exposure to credit risk** | **443,803** | **711,034** |
| Receivables from 7 key customers | 153,099 | 168,017 |

| | | |
|---|---|---|
| Concentration of credit risk under receivables from 7 key customers | 95% | 97% |
| Cash deposited at Banku Gospodarstwa Krajowego S.A. (expressed as % of total cash and bank deposits) | 50% | 56% |
| Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits) | 46% | 41% |
| Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits) | 2% | 2% |
| Cash deposited at mBank S.A. (formerly BRE Bank S.A.) (expressed as % of total cash and bank deposits) | 2% | 1% |

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 receivables 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): BBB+ (stable)
- - Bank Gospodarstwa Krajowego – long-term Fitch rating (IDR): A- (stable)
- - mBank S.A. - long-term Fitch rating: BBB (stable)

### 15.3.4. 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.

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

As at 31 December 2018 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.

The loan received by the Company is denominated in Polish zlotys.

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

| As at 31 December 2018 | less than 1 year | 1 up to 2 years | 2 up to 5 years | more than 5 years |
|---|---|---|---|---|
| Trade and other liabilities | 227,293 | 4,942 | 14,387 | 31,214 |

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

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

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

Based on the 2018 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 8.2%. Similarly, a 1% decrease in the coal price reduces the result on sales (gross financial result – administrative expenses – selling costs) by 8.2%. 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 | -122.5% | -81.7% | -40.8% | -16.3% | -8.2% | 0.0% | 8.2% | 16.3% | 40.8% | 81.7% | 122.74% |

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.

## 15.4 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 as well as those which may in future result from bond issue.

Until the end of 2018 the Company had financial liabilities due to the bond issue for the financing of current operations and investment activities. In 2018 these liabilities were gradually repaid in tranches, and as at 31 December 2018 the Company had no liabilities on account of bond issue.

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

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Financial liabilities on account of bond issue | - | 301,911 |
| Net of cash and cash equivalents | (282,801) | (538,633) |
| **Net debt** | **(282,801)** | **(236,722)** |
| Total equity | 2,930,989 | 2,884,627 |
| Employed capital | 2,648,188 | 2,647,905 |

## 16. PROVISIONS FOR EMPLOYEE BENEFITS

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Provisions as disclosed in the statement of financial position | | |
| Retirement and disability benefits | 50,105 | 42,542 |
| Long service awards | 96,925 | 90,704 |
| Voluntary Redundancy Programme | 233 | 5,143 |
| Other benefits for employees (unused holidays, salaries and wages, death benefits etc.) | 14,472 | 15,173 |
| **Total** | **161,735** | **153,562** |

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Costs recognised in the income statement: | | |
| Retirement and disability benefits | 4,567 | 10,305 |
| Long service awards | 14,715 | 20,647 |
| Coal allowances in kind | - | (139,663) |
| Voluntary Redundancy Programme | (2,751) | (8,021) |
| Other benefits for employees (unused holidays, salaries and wages, death benefits etc.) | 8,503 | 21,946 |
| **Total** | **25,034** | **(94,786)** |

In 2018 the balance of provisions for employee benefits was not subject to such significant changes as in 2017. Such a significant drop in provisions as at the end of 2017 was a result of an agreement signed by the Company's Management Board on 17 October 2017 with trade unions operating at the Company. The agreement amended 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.

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

The Company plans to make further payments in 2019 to compensate for the loss of the right to free coal. As in previous cases the Company will be only an intermediary in this

process, because a direct obligation for compensation was taken over by the State Treasury. For that reason the Company will not disclose in the financial statements either costs connected with paid compensation or revenue from received subsidy for payment of funds.

In 2018 the Company updated the calculation of the provision for the Voluntary Redundancy Programme. Following the update, an unused portion of the provision for the Voluntary Redundancy Programme in the amount of PLN 2,751,000, was released.

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Costs recognised in the statement of comprehensive income regarding the distribution of actuarial gains and losses resulting from demographic assumptions, financial assumption and other changes: | | |
| Retirement and disability benefits | 6,765 | 1,310 |
| Coal allowances in kind | - | 28,632 |
| Other benefits for employees (death benefits) | (302) | 66 |
| **Total** | **6,463** | **30,008** |

Change in provisions for employee benefits liabilities:

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| As at 1 January | 153,562 | 263,476 |
| Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other) | 18,660 | 27,991 |
| Costs of past employment | - | (138,520) |
| Interest expense | 3,825 | 6,777 |
| Actuarial gains/(losses) as recognised in the income statement | 2,549 | 8,966 |
| Actuarial gains/(losses) as recognised in the statement of comprehensive income | 6,463 | 30,008 |
| Recognised in the comprehensive income, total | 31,497 | (64,778) |
| Benefits paid | (23,324) | (45,136) |
| **As at 31 December** | **161,735** | **153,562** |
| *Including:* | | |
| *- non-current* | *130,243* | *117,344* |
| *- current* | *31,492* | *36,218* |

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

| | Benefits during employment | Post-employment benefits | Total |
|---|---|---|---|
| Liabilities as at 1 January | 107,855 | 45,707 | 153,562 |
| Costs of current employment (including unused holidays, salaries and wages, Voluntary Redundancy Programme, death benefits and other) | 14,889 | 3,771 | 18,660 |
| Interest expense | 2,642 | 1,183 | 3,825 |
| Actuarial gains/(losses) as recognised in the income statement | 2,549 | - | 2,549 |
| Actuarial gains/(losses) as recognised in the statement of comprehensive income | - | 6,463 | 6,463 |
| **Total, as recognised in the statement of comprehensive income** | **20.080** | **11,417** | **31,497** |

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)** |

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 | |
|---|---|---|
| | 2018 | 2017 |
| Costs of products, goods and materials sold | 19,035 | (90,960) |
| Selling costs | 2,053 | (569) |
| Administrative expenses | 121 | (10,034) |
| Finance costs | 3,825 | 6,777 |
| **Total, as recognised in the income statement** | **25,034** | **(94,786)** |
| Actuarial gains/(losses) as recognised in the statement of comprehensive income | 6,463 | 30,008 |
| **Total, as recognised in the statement of comprehensive income** | **31,497** | **(64,778)** |

Key actuarial assumptions used in the valuation

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

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

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

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

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Retirement and disability benefits | 13.41 | 13.32 |
| Length-of-service awards | 9.30 | 10.25 |
| Death benefits | 8.26 | 11.68 |

## 17. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

| | Provision for a mine closure and land reclamation | Mining damage | Legal claims | Real property tax | ZUS claims - contribution for accident insurance | Other | Total |
|---|---|---|---|---|---|---|---|
| As at 1 January 2018 | 114,448 | 4,434 | 11,599 | 42,353 | 21,340 | 5,818 | 199,992 |
| *Including:* | | | | | | | |
| *Non-current* | *114,448* | *-* | *-* | *-* | *-* | *-* | *114,448* |
| *Current* | *-* | *4,434* | *11,599* | *42,353* | *21,340* | *5,818* | *85,544* |
| Recognition in the statement of financial position | | | | | | | |
| *- Update of the provision created* | *3,688* | *-* | *-* | *-* | *-* | *-* | *3,688* |
| *Recognition in the income statement* | | | | | | | |
| *- Creation of additional provisions* | *2,340* | *289* | *383* | *5,986* | *-* | *152* | *9,150* |
| *- Use of the created provision* | *-* | *(1,539)* | *-* | *(9,845)* | *-* | *(2,211)* | *(13,595)* |
| *- Release of an unused provision* | *-* | *-* | *(598)* | *-* | *-* | *(3,578)* | *(4,176)* |
| *- Interest* | *-* | *-* | *293* | *2,937* | *1,318* | *-* | *4,548* |
| *- Discount settlement* | *3,731* | *-* | *-* | *-* | *-* | *-* | *3,731* |
| **As at 31 December 2018** | **124,207** | **3,184** | **11,677** | **41,431** | **22,658** | **181** | **203,338** |
| *Including:* | | | | | | | |
| *Non-current* | *124,207* | *-* | *-* | *-* | *-* | *-* | *124,207* |
| *Current* | *-* | *3,184* | *11,677* | *41,431* | *22,658* | *181* | *79,131* |
| | | | | | | | |
| 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* |

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

*Removing mining damage*

Given the need of removing mining damage, the Company creates a provision for mining damage. The estimated value of works necessary to remove damage as at 31 December 2018 amounts to PLN 3,184,000, and covers predominantly planned costs which will have to be incurred in connection with removal of damage in buildings, buy-out of developed properties (where damage appeared) and compensations for damage to agricultural land. In 2018 the amount of the used provision totalled PLN 1,539,000 (PLN 1,801,000 in the whole 2017).

*Legal claims*

The amount disclosed constitutes a provision for certain legal claims filed against the 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 2018. The provision for legal claims has not changed significantly compared to the end of the prior financial year (31 December 2017).

*Real property tax*

The amount disclosed constitutes a provision for real property tax. The essence of the dispute between the Company and territorial units was elaborated on by the Company in financial statements for previous years, including the financial statements of the Company for 2017. The point is that 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.

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 2008-2013 with respect to all communes, the amounts of real property tax calculated for 2014-2018 were adjusted. The adjustment of the tax provision calculated for the above years was supported by a risk that in tax proceedings relating to these years, the tax authorities will decide in the same way as in relation to 2008-2013. Having taken the above into account, the provision disclosed in the Company's books as at 31 December 2018 (disclosed in the statement of financial position under "Provisions for other liabilities and charges") in the amount of PLN 41,431,000 (31 December 2017: PLN 42,353,000) represents a provision for real property tax liabilities, if any, and interest thereon for 2014-2018 with respect to all communes, should the tax authorities determine that mining excavations of the Company 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."

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

At the end of 2018 decisions issued by the Commune Heads and determining real property tax for the Company for 2013 (Ludwin, Puchaczów and Cyców Communes) were upheld by the Local Government Appellate Court, and so it was decided to make the settlement of real property tax receivables and liabilities. As a result of the settlement, a provision created previously in the amount of PLN 9,485,000 was used (mainly by offsetting it against tax overpaid by the Company).

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 abovementioned legal steps consist in, without limitation, filing appeals against the decisions of tax authorities to the Provincial Administrative Court and next, if necessary, to the Supreme Administrative Court.

Concurrently with the made provision, based on the above, in connection with the payments of the real property tax made in 2014, 2015, 2017 and 2018 (overpayments charged to liabilities) on account of real property tax regarding underground mining excavations, as at 31 December 2018 the Company calculated income due for those years for the overpaid real property tax, in the amount of PLN 4,877,000 (as at 31 December

2017: PLN 5,786,000). They are disclosed in the 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 Appeal in Lublin recognised the appeal filed by the Social Insurance Institution from the judgment of 7 February 2017. The Court of Appeal issued a judgment in which it dismissed the appeal filed by the Social Insurance Institution. On 15 January 2018 a copy of the aforementioned ruling of the Court of Appeal was delivered to the Company. On 12 March 2018 the Social Insurance Institution Lublin Branch filed a cassation appeal against the aforesaid judgement to the Supreme Court.

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

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

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,

After taking the above into account, the provision disclosed in the Company's books as at 31 December 2018 and amounting to PLN 22,658,000 represents a provision for claims of the Social Security Institution related to a contribution for accident insurance (PLN 3,046,000), the increased percentage rate of that contribution by 50% (PLN 13,352,000) and interest (PLN 6,260,000).

*Other*

At the end of the last year, the "Other" item mainly showed a provision for the cost of green certificates in the amount of PLN 2,082,000. Moreover, at the end of 2017, that item also included a provision in the amount of PLN 3,578,000 for potential interest on tax arrears (if any) for 2015 on account of corporate income tax.

Decrease in the balance of provisions included under the "Other" item by PLN 5,637,000 is to a large extent a consequence of the fact that the provision was used to cover the cost of green certificates (PLN 2,082,000), which had to be filed for redemption in relation to the electricity that the Company bought and used in 2017. Moreover, in the first half of 2018, the Management Board of the Company made a decision to release a previously-established provision for potential interest on tax arrears (if any) for 2015 on account of corporate income tax in the amount of PLN 3,578,000. Detailed information about the dispute regarding the customs and tax inspection carried out at the Company is presented in Note 27.

## 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Sale of coal | 1,715,416 | 1,731,604 |
| Other activities | 20,705 | 32,457 |
| Sale of goods and materials | 18,775 | 13,212 |
| **Revenue from contracts with customers** | **1,754,896** | **1,777,273** |

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.
- 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 2018 amounted to PLN 18,775,000.
- Contracts relating to the sale of other services, in which the largest portion relates to revenue from renting space in the bath – the so called hook places and closets. The service is provided almost exclusively to the 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 on renting bath space in 2018 amounted to PLN 11,543,000.

## 19. COSTS BY TYPE

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Depreciation/amortisation | 398,178 | 347,997 |

| | | |
|---|---|---|
| Materials and energy consumption | 572,379 | 494,927 |
| Outsourced services | 495,394 | 418,889 |
| Employee benefits | 583,295 | 562,352 |
| Entertainment and advertising costs | 8,808 | 6,633 |
| Taxes, fees and charges | 39,695 | 38,183 |
| Other expenses by type | 17,268 | 6,944 |
| Total costs by type | 2,115,017 | 1,875,925 |
| Activities for the Company's own needs | (300,594) | (284,243) |
| Accruals and deferrals | 1,346 | 6,978 |
| Value of coal obtained from excavations | (113,225) | (63,887) |
| Provisions and other presentation adjustments between costs by type and by function | 17,326 | (126,659) |
| Release of impairment loss on the property, plant and equipment and intangible assets (Note 4.3) | - | (495,982) |
| Total production cost | 1,719,870 | 912,132 |
| Change in inventory of products | (7,675) | 11,571 |
| Costs of goods and materials sold | 18,622 | 12,820 |
| **Own cost of sales, including:** | **1,730,817** | **936,523** |
| *- Costs of products, goods and materials sold* | *1,585,719* | *861,576* |
| *- Selling costs* | *44,010* | *41,999* |
| *- Administrative expenses* | *101,088* | *32,948* |

## 20. OTHER INCOME

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Compensations and damages received | 1,564 | 1,237 |
| Settlement with the Mostostal & Acciona Infraestructuras Consortium and with the Wonam Group | 31,165 | - |
| Other, | 1,140 | 2,851 |
| *including:* | | |
| *- Release of used provisions for liabilities* | *130* | *786* |
| *- Release of impairment losses* | *24* | *2,054* |
| *- return of the excise tax* | *759* | - |
| *- Other income* | *227* | *11* |
| **Total other income** | **33,869** | **4,088** |

## 21. OTHER COSTS

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Grants | (200) | (387) |
| Enforcement fees and penalties | (85) | - |
| Compensation | (630) | (601) |
| Other | (133) | (127) |
| **Total other costs** | **(1,048)** | **(1,115)** |

## 22. OTHER PROFIT / (LOSS) - NET

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |

| | | |
|---|---|---|
| (Profit)/(loss) on sale of non-current assets | 2,612 | (460) |
| Currency exchange differences | (20) | (104) |
| Impairment losses due to impairment of construction in progress | - | (1,284) |
| Other | (2,274) | (967) |
| **Total other profit / (loss) - net** | **318** | **(2,815)** |

## 23. FINANCE INCOME AND COSTS

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Interest income on short-term bank deposits | 4,881 | 5,026 |
| Dividend received | 1,025 | 9,778 |
| Other income, including: | 9,432 | 1,921 |
| *- Interest regarding the Mine Closure Fund* | *1,800* | *1,705* |
| *- Release of the provision for interest on income tax* | *3,578* | - |
| *- Release of provisions for potential interest on liabilities towards the Mostostal & Acciona Infraestructuras Consortium* | *2,753* | - |
| *- Other* | *1,301* | *216* |
| Total finance income | 15,338 | 16,725 |
| Interest and commissions on bonds | (471) | (4,677) |
| Interest expense on valuation of employee benefits | (3,825) | (6,777) |
| Settlement of discount on regarding provision for the Mine Closure Fund and land reclamation | (3,731) | (3,758) |
| Creation of a provision and impairment losses of interest | (978) | (7,617) |
| Provision for interest on claims of the Social Security Institution (ZUS) for contribution for accident insurance | (1,318) | (1,298) |
| Other cost | (507) | (702) |
| Total finance costs | (10,830) | (24,829) |
| **Finance income / (costs) - net** | **4,508** | **(8,104)** |

## 24. INCOME TAX

### 24.1 Tax burden

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Current tax | 523 | 4,514 |
| Deferred tax charged into finance income | 9,606 | 155,009 |
| Deferred tax charged into other comprehensive income: | (1,228) | (5,702) |
| *- as actuarial gains/losses as recognised in the statement of comprehensive income* | *(1,228)* | *(5,702)* |
| **Total** | **8,901** | **153,821** |

### 24.2 Reconciliation of an effective tax rate

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Profit before taxation | 61,726 | 832,804 |
| Tax calculated at the rate of 19% | 11,728 | 158,233 |
| Correction of income tax for previous years | (1,906) | - |
| Tax effect of income permanently excluded from the taxable base, including: | (2,448) | (2,415) |

| | | |
|---|---|---|
| *- revenue due in respect of the real property tax* | *(1,195)* | *(223)* |
| *- dividend received from subsidiaries* | *(195)* | *(1,858)* |
| *- release of unused provision for interest on income tax* | *(680)* | *-* |
| *- other* | *(378)* | *(334)* |
| Tax effect of costs permanently excluded from the taxable base | 2,755 | 3,705 |
| *- payment to the National Fund for the Disabled* | *1,051* | *856* |
| *- provision for interest on real property tax* | *558* | *581* |
| *- impairment loss for interest receivable from the central budget and interest payable to the central budget* | *529* | *928* |
| *- donations* | *12* | *74* |
| *- other interest* | *66* | *482* |
| *- other* | *539* | *784* |
| **Decrease in financial result by the income tax** | **10,129** | **159,523** |

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

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

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

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

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

The above risk was somewhat confirmed during customs and tax inspection regarding CIT for 2015 and 2012 which has been underway at the Company since 2017. The inspection is carried out by inspectors from the Lublin Customs and Tax Office in Biała Podlaska. The inspecting authority focused on the Company's approach to tax treatment of wall reinforcements and costs of making movable excavations, and questioned the settlements made as being correct. In the opinion of the Company, the approach applied to date is in conformity with the applicable tax law and the same as the approach of other entities operating in the mining industry, which is supported by available tax rulings. At the moment, however, the opinions of the Company and the tax authority are different. A more detailed description of the customs and tax inspection carried out at the Company is presented in Note 27 "Contingent items".

## 24.3 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 | |
|---|---|---|
| | 2018 | 2017 |
| Deferred tax assets | | |
| *- to be realised after 12 months* | *41,646* | *36,034* |
| *- to be realised within 12 months* | *11,261* | *10,465* |
| Total deferred tax assets | 52,907 | 46,499 |
| Deferred income tax liability | | |
| *- to be realised after 12 months* | *255,412* | *247,088* |
| *- to be realised within 12 months* | *11,106* | *4,644* |
| Total deferred tax liabilities | 266,518 | 251,732 |
| **Deferred tax liabilities (net)** | **213,611** | **205,233** |

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 | Provision for mining damage | Other | Total |
|---|---|---|---|---|---|---|
| As at 1 January 2018 | 29,177 | 3,921 | 6,663 | 843 | 5,895 | 46,499 |
| (Decrease)/increase of the financial result, including: | 1,553 | (554) | (138) | (241) | 5,788 | 6,408 |
| *- recognised in the income statement* | *325* | *(554)* | *(138)* | *(241)* | *5,788* | *5,180* |
| *- recognised in the statement of other comprehensive income* | *1,228* | - | - | - | - | *1,228* |
| **As at 31 December 2018** | **30,730** | **3,367** | **6,525** | **602** | **11,683** | **52,907** |
| | | | | | | |
| As at 1 January 2017 | 50,061 | 4,348 | 5,353 | 844 | 5,912 | 66,518 |
| (Decrease)/increase of the financial result, including: | (20,884) | (427) | 1,310 | (1) | (17) | (20,019) |
| *- recognised in the income statement* | *(26,586)* | *(427)* | *1,310* | *(1)* | *(17)* | *(25,721)* |
| *- recognised in the statement of other comprehensive income* | *5,702* | - | - | - | - | *5,702* |
| **As at 31 December 2017** | **29,177** | **3,921** | **6,663** | **843** | **5,895** | **46,499** |

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

*Change in deferred income tax liability*

| Deferred tax liabilities | Valuation of non-current assets | Costs of panel strengthe ning | Provision for a mine closure and land reclamation, net* | Real property tax receivable | Other | Total |
|---|---|---|---|---|---|---|
| As at 1 January 2018 | 238,377 | 4,519 | 8,369 | 616 | (149) | 251,732 |
| (Decrease)/increase of the financial result, including: | 16,040 | (1,212) | (183) | (79) | 220 | 14,786 |
| *- recognised in the income statement* | *16,040* | *(1,212)* | *(183)* | *(79)* | *220* | *14,786* |
| **As at 31 December 2018** | **254,417** | **3,307** | **8,186** | **537** | **71** | **266,518** |

| | | | | | | |
|---|---|---|---|---|---|---|
| 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** |

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

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

## 24.4 Current income tax - receivables and liabilities

Receivables related to the overpayment of current income tax in the amount of PLN 11,129,000 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 2018.

Receivables related to the overpayment of current portion of the income tax for 2017 as disclosed in the statement of financial position as at the end of the previous year was in 2018 set off (PLN 9,212) with current liabilities on account of CIT, while PLN 13,591 was returned to the Company's bank account by the Tax Office.

## 25. 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 | |
|---|---|---|
| | 2018 | 2017 |
| Earnings attributable to owners of the Company | 51,597 | 673,281 |
| Weighted average number of ordinary shares ('000) | 34,014 | 34,014 |
| **Basic earnings per share (in PLN)** | **1.52** | **19.79** |

*Diluted*

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

## 26. DIVIDEND PER SHARE

At the Annual General Shareholders Meeting held on 25 June 2018, the Shareholders of the Company did not adopt a resolution on approval of the financial statements for 2017 and did not make a distribution of profit for that year due to the fact that a resolution was passed to adjourn the meeting until a later date. In accordance with the resolution, the meeting was scheduled for 20 July 2018. At the Annual General Shareholders Meeting on 20 July 2018, the Shareholders of Lubelski Węgiel Bogdanka S.A. adopted resolution No. 25 on distribution of profit for 2017. Under the resolution, the entire net profit of the Company amounting to PLN 673,281,000 was allocated for reserve capital.

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

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Dividend paid | - | 34,014 |
| Number of ordinary shares as at the dividend date ('000) | 34,014 | 34,014 |
| **Dividend per share (in PLN)** | **-** | **1.00** |

The dividend rate per share is calculated as the quotient of the dividend attributable to 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 2018. On the date of these financial statements, the decision on the distribution of profit for 2018 was not yet taken. Recommendation of the Company's Management Board regarding profit distribution for 2018 is expected to be issued in the middle of the second quarter 2019.

## 27. CONTINGENT ITEMS

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

*Corporate income tax for 2012-2015*

Under an authorisation issued by the Head of the Customs and Tax Office in Biała Podlaska on 29 August 2017, an inspection was launched at the Company to verify the compliance with the tax law with respect to corporate income tax ("CIT") for 2015. In the meantime, the Tax Authority had broadened the customs and tax inspection to include the years 2012-2014. On 25 January 2018 a copy of the Inspection Findings for 2015 was delivered to the Company. Following the inspection, the Tax Authority questioned the approach applied to date by the Company in respect of the point when hard coal mining costs, that is expenses related to drilling galleries and wall reinforcements, were charged as tax deductible business expenses. This resulted in tax arrears for the Company in the amount of PLN 30,771,000 (in relation to the costs of drilling galleries and wall reinforcements). The Company did not agree with the Inspection Findings, as a result of which on 26 February 2018 the Company received a Decision to transform the customs and tax inspection into tax proceedings in respect of compliance with tax law regarding 2015 CIT.

As regards the inspection concerning 2012, on 14 June 2018 the Company received both the Inspection Report and the 2012 CIT Inspection Findings, which, as was the case with the inspection concerning 2015, challenged the Company's approach with regard to the point when hard coal extraction costs were charged as tax deductible business expenses. This resulted in tax arrears in the amount of PLN 32,981,000 for the Company. The Company did not agree with the Inspection Findings, as a result of which on 4 July 2018 the Company was served a Decision to transform the customs and tax inspection into tax proceedings regarding 2012. As a result of the proceedings, on 24 September 2018 the Company received a Decision issued by the Head of the Customs and Tax Office of Lublin in which the Customs and Tax Office claimed that the Company had understated its tax liability for 2012 by the amount of PLN 22,526,000. The Company did not accept the above Decision, therefore on 8 October 2018 it filed an appeal from the Decision and presented its objections to the above; in subsequent communication of November and December 2018 the Company made additional explanations to support its position. As at the present moment the Decision is not final, and the Company awaits the resolution by the body of second instance, which was first expected to be issued in mid-December 2018, but due to the complex nature of the case the appeal procedure was extended until 10 May 2019.

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

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

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

Neither did the Tax Authority refer to the fact that Lubelski Węgiel Bogdanka S.A. was in possession of 2010 Inspection Findings regarding 2006, and 2001 Ruling of the Supreme Administrative Court in Warsaw regarding a tax inspection for 1999. In both cases the Tax Authority ultimately considered the Company's approach to have been correct; or in the second case, the Court, on the basis of the presented evidence, considered the Company's approach to have been correct and reversed the decision issued by the Tax Authority. Therefore, with the above rulings to support its position, the Company believes that there was no need to request a tax ruling and does not agree with the conclusions drawn by the Tax Authority and with the Inspection Findings for 2012 and 2015.

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

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

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

In the opinion of the Management Board, the probability that the final resolution of the dispute is unfavourable for the Company is low, and it is more likely that the position presented by the Tax Authority will not stand at subsequent stages of the dispute. In view of the above, in the opinion of the Management Board of the Company, at the moment there are no reasons to create a provision for potential negative effects in the form of interest on tax arrears, however this amount (i.e. PLN 11,373,000) is being disclosed as a contingent liability.

*Real property tax*

The contingent liability concerning the value of mining excavations from which the Company does not create a provision (provision for real property tax, in its parts deemed as probable by the Company, amounts to PLN 41,431,000 and is presented in Note 17), may primarily result from the existing discrepancies between the position of the Company and the position of tax authorities with respect to the subject of that tax. The issue revolves around the question of whether there are in the mining excavations any structures within

the meaning of the Act on Local Taxes and Charges which would be subject to the property tax. The discrepancies may also occur with regard to the value of particular facilities – in the event that it is agreed that the facilities are subject to the real property tax. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2017).

*Patent claims*

The contingent liability for legal claims related to the fee for co-inventors of inventions covered with patents no. 206048 and 209043 functioning at the Company from which the Company does not create provision may primarily result from impossibility to assess whether the claim in question is justified and different positions taken by the Company and the co-inventors of inventions covered with the abovementioned patents. The value of the possible liability as at the day of publishing these financial statements amounts to PLN 48 million. The Company estimated a provision for remuneration for co-inventors to the best of its knowledge and in line with principles so far applied at the Company when calculating remunerations for inventors. The item provisions for legal claims shows a provision for legal claims regarding remuneration for co-inventors of inventions covered by patents No. 206048 and 209043, used at the Company. The amount of remuneration will be subject to analysis of court experts or experts accepted by both parties, to be made upon drafting a technical opinion regarding the patented inventions. On 24 March 2016 a court expert issued an opinion. Subsequently, during the course of 2016, both parties submitted a number of reservations to the opinion. Further, a court expert was heard as regards the prepared opinion; the hearing, which took place on 4 July 2017, was preceded by drawing an additional opinion by the expert. Another trial took place on 5 September 2017; during the trial the Court made decisions as to considering further evidence motions, including further expert opinions, and requested the parties to specify their arguments to the expert opinions. On 1 December 2017 the Regional Court in Lublin issued a decision admitting the evidence in the form of opinions prepared by the University of Science and Metallurgy (AGH) in Kraków and the Silesian University of Technology in Gliwice, Mining and Geology Faculty. Such an opinion has not been prepared yet until today. On 13 November 2018 a hearing took place, during which the Court informed the parties that the University of Science and Metallurgy had not provided the opinion yet, therefore it was considering taking disciplining actions towards the expert. Another hearing was scheduled to take place on 2 July 2019. Further actions will depend on the assessment of the opinions. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2017).

## 28. 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 | |
|---|---|---|
| | 2018 | 2017 |
| Property, plant and equipment | 129,790 | 188,793 |
| **Investment liabilities** | **129,790** | **188,793** |

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

## 29. OPERATING LEASE

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

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Less than 1 year | 3,579 | 3,790 |
| From 1 year to 2 years | 1,609 | 3,270 |
| From 2 to 5 years | 1,836 | 2,033 |
| More than 5 years | 33,078 | 24,507 |
| **Minimum future payments** | **40,102** | **33,600** |

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, until the end of 2018, 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 2018, the costs of the operating lease recognised in the income statement amounted to PLN 5,239,000 (during the period ended on 31 December 2017: PLN 4,783,200).

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

## 30. RELATED PARTY TRANSACTIONS

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

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

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

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

In the reporting periods ending on 31 December 2018 and 31 December 2017, the value of trade on account of sales to 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 | |
|---|---|---|
| | 2018 | 2017 |
| Sales in period | 181,436 | 223,458 |
| Total receivables at end of period including VAT | 16,774 | 29,780 |

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

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

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

*Transactions 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.

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 2018 and 31 December 2017 the value of trade related to purchase from the following subsidiaries: Łęczyńska Energetyka Sp. z o.o., EkoTRANS 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 related entities were as follows:

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Purchases in period, including: | 106,026 | 101,370 |
| *- Purchases of services activated on the value of "property, plant and equipment"* | *2,164* | *3,526* |
| Total liabilities at end of period including VAT | 12,281 | 12,859 |

In the reporting periods ended on 31 December 2018 and 31 December 2017 the value of trade related to sale to the following subsidiaries: Łęczyńska Energetyka Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o. and MR Bogdanka Sp. z o.o., and the balance of the Company's receivables from these associated entities were as follows:

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Sales in period | 12,756 | 11,440 |
| Total receivables at end of period including VAT | 2,178 | 1,887 |

In the reporting periods ending on 31 December 2018 and 31 December 2017 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. were as follows:

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017* |
| Dividend received from the LW BOGDANKA Group companies | 1,025 | 9,778 |
| *- Including prepayment for dividend* | *-* | *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 electricity from ENEA S.A. and services from Enea Centrum Sp. z o.o.

In the reporting periods ending on 31 December 2018 and 31 December 2017, the value of trade on account of purchases from the ENEA Group companies and the Company's total liabilities towards those entities were as follows:

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Purchases in period | 73,669 | 67,654 |
| Total liabilities at end of period including VAT | 14,171 | 13,784 |

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

In the reporting periods ending on 31 December 2018 and 31 December 2017, the value of trade on account of sale with the ENEA Group companies and the total receivables of the Company from those entities were as follows:

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

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

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

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

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

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

By mid-2018 a Management Options Scheme was in place at the Company covering the period from 2013 to 2017, under which eligible persons, subject to the fulfillment of certain conditions, could be granted options conferring the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, confer the right to acquire series D shares. In Q3 2018 the Company and all beneficiaries of the Scheme (the persons to whom

option may be granted) concluded arrangements under which Scheme participation agreements of the beneficiaries were terminated. Each beneficiary was paid compensation of PLN 1. Upon conclusion of the above arrangements the Management Options Scheme was ultimately closed.

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

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

On 5 January 2018, the Supervisory Board adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k.) 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.

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

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

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

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

| | for the financial year from 1 January to 31 December | |
|---|---|---|
| | 2018 | 2017 |
| **Auditor's fee** | **232** | **146** |
| **Including:** | | |
| *- Audit of the annual financial statements* | *180* | *66* |
| *- Review of the financial statements* | *45* | *44* |
| *- Other attestation services* | *-* | *25* |
| *- Other certification services (review od indicators)* | *7* | *11* |

## 33. 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 2018, and were not disclosed in the financial statements.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

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

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

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