



LUBELSKI WĘGIEL
„BOGDANKA”
SPÓŁKA AKCYJNA

LUBELSKI WĘGIEL BOGDANKA GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the financial year from 1 January 2013 to 31 December 2014

BOGDANKA, MARCH 2015

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Consolidated Statement of Financial Position (Balance Sheet)

	Note	31 Dec. 2014	31 Dec. 2013
Assets			
Non-current assets			
Property, plant and equipment	7	3,613,168	3,169,722
Intangible assets	8	24,291	23,125
Deferred tax assets	20	2,379	1,817
Trade and other receivables	10	1,495	1,428
Cash and cash equivalents	12	88,832	77,912
		<u>3,730,165</u>	<u>3,274,004</u>
Current assets			
Inventories	11	132,488	111,503
Trade and other receivables	10	300,626	244,739
Overpaid income tax		5,655	1,880
Cash and cash equivalents	12	195,481	212,004
		<u>634,250</u>	<u>570,126</u>
TOTAL ASSETS		<u>4,364,415</u>	<u>3,844,130</u>
Equity			
Equity attributable to owners of the Parent			
Ordinary shares	13	301,158	301,158
Other capital	14	1,593,863	1,455,223
Retained profits		619,317	688,846
		<u>2,514,338</u>	<u>2,445,227</u>
Non-controlling interests		<u>9,489</u>	<u>10,304</u>
Total equity		<u>2,523,827</u>	<u>2,455,531</u>
Liabilities			
Non-current liabilities			
Loans and borrowings	17	13,222	-
Deferred tax liabilities	20	114,237	99,822
Provisions for employee benefits	21	186,195	160,479
Provisions for other liabilities and charges	22	123,585	85,278
Grants	16	15,109	16,145
Financial liabilities due to bonds issue	18	700,000	200,000
Trade and other liabilities	15	18,933	17,907
		<u>1,171,281</u>	<u>579,631</u>
Current liabilities			
Loans and borrowings	17	100,526	421,000
Provisions for employee benefits	21	40,529	39,551
Financial liabilities	19	308	5,232
Provisions for other liabilities and charges	22	73,609	64,837
Grants	16	988	988
Financial liabilities due to bond issue	18	106	4
Current tax liabilities		63	
Trade and other liabilities*	15	453,178	277,304
		<u>669,307</u>	<u>808,968</u>
Total liabilities		<u>1,840,588</u>	<u>1,388,599</u>
TOTAL EQUITY AND LIABILITIES		<u>4,364,415</u>	<u>3,844,130</u>

* The item includes dividend payable of PLN 4,000 as at 31 December 2014 (PLN 4,000 as at 31 December 2013).

Consolidated Income Statement

	Note	For the financial year from 1 January to 31 December	
		2014	2013
Revenue	23	2,013,568	1,899,830
Costs of products, goods and materials sold	24	(1,497,068)	(1,305,264)
Gross profit		516,500	594,566
Selling cost	24	(39,714)	(43,664)
Administrative costs	24	(97,211)	(95,103)
Other income	26	1,435	3,837
Other costs	26	(3,502)	(3,062)
Other losses - net	27	(15,193)	(31,771)
Operating profit		362,315	424,803
Finance income	28	7,071	7,267
Finance cost	28	(23,532)	(18,341)
Finance cost - net	28	(16,461)	(11,074)
Profit before taxation		345,854	413,729
Income tax	29	(73,502)	(84,001)
Net profit for the period		272,352	329,728
including:			
- attributable to owners of the Parent		272,845	329,417
- attributable to non-controlling interest		(493)	311
Earnings per share attributable to owners of the Parent during the year (in PLN per share)			
- basic	30	8.02	9.68
- diluted	30	8.02	9.68

Consolidated Statement of Comprehensive Income

	For the financial year from 1 January to 31 December	
	2014	2013
Net profit	272,352	329,728
Other comprehensive income for the reporting period		
Items never intended to be reclassified as profit or loss of the current period		
Actuarial gains/losses of defined benefit schemes	(19,574)	3,610
Income tax relating to non-transferrable items	3,719	(686)
Items never intended to be reclassified as profit or loss of the current period - total	(15,855)	2,924
Items which are or may be reclassified as profit or loss of the current period		
Cash flow hedges		
- Profit/(loss) for period	(1,484)	(5,232)
- Adjustments resulting from transferring amounts to original values of hedged items	6,423	-
Income tax relating to transferrable items	(938)	994
Items which are or may be reclassified as profit or loss of the current period - total	4,001	(4,238)
Other net comprehensive income/ loss for the reporting period	(11,854)	(1,314)
Other net comprehensive income for the reporting period - total	260,498	328,414
Including:		
- attributable to owners of the Parent		
- attributable to non-controlling interest		

Consolidated Statement of Changes in Equity

	Attributable to owners of the Parent				Retained profits	Total equity	Non-controlling interests	Total equity
	Other capital – transfer of profit / loss	Other capital – issue of Management Options	Equity on valuation of cash flow hedges	Other capital				
	Ordinary shares							
As at 1 January 2013	301,158	1,345,888	-	-	639,335	2,286,381	9,993	2,296,374
Total net comprehensive income for the reporting period:	-	-	-	(4,238)	332,341	328,103	311	328,414
- net profit	-	-	-	-	329,417	329,417	311	329,728
- other comprehensive income	-	-	-	(4,238)	2,924	(1,314)	-	(1,314)
Dividends concerning 2012	-	-	-	-	(172,110)	(172,110)	-	(172,110)
Transfer of the result for 2012	-	110,720	-	-	(110,720)	-	-	-
Management Options Issue	-	-	2,853	-	-	2,853	-	2,853
As at 31 December 2013	301,158	1,456,608	2,853	(4,238)	688,846	2,445,227	10,304	2,455,531
As at 1 January 2014	301,158	1,456,608	2,853	(4,238)	688,846	2,445,227	10,304	2,455,531
Total net comprehensive income for the reporting period:	-	-	-	4,001	257,001	261,002	(504)	260,498
- net profit	-	-	-	-	272,845	272,845	(493)	272,352
- other comprehensive income	-	-	-	4,001	(15,844)	(11,843)	(11)	(11,854)
Dividends concerning 2013	-	-	-	-	(197,279)	(197,279)	(311)	(197,590)
Transfer of the result for 2013	-	129,251	-	-	(129,251)	-	-	-
Management Options Issue	-	-	5,388	-	-	5,388	-	5,388
As at 31 December 2014	301,158	1,585,859	8,241	(237)	619,317	2,514,338	9,489	2,523,827

Consolidated Statement of Cash Flows

	Note	For the financial year from 1 January to 31 December	
		2014	2013
Cash flow from (used in) operating activities			
Cash inflow from operating activities*		769,749	779,214
Interest received		3,802	764
Income tax paid		(60,688)	(53,935)
Net cash flow from (used in) operating activities		712,863	726,043
Cash flows from (used in) investing activities			
Acquisition of property, plant and equipment		(694,277)	(615,247)
Interest paid regarding investing activity		(13,769)	(15,247)
Acquisition of intangible assets	8	(3,130)	(2,676)
Inflow from the sale of property, plant and equipment		1,318	306
Interest received		3,891	3,766
Other net cash flow from (used) in investing activities			(175)
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(10,920)	(9,881)
Net cash flows from (used in) investing activities		(716,887)	(639,154)
Cash flow from (used in) financing activities			
Proceeds from loans and borrowings		113,678	-
Inflow from issue of bonds	18	500,000	200,000
Repayments of loans and borrowings		(421,000)	(20,000)
Interest and commissions paid due to financing activities		(7,587)	(3,327)
Dividend paid		(197,590)	(172,109)
Net cash flows from (used in) financing activities		(12,499)	4,564
Net increase / (decrease) in cash and cash equivalents		(16,523)	91,453
Cash and cash equivalents at beginning of period		212,004	102,820
Cash and cash equivalents at end of period		195,481	120,551

* Detailed list of consolidated inflow from operating activities is presented on page 9.

Consolidated cash inflow from operating activities

	31 Dec. 2014	31 Dec. 2013
Profit before taxation	345,854	413,729
- Depreciation of non-current assets (Note 7)	385,663	327,490
- Amortisation of intangible assets (Note 8)	1,975	2,648
- Profit / (loss) on sale of property, plant and equipment	(1,294)	34
- Income and costs related to changes in the property, plant and equipment	19,894	14,941
- Use and creation of impairment losses	2,036	25,321
- Actuarial gains/losses as recognised in the consolidated statement of comprehensive income	(19,574)	3,610
- Change in provisions for employee benefits liabilities (Note 21)	26,694	7,362
- Change in provisions	16,467	25,199
- Other flows	(1,088)	(559)
- Cost of Management Options	5,388	2,853
- Change in inventories	(20,985)	(56,120)
- Change in trade and other receivables	(55,954)	(6,737)
- Change in trade and other liabilities	64,673	19,443
Cash inflow from operating activities	769,749	779,214
Balance-sheet change in liabilities	175,860	(31,857)
Change in investment liabilities	(111,187)	51,300
Change in liabilities for the purposes of the consolidated statement of cash flows	64,673	19,443
Increase in non-current assets	819,234	579,194
Interest paid regarding investing activity	(13,769)	(15,247)
Change in investment liabilities	(111,188)	51,300
Acquisition of property, plant and equipment	694,277	615,247

In the consolidated statement of cash flows, the amount of inflows from the sale of property, plant and equipment is comprised of:

	31 Dec. 2014	31 Dec. 2013
Net book value	24	340
Profit / (loss) on sale of property, plant and equipment	1,294	(34)
Inflow from the sale of property, plant and equipment	1,318	306

Notes to the Consolidated Financial Statements

Notes

1. General information

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

The following companies form the Lubelski Węgiel Bogdanka Group (hereinafter referred to as the Group):

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

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

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

The shares of Lubelski Węgiel Bogdanka Spółka Akcyjna are listed at the Warsaw Stock Exchange (WSE).

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

The subsidiary - Łęczyńska Energetyka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów. As at 31 December 2014, the Parent held 88.70% of shares in the capital of the subsidiary, Łęczyńska Energetyka Sp. z o.o.

Łęczyńska Energetyka Sp. z o.o. provides services to mines involving supplying heat energy and conducts water/wastewater management. In addition, the Company supplies heat to external entities such as housing estates and other structures in Łęczna. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations. The company prepares its balance sheet as at 31 December.

The subsidiary - EkoTRANS Bogdanka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów. As at 31 December 2014, the Parent held 100.00% of shares in the capital of the subsidiary, EkoTRANS Bogdanka Sp. z o.o.

EkoTRANS Bogdanka Sp. z o.o. provides services to the mine with respect to recovery of spoil arising during coal- associated shale cleaning and washing. The company prepares its balance sheet as at 31 December.

The subsidiary - RG Bogdanka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów. As at 31 December 2014, the Parent held 100.00% of share in capital of its subsidiary RG Bogdanka Sp. z o.o.

RG Bogdanka Sp. z o.o. provides services to the mine with respect to the mining works and regeneration services. The company prepares its balance sheet as at 31 December.

Lubelski Węgiel Bogdanka Group
Consolidated Financial Statements for the period from 1 January to 31 December 2014
(All amounts in the tables are in PLN thousand, unless otherwise specified.)

The subsidiary - MR Bogdanka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów. As at 31 December 2014, the Parent held 100.00% of share in the capital of the subsidiary, MR Bogdanka Sp. z o.o.

MR Bogdanka SP. z o.o. provides services to the mine with respect to renovation, regeneration and production of steel constructions. The company prepares its balance sheet as at 31 December.

In 2014 MR Bogdanka was purchased by the Parent. Information regarding the purchase of MR Bogdanka, including information regarding the payment made and purchased net assets, is presented in Note 6 of these consolidated financial statements.

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

Name of the subsidiary	Balance-sheet total [PLN '000]	Equity [PLN '000]	% of shares held	Non-controlling interests	Restrictions in control; restrictions in consolidated assets and equity & liabilities	Consolidation method
<u>Companies subject to consolidation in the current and previous periods:</u>						
Łęczyńska Energetyka sp. z o.o.	112,263	83,956	88.70	Non-controlling interests amount to 11.30% and are held by: Łączna Municipality 11.29% Puchaczów Commune 0.01%	none	full
RG Bogdanka Sp. z o.o.	10,133	5,988	100.00	none	none	full
EkoTRANS Sp. z o.o.	2,279	867	100.00	none	none	full
<u>Subsidiaries consolidated for the first time:</u>						
MR Bogdanka Sp. z o.o.	2,980	1,009	100.00	none	none	full

Lubelski Węgiel Bogdanka S.A. is the Parent in the Lubelski Węgiel Bogdanka Group. The Group prepares consolidated financial statements in accordance with IFSR for the period from 1 January to 31 December 2014. These financial statements are available at the Parent's website at www.lw.com.pl on the date as announced in a current report stating the date of publication of the Parent's financial statements as well as the Group's consolidated financial statements for the financial period ended on 31 December 2014.

1.2. Assumption of the Company going concern

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

If, after the preparation of the consolidated financial statements, the Group's becomes aware of events which have a significant bearing on these financial statements or which result in the going concern assumption being no longer appropriate for the Group, the Management Board of the Parent is authorised to make amendments to the consolidated financial statements until the date of their approval. This does not preclude a possibility to make amendments to the consolidated financial statements retrospectively in subsequent

periods in connection with rectification of errors or as a result of changes in the accounting policies following from IAS 8.

2. Description of key accounting principles applied

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

2.1. Basis of preparation

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

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

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

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

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

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

(a) Standards and interpretations used for the first time in 2014

The following standards, amendments to the existing standards and interpretations published by the International Accounting Standards Board (IASB) and endorsed for application in the European Union came into force for the first time in the Group in 2014:

- IFRS 10 "Consolidated Financial Statements", endorsed by the European Union on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014), was published by the International Accounting Standards Board on 12 May 2011. IFRS 10 replaces consolidation guidelines included in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" by implementing a uniform consolidation model for all entities based on control, regardless of the nature of the investment (i.e. whether the entity is controlled by investors' voting rights or through other contractual arrangements commonly applied in special purpose entities). According to IFRS 10, control exists when the investor has 1) power over the investee, 2) exposure or right to variable returns from its involvement with the investee, and 3) the ability to use its power over the investee to affect the amount of the investor's returns from the investee.

The introduction of IFRS 10 will have no material impact on these financial statements.

- IFRS 11 “Joint Arrangements”, endorsed by the European Union on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board on 12 May 2011. IFRS 11 introduces new accounting regulations with respect to joint arrangements, replacing IAS 31 “Interests in Joint Ventures.” The ability to apply the proportional consolidation method in relation to jointly controlled entities has been removed. Furthermore, IFRS 11 eliminates jointly controlled assets and leaves a distinction into joint operations and joint venture. Joint operations are joint arrangements in which the parties have joint control over rights to the assets and liabilities. Joint venture is a joint arrangement in which the parties have joint control over rights to the net assets.

The introduction of IFRS 11 will have no material impact on these consolidated financial statements. To date, there have been no actions described in IFRS 11 in the existing operations of the Group.

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

The introduction of IFRS 12 will have no material impact on these consolidated financial statements.

- IAS 27 (revised in 2011) “Separate Financial Statements”, endorsed by the European Union on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board on 12 May 2011. The requirements regarding separate financial statements have not changed and are included in the revised IAS 27. Other parts of IAS 27 have been replaced by IFRS 10.

The introduction of IAS 27 will have no material impact on these consolidated financial statements.

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

The introduction of IAS 28 will have no material impact on these consolidated financial statements. To date, there have been no actions described in IAS 28 in the existing operations of the Group.

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interest in Other Entities” – explanations to transitional provisions, endorsed by the European Union on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014) published by the International Accounting Standards Board on 28 June 2012. The objective of the amendments is to provide additional guidance to transitional provisions in IFRS 10, IFRS 11 and IFRS 12 so as to “limit the requirements to restate comparative data only to the preceding comparative period.” Amendments were also made to IFRS 11 and IFRS 12 to eliminate the requirements to present comparative data for periods earlier than the directly preceding period.

The introduction of amendments to IFRS 10, IFRS 11 and IFRS 12 will have no material impact on these consolidated financial statements.

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interest in Other Entities” and IAS 27 “Separate Financial Statements” – Investment entities, endorsed by the European Union

on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014), were published by the International Accounting Standards Board on 31 October 2012. The amendments provide for a release from the consolidation requirement in accordance with IFRS 10 and require the investment entities to disclose individual subsidiaries in fair value through profit or loss rather than consolidate them. The amendments provide also requirements regarding disclosures for investment entities.

The introduction of amendments to IFRS 10, IFRS 12 and IAS 27 will have no material impact on these consolidated financial statements.

- Amendments to IAS 32 "Financial Instruments: Presentation" – offsetting of financial assets and liabilities, endorsed by the European Union on 13 December 2012 (applicable to annual periods beginning on or after 1 January 2014), published by the International Accounting Standards Board on 16 December 2011. The amendments specify more precisely the principles of offsetting and focus on four key areas: (a) clarification of the meaning of "to have a legally enforceable right to set off"; (b) simultaneous offsetting and settlement; (c) offsetting collaterals; (d) settlement unit for offsetting purposes.

The introduction of amendments to IAS 32 will have no material impact on these consolidated financial statements. The Group does not hold financial assets and liabilities which qualify for offsetting.

- Amendments to IAS 36 "Impairment of Assets" – Recoverable amount disclosures for non-financial assets, endorsed by the European Union on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014) published by the International Accounting Standards Board on 29 May 2013. Small amendments to IAS 36 concern recoverable amount disclosures for those assets for which an impairment loss has been recognised and when recoverable amount is based on fair value less costs of disposal. When developing IFRS 13 "Fair Value Measurement", the IASB decided to amend IAS 36 so as to require entities to disclose recoverable amount of those assets for which an impairment loss has been recognised. Current amendments clarify the original intention of the IASB that the scope of such disclosures is limited only to recoverable amount of those assets for which an impairment loss has been recognised and when recoverable amount is based on fair value less costs of disposal.

The introduction of amendments to IAS 36 will have no material impact on these consolidated financial statements.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – novation of derivatives and further application of hedge accounting, endorsed by the European Union on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014) published by the International Accounting Standards Board on 29 May 2013. Amendments of a small range provide a possibility to further apply hedge accounting in the event of a novation of a derivative (designated as a hedge instrument) in such a manner that a central counterparty clearing becomes a party thereto subject to the fulfilment of certain conditions.

The Group does not hold derivative instruments which would be subject to novation. Therefore, the introduction of amendments to IAS 39 will have no material impact on these consolidated financial statements.

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

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

- Amendments to various standards "Improvements to IFRS (2010-2012)" – amendments made under the annual procedure of amending IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily oriented at eliminating inconsistencies and specifying terminology – endorsed by the European Union on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015) published

by the International Accounting Standards Board on 12 December 2013. Amendments to various standards and interpretations as part of procedure of introducing annual amendments to Standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 2 and IAS 38), primarily oriented at eliminating inconsistencies and specifying terminology. The amendments clarified the required accounting treatment in situations wherein previously freedom of interpretation was allowed. The most important are new or amended requirements regarding: (i) definition of “vesting condition”; (ii) accounting for contingent consideration in a business combination; (iii) aggregation of operating segments and reconciliation of the total of the reportable segments’ assets to the entity’s assets; (iv) measurement of current receivables and payables; (v) proportionate restatement of accumulated depreciation in the revaluation method, and (vi) definition of key management personnel.

The Group will apply amendments to various standards “Amendments to IFRS (2010-2012 Cycle)” as from 1 February 2015. The Group has analysed the impact of the above standards on accounting policies applied by the Group. The Management Board of the Parent believes that the application of these amendments will not have a material impact on the consolidated financial statements.

- Amendments to various standards “Improvements to IFRS (2011-2013)” – amendments made under the annual procedure of amending IFRS (IFRS 1, IFRS 3, IFRS 13, and IAS 40) primarily oriented at eliminating inconsistencies and specifying terminology – endorsed by the European Union on 18 December 2014 (applicable to annual periods beginning on or after 1 January 2015), published on 12 December 2013. Amendments to various standards and interpretations as part of procedure of introducing annual amendments to Standards (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily oriented at eliminating inconsistencies and specifying terminology. The amendments clarified the required accounting treatment in situations wherein previously freedom of interpretation was allowed. The most important are new or amended requirements regarding: (i) meaning of effective IFRS in IFRS 1; (ii) scope of exemptions for joint ventures; (iii) scope of paragraph 52 (portfolio exception), and (iv) clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

The Group will apply amendments to various standards “Amendments to IFRS (2011-2013 Cycle)” as from 1 January 2015. The Group has analysed the impact of the above standards on accounting policies applied by the Group. The Management Board of the Parent believes that the application of these amendments will not have a material impact on the consolidated financial statements.

- Amendments to IAS 19 “Employee benefits” – Defined Benefit Plans: Employee Contributions - endorsed by the European Union on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015) published by the International Accounting Standards Board on 21 November 2013. Smaller amendments relate to the scope of application of the standard to contributions from employees or third parties paid to defined benefit plans. The objective is to simplify the accounting for contributions which are independent of the number of years of service (e.g. employee contributions calculated as a fixed percentage of salary).

Amendments to IAS 19 “Employee Benefits” will be applied by the Group from 1 February 2015. The Group has analysed the impact of the above standards on accounting policies applied by the Group. The Management Board of the Parent believes that the application of amendments to IAS 19 will not have a material impact on the consolidated financial statements.

- IFRIC 21 “Levies” – endorsed by the European Union on 13 June 2014 (applicable to annual periods beginning on or after 17 June 2014), published by the International Accounting Standards Board on 20 May 2013. IFRIC 21 is an interpretation to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets.” IAS 37 sets forth the criteria for recognition of a liability, one of which is a requirement to have a present obligation arising from past events (the so called obligating event). The interpretation clarifies that the event triggering an obligation to pay a levy is the activity for which levies are imposed in accordance with the relevant legislation.

The Group will apply IFRIC 21 “Levies” as of 1 January 2015. The Group has analysed the impact of the above interpretation on accounting policies applied by the Group. The Management Board of the Parent believes that the application of interpretation IFRIC 21 will not have a material impact on the consolidated financial statements.

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

At present, the IFRS endorsed by the European Union do not differ substantially from the regulations adopted by the International Accounting Standards Board (IASB), save for the following standards, standard amendments or interpretations which as at 12 March 2015 were not adopted for use in the European Union:

- IFRS 9 “Financial Instruments” (applicable to annual periods beginning on or after 1 January 2018), was published on 24 July 2014 as a standard to replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 sets forth the requirements for recognition and measurement, impairment, de-recognition, and hedge accounting. Classification and measurement – IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements according to IAS 39. The new model also results in a single impairment model being applied to all financial instruments. Impairment – IFRS 9 introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. Hedge accounting – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities. Own credit risk – IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognised in profit or loss.
- IFRS 14 “Regulatory Deferral Accounts” (applicable to annual periods beginning on or after 1 January 2016) was published by the International Accounting Standards Board on 30 January 2014. The aim of the standard is to enable IFRS first-time adopters to continue to account for regulatory deferral account balances in accordance with their previous generally applicable accounting policies, on and following first-time adoption of IFRS.
- IFRS 15 “Revenue from Contracts with Customers” (applicable to annual periods beginning on or after 1 January 2017) was published by the International Accounting Standards Board on 28 May 2014. The standard specifies how and when revenue is to be recognised and requires more detailed disclosures. The standard replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts” and many interpretations connected with revenue recognition. The standard is applicable to nearly all contracts with customers (with main exceptions covering lease contracts, financial instruments and insurance agreements). The core principle of the new standard is that an entity will recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration (i.e. price) to which the entity expects to be entitled in exchange for those goods or services. The standard also provides guidance for recognition of transactions which have not been regulated in detail by previous standards (e.g. revenue from services or contract modifications) as well as more comprehensive explanations to recognition of multi-part contracts.
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (applicable to annual periods beginning on or after 1 January 2016), published on 11 September 2014. The amendments address a conflict between the requirements of IAS 28 and IFRS 10, and clarify that in

a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” – Investment Entities: Applying the Consolidation Exception (applicable to annual periods beginning on or after 1 January 2016), published on 18 December 2014. Narrow scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the accounting for investment entities. The amendments also provide for, in specific circumstances, certain exceptions in this regard.
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for the acquisition of interests in joint operations (applicable to annual periods beginning on or after 1 January 2016) published by the International Accounting Standards Board on 6 May 2014. The amendments give new guidance how to account for the acquisition of an interest in a joint operation that is a business.
- Amendments to IAS 1 “Presentation” – initiative in relation to disclosures (applicable to annual periods beginning on or after 1 January 2016), published on 18 December 2014. The amendments to IAS 1 are designed to encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of acceptable methods of depreciation and amortisation (applicable to annual periods beginning on or after 1 January 2016) was published by the International Accounting Standards Board on 12 May 2014. The amendments clarify that application of revenue-based methods to calculate depreciation of property, plant and equipment is not appropriate as revenue generated from the activity covering the use of assets usually reflects other factors than consumption of the economic benefits embodied in the asset. The amendments also clarify that adoption of revenue as measurement basis of the use of economic benefits embodied in the intangible asset is in principle not recognised as appropriate. However, exceptions to that rule are allowed in strictly specified circumstances.
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: bearer plants (applicable to annual periods beginning on or after 1 January 2016) published by the International Accounting Standards Board on 30 June 2014; The amendments include bearer plants which are used solely to grow produce within the scope of application of IAS 16 and so they are accounted for in the same way as property, plant and equipment.
- Amendments to IAS 27 “Separate Financial Statements” – Equity Method in separate financial statements (applicable to annual periods beginning on or after 1 January 2016), published by the International Accounting Standards Board on 12 August 2014. The amendments are intended to restore the equity method as an additional option for settlements of investments in subsidiaries, joint ventures and associated entities in separate financial statements.
- Amendments to various standards “Improvements to IFRS (2012-2014 Cycle)” – amendments made under the annual procedure of amending IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily oriented at eliminating inconsistencies and specifying terminology (applicable to annual periods beginning on or after 1 January 2016); published on 25 September 2014. Amendments were made to various standards and interpretations under the annual procedure of amending the Standards (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily oriented at eliminating inconsistencies and specifying terminology. The amendments clarified the required accounting treatment in situations wherein previously freedom of interpretation was allowed. The improvements include new or amended requirements regarding: (i) changes in methods of disposal;

(ii) servicing contracts; (iii) applicability of the amendments to IFRS 7 in condensed interim financial statements; (iv) discount rate: regional market issues; (v) disclosure of information “elsewhere in the interim financial report”.

- The Group has analysed the impact of the above standards (and amendments) on the applied accounting principles, with the exception of impact assessment of IFRS 9 “Financial Instruments”, which will be made after all phases have been published. In the opinion of the Parent’s Management Board, the above standards will not have any material impact on the accounting policies applied to date. At the same time, hedge accounting for the portfolio of financial assets and liabilities, whose principles have not been endorsed for use by the European Union yet still remain outside the regulations endorsed by the European Union. According to the Group’s estimates, the application of hedge accounting to the portfolio of financial assets and liabilities in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” would not have any adverse impact on the financial statements if it was adopted for application at the balance-sheet date.

2.2. Principles of consolidation

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

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

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

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

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

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

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

Consolidation adjustments

If necessary, financial statements of the subsidiaries are adjusted so as to adapt the accounting principles applied by the subsidiaries to the Group’s accounting policies. During consolidation, all intercompany assets,

liabilities, equity, revenues, costs and cash flows relating to transactions effected between the Group members are fully eliminated.

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

Loss of control

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

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

Minority interest covers shares in Łęczyńska Energetyka, which are not owned by the Group. These shares are held by Łęczna Municipality and by Puchaczów Commune.

Acquisition of entities

Acquisitions of other entities are accounted for using the acquisition method at the acquisition date, which is the date when the Group obtains control over the acquiree (target company). Control is defined as the ability to direct financial and operating policies of the entity in order to take benefits from its activities. In making the assessment whether control is in place, the Group takes into account potential voting rights which may be exercised at the moment.

The Group recognises goodwill at the acquisition date as:

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

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

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

2.3. Measurement of items expressed in foreign currencies

a) Functional currency and presentation currency

The consolidated financial statements are prepared in Polish zlotys ("PLN"), being the functional and presentation currency of the Group. Data in the consolidated financial statements is presented in PLN '000, unless specified as an exact figure in specific situations.

b) *Transactions and balances*

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

- cash items are translated at the closing rate (closing rate is the average exchange rate determined for a given currency by the National Bank of Poland as at that date),
- non-cash items valued at historical cost in a foreign currency are translated at the exchange rate as at the date of the initial transaction (exchange rate quoted by the bank employed by the entity), and
- non-cash items valued at fair value in a foreign currency are translated at the exchange rate as at the date of determining the fair value.

Foreign exchange differences resulting from translation are disclosed accordingly in the consolidated income statement under “Finance income / cost” 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.

2.4. Property, plant and equipment

Property, plant and equipment are the non-current assets:

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

Property, plant and equipment are initially recognised at acquisition or 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 the 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 closure 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 closure plan for groups of structures under the estimated mine closure schedule.

As at the balance-sheet date, items of property, plant and equipment are carried at acquisition or production cost less accumulated depreciation and impairment charges.

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

Land is not depreciated. Other items of non-current assets are depreciated using the straight-line method or the unit-of-production method in order to distribute their initial values or re-measured values, less residual values, over their useful economic lives, which for particular groups of non-current assets are as follows:

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

Depreciation of an item of non-current assets starts when that item is available to be placed in service. The asset then ceases to be depreciated at the earlier of: the day when a given asset is classified as available for sale (or included in a group of assets that are to be disposed of, classified as available for sale) in accordance with IFRS 5 “*Non-Current Assets Available for Sale and Discontinued Operations*”, or the day when the asset is derecognised due to 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 incurred in foreign currencies, to the extent they are recognised as an adjustment of interest expense, which may be directly attributed to acquisition, construction or production of an adapted asset, 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 property, plant and equipment. Spare parts and equipment connected with maintenance which may only be used only for certain items of property, plant and equipment are recorded similarly. Other low-value spare parts and equipment connected with maintenance are carried as inventories and recognised in the consolidated income statement at the time of their use.

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

2.5. Intangible assets

Geological information

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

Computer software

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

Fees, licences

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

Intangible assets are amortised using the straight-line method.

2.6. Impairment of non-financial assets

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

The creation, releasing and using the impairment losses of non-financial non-current assets are disclosed in the consolidated income statement “Other profit/(loss) - net”.

2.7. Financial assets

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

Loans and receivables

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

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

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

The Group assesses at each balance-sheet date whether there is objective evidence that an item or a group of financial assets may be impaired. A test for impairment of trade debtors is described in Note 2.9.

2.8. Inventories

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

2.9. Trade debtors

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

2.10. Cash and cash equivalents

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

Restricted cash and cash equivalents where the restriction persists for at least 12 months as from the balance-sheet date are classified as non-current assets.

2.11. Share capital

Ordinary shares are classified as equity.

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

2.12. Trade creditors

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

2.13 Financial liabilities measured at amortised cost

The category of financial liabilities measured at amortised cost includes liabilities under loans and borrowings and liabilities under issued bonds.

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

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

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer repayment of the liability for at least 12 months as from the balance-sheet date.

Bonds issued with an original redemption date of up to 12 months following the balance-sheet date, for which the Group has the right to issue further bond series (under the granted tranche) for refinancing of a previous issue (the roll-up), are charged to non-current liabilities, unless the final redemption date under the whole tranche falls within the period shorter than 12 months following the balance-sheet date.

Borrowing costs are expensed in the period in which they are incurred, except the costs which increase the value of construction in progress (Note 2.4).

2.13. Financial derivatives

The Group enters into derivative contracts in order to manage its currency exchange risk. They include forward contracts. Detailed information about derivatives is presented in Note 3.1.b and in Note 19. Derivatives are initially recognised at fair value as at the date of concluding the respective contract, and subsequently re-measured to fair value at the end of each reporting period. The resultant gains or losses are recognised in the consolidated statement of comprehensive income under item “Finance income / costs” or in the consolidated statement of comprehensive income (in the portion constituting efficient cash flow hedge) as a cash flow hedge and in the consolidated statement of financial position (balance sheet) under – depending on measurement – “Financial instruments” or in equity and liabilities under “Financial liabilities.”

2.14. Current income tax and deferred tax

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

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

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

2.15. Employee benefits

a) Retirement and other employee benefits

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

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

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

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

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

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

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

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

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

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

b) Profit-sharing programmes and bonus programmes

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

c) 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.

2.16. Provisions

A provision for legal claims or removal of mining damage

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

Provision for mine closure

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

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

The amount of closing of a mining plant is calculated by an independent consultancy company on the basis of historical data concerning costs related to mine closures in the Polish hard coal mining sector.

The amounts of provisions are recognised in the present value of 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) is recognised as adjustment to the value of property, plant and equipment for which a closure obligation exists.

2.17. Recognition of revenue

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

When recognising the revenue, the Group follows IAS 18 "Revenue". The Group recognises revenue when the amount of revenue can be measured reliably and when it is probable that the economic benefits will flow to the Group and when certain criteria for each type of the Group's activities are met, as described below. It is deemed that the amount of revenue cannot be measured reliably before all conditional circumstances related to sales are clarified. The Group makes estimates on the basis of historical information, taking into account the customer and transaction type and details of agreements.

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

Revenue from sales of products, goods for resale and materials are recognised as soon as the Group supplies products to a customer. The supply is deemed to occur when the Group's entity has transferred to the buyer the significant risks and rewards of ownership of the products, goods for resale and materials pursuant to

terms of delivery defined in the sales agreements. Sales revenue is recognised based on the prices specified in sales agreements, net of estimated rebates and other sales reductions.

b) Interest income

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

2.18. Recognition of government grants

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

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

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

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

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

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

2.19. Leases

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

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

2.20. Dividend payment

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

3. Managing financial risk

3.1. Financial risk factors

The Group is exposed to various types of financial risks connected with its activities, such as market risk (including cash flow risk resulting from change in interest rates), credit risk and liquidity risk. The Group's

general programme for risk management focuses on ensuring sufficient liquidity to enable the Group to implement its investment projects and secure the Group's dividend policy.

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

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

The Group is also exposed to interest rate risk in connection with its current and non-current debt instruments. Loans and bonds bearing interest at variable rates result in the Group's exposure to a change in cash flows resulting from changes in interest rates. In 2014 the Group used external financing denominated in the zloty.

Current debt of the Group under loans and borrowings amounts to PLN 114 million (as at 31 December 2013 – PLN 421 million) and under bond issue – PLN 700 million (as at 31 December 2013 – PLN 200 million). The total debt of the Group as at 31 December 2014 amounts to PLN 814 million (as at 31 December 2013 – PLN 621 million). Based on simulations, it was determined that a 1 p.p. change in interest rates would increase or decrease, as applicable, the Group's gross profit by an amount lower or equal to PLN 8.14 million (as at 31 December 2013 – PLN 6.21 million).

Based on the 2013 and 2014 data concerning the Group's interest bearing assets, the sensitivity of the finance income changes to changes in interest rates has been assessed. The value of assets exposed to the interest rate risk as at 31 December 2014 with respect to bank deposits of free cash amounts to PLN 195,481,000 (as at 31 December 2013 – PLN 212,004,000), and with respect to mine closure fund assets – PLN 88,832,000 (as at 31 December 2013 – PLN 77,912,000). The change in finance income is presented in the tables below:

Impact of changes of interest rates on finance income from deposits as at 31 December 2014:

Change in interest rate	-1 p.p.	-0.5 p.p.	+0.5 p.p.	+1 p.p.
Estimated impact	(1,955)	(977)	977	1,955

Impact of changes of interest rates on finance income from deposits as at 31 December 2013:

Change in interest rate	-1 p.p.	-0.5 p.p.	+0.5 p.p.	+1 p.p.
Estimated impact	(1,519)	(759)	759	1,519

The analysis of data as at 31 December 2014 indicates that when interest rate of deposits goes up by 1 p.p., finance income under deposits is higher by PLN 1,955,000 (increase by PLN 1,519,000 as at 31 December 2013). Analogously, when interest rate of deposits goes down by 1 p.p., finance income under deposits is lower by PLN 1,955,000 (decrease by PLN 1,519,000 as at 31 December 2013).

The value of assets relating to Mine Closure Fund exposed to interest rate risk amounts to PLN 88,832,000 as at 31 December 2014 (decrease by PLN 77,912,000 as at 31 December 2013).

Impact of changes in interest rates on finance income under funds deposited to the Mine Closure Fund as at 31 December 2014:

Change in interest rate	-1 p.p.	-0.5 p.p.	+0.5 p.p.	+1 p.p.
Estimated impact	(888)	(444)	444	888

Impact of changes in interest rates on finance income under funds deposited to the Mine Closure Fund as at 31 December 2013:

Change in interest rate	-1 p.p.	-0.5 p.p.	+0.5 p.p.	+1 p.p.
Estimated impact	(708)	(354)	354	708

The analysis indicates that when interest rate of deposits related to the Mine Closure Fund goes up by 1 p.p., finance income under deposits is higher by PLN 888,000 (increase by PLN 708,000 as at 31 December 2013). Analogously, when interest rate of deposits related to the Mine Closure Fund goes down by 1 p.p., finance income under deposits is lower by PLN 888,000 (decrease by PLN 708,000 as at 31 December 2013).

b) *Currency risk*

The Group enters into specific transactions denominated in foreign currencies, which brings about a risk of exchange rate fluctuations. The Group is exposed mostly to a risk of changes in EUR/PLN and USD/PLN exchange rates.

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

As at 31 December 2014 the Group holds the following instruments hedging the currency exchange risk:
- forward contracts in the total amount of EUR 27,825,000 and USD 930,000.

The cash flows in USD relating to hedged transaction were generated in the amount of USD 930,000 on 27 February 2015. The cash flows in EUR relating to hedged transactions are expected in the amount of EUR 23,850,000 by 4 April 2015, and in the amount of EUR 3,975,000 by 31 May 2015. The measurement of contracts at fair value, recognised under equity, amounts to PLN 249,000 after tax effect as at 31 December 2014 (31 December 2013: PLN 4,238,000), of which the amount of PLN 237,000 was recognised in the statement of comprehensive income, while the amount of PLN 12,000 was taken to the income statement (the total fair value of forward contracts amounts to PLN 308,000 as at 31 December 2014).

The measurement of fair value of currency forwards is determined on the basis of discounted future cash flows from concluded transactions, calculated based on difference between the forward price and the transaction price. The forward price is determined with reference to prices fixed by the National Bank of Poland and the interest rate curve implied from fx swap transactions.

In connection with the applied hedging policy, in 2014 realised foreign exchange gains/losses of PLN 6,423,000 (PLN 390,000 in 2013) were included in the initial value of property, plant and equipment.

As at 31 December 2014 the Group did not hold financial instruments other than the ones hedged with forwards, exposed to currency exchange risk (as at 31 December 2013 the value of financial instruments exposed to currency exchange risk amounted to PLN 5,454,000, which is equivalent to EUR 1,310,000).

c) *Credit risk*

The Group is exposed to credit risk in connection with cash and cash equivalents, deposits at banks and financial institutions, as well as credit exposures of the Group's customers. When selecting banks and financial institutions, the Group only accepts highly credible entities. In addition, the Group pursues a policy

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limiting credit exposure connected with particular financial institutions. As regards customers, the Group sells its products to a group of regular customers whose credibility has been proven in the years of cooperation.

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

	31 Dec. 2014	31 Dec. 2013
Cash in hand and bank deposits	284,313	289,916
Current trade debtors	255,931	185,324
Total exposure to credit risk	540,244	475,240
Receivables from 7 key customers	246,119	168,451
Concentration of credit risk under receivables from 7 key customers	96%	91%
Cash deposited at BZ WBK S.A. (expressed as % of total cash and bank deposits)	47%	49%
Cash deposited at Bank Millennium S.A. (expressed as % of total cash and bank deposits)	34%	31%
Cash deposited at mBank S.A. (expressed as % of total cash and bank deposits)	0%	9%
Cash deposited at PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	10%	7%
Cash deposited at PEKAO S.A. (expressed as % of total cash and bank deposits)	5%	5%
Cash deposited at BOŚ S.A. (expressed as % of total cash and bank deposits)	3%	-
Cash deposited at ING S.A. (expressed as % of total cash and bank deposits)	1%	-

The ability of the Group's main customers to make payments for goods is good, therefore the credit risk is assessed as low. The Group has worked with these customers for quite a long time and to date no problems with payments have occurred. The share of receivables from other customers in total trade debtors is not significant.

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

- Bank BZ WBK S.A. - long-term Fitch rating: BBB+ (stable)
- Bank Millennium S.A. - long-term Fitch rating: BBB - (stable)
- Bank PEKAO S.A. – long-term Fitch rating (IDR): A- (stable)
- PKO Bank Polski S.A. - Fitch support rating: 2 (no long-term Fitch rating), long-term Poor's credit rating: A- (negative)
- Bank Gospodarstwa Krajowego – long-term Fitch rating (IDR): A- (stable)
- mBank S.A. - long-term Fitch rating: A (negative)
- Bank Ochrony Środowiska S.A. - long-term Fitch rating (IDR): BBB (negative)
- ING Bank Śląski S.A. – long-term Fitch rating: A (negative)

d) liquidity risk

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

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financing of the Group and to optimise cash management, on 21 May 2014 the Management Board of the Parent entered into a revolving overdraft facility up to PLN 150 million with mBank S.A. As at 31 December 2014, undrawn limit under the above facility amounts to PLN 50,992,000.

In addition, on 30 June 2014 the Management Board of the Parent entered with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego into an agreement regarding a new bond issue scheme, providing for the issue of bonds by the Parent in the aggregate amount of up to PLN 600 million. By the balance-sheet date, 400 bonds in the aggregate amount of PLN 400 million were issued under the above agreement. As at 31 December 2014, the Parent had the ability to issue further series of bonds within the unused limit of PLN 200 million.

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

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
Balance as at 31 December 2014				
Loans and borrowings	103,245	3,303	9,496	1,083
Financial liabilities on account of bond issue	19,260	19,313	643,074	101,711
Financial liabilities	308	-	-	-
Trade and other liabilities	449,148	7,530	9,070	6,363

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
Balance as at 31 December 2013				
Loans and borrowings	431,321	-	-	-
Financial liabilities on account of bond issue	6,979	6,960	217,159	-
Financial liabilities	5,232	-	-	-
Trade and other liabilities	275,607	2,691	7,059	9,858

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.

e) sensitivity analysis of the financial result

Based on the 2014 data concerning the Group's core business, the sensitivity of the financial result to changes in market risk factors (prices of coal) has been assessed.

The assessment indicates that a 1% increase in the unit price of coal (translating into a 1% increase in revenues from the sale of coal) results in a rise of the result on sales by 5.06%. Similarly, a 1% decrease in the coal price reduces the result on sales (gross profit – administrative costs – selling cost) by 5.06%. The table below shows changes in the result in other analysed ranges (assuming that other factors remain unchanged).

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in sales	-75.86%	-50.57%	-25.29%	-10.11%	-5.06%	0.00%	5.06%	10.11%	25.29%	50.57%	75.86%

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

3.2. Managing capital risk

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

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

In the area of capital management, the Group focuses on managing cash and cash equivalents, and debts under contracted loans and borrowings, and the bond issue.

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

	31 Dec. 2014	31 Dec. 2013
Total loans	113,748	421,000
Financial liabilities on account of bond issue	700,106	200,000
Less: cash and cash equivalents	(284,313)	(289,916)
Net debt	529,541	331,084
Total equity	2,523,827	2,455,531
Employed capital	3,053,368	2,786,615

4. Material accounting estimates and judgments

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

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

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

Mine's life is estimated on the basis of current resources of coal held, covered with the licence, and the estimated production capacities for 2034. Actual date of mine closure may however differ from that estimated by the Group. This follows from the fact that the length of the mine's life has been estimated using the current coal reserves only. In 2014 the Group obtained a mining licence for the K-3 area. The Group has undertaken efforts to expand its mining area, over the next few years, by adding the "Ostrów" and "Orzechów" deposits. Obtaining mining licences for the above areas may significantly prolong the mine's life. The Group has already commenced work on acquiring licenses necessary to add these reserves to the mining area, and it continues its efforts aiming at obtaining mining licences for the K-6 and K-7 deposits.

Estimate concerning provision for mining plant closure

The Group establishes a provision for expenses related to closure of a mining plant, as required under applicable provisions. The main assumptions used to determine the amount of expenses related to the closure of a mining plant include assumptions regarding the mine's life, expected inflation rate and long-term discount rates. Any changes to these assumptions affect the carrying amount of the provision.

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

Adopted inflation ratios for 2015-2034 range from 1.2% to 2.5%.

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 2014 it amounted to 2.75% (as at 31 December 2013: 4.5%).

If the adopted inflation rates departed from the Management Board's estimates by 10%, the carrying amount of provisions would be PLN 5,959,000 higher (in the event of inflation rates higher by 10%) or PLN 5,698,000 lower (in the event of inflation rates lower by 10%).

The impact of changing the financial discount on the carrying amount of the provision for the mine closure fund as at 31 December 2014 is presented in the table below:

Change in the financial discount	-0.25 p.p.	0 p.p.	+0.25 p.p.	+1 p.p.
Value of the provision for mine closure fund	129,755	123,585	117,722	101,822

The analysis indicates that when the financial discount rate goes up by 0.25 p.p., the provision for the Mine Closure Fund is lower by PLN 5,863,000, and the financial discount rate is higher by 1 p.p., the provision for the Mine Closure Fund goes down by PLN 21,763,000. When the financial discount rate goes down by 0.25 p.p., the provision for the Mine Closure Fund is higher by PLN 6,170,000. 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 our opinion.

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. Major assumptions regarding the provisions for employee benefits are disclosed in Note 21. Any changes to these assumptions affect the carrying amount of the provisions for employee benefits.

As at 31 December 2014 and 31 December 2013, an analysis was carried out with respect to sensitivity of the results of valuation to a change in the financial discount rate and to changes in the planned increases in bases in the range from -1 p.p. to +1 p.p.

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

As at 31 December 2014:

Provision	Carrying amount	Financial discount rate		Planned increases in bases	
		-1 p.p.	+1 p.p.	-1 p.p.	+1 p.p.
Pays upon retirement due to old age	37,036	39,688	34,780	34,516	39,927
Pays upon retirement due to	1,513	1,701	1,355	1,353	1,699

Notes presented on pages 10 – 62 constitute an integral part of these consolidated financial statements.

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disability					
Long-service award	76,980	82,954	71,757	71,342	83,309
Death benefits	2,770	3,120	2,476	2,472	3,118
Coal allowance benefits	97,501	109,278	87,545	87,321	109,334
	215,800	236,741	197,913	197,004	237,387

As at 31 December 2013:

Provision	Carrying amount	Financial discount rate		Planned increases in bases	
		-1 p.p.	+1 p.p.	-1 p.p.	+1 p.p.
Pays upon retirement due to old age	34,306	35,841	32,062	31,782	36,112
Pays upon retirement due to disability	1,513	1,689	1,364	1,359	1,691
Long-service award	72,115	75,723	65,959	65,494	76,155
Death benefits	2,660	2,966	2,398	2,390	2,970
Coal allowance benefits	81,294	90,329	73,610	72,328	91,755
	191,888	206,548	175,393	173,353	208,683

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 2014:

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	37,036	2,652	(2,256)	(2,520)	2,891
Pays upon retirement due to disability	1,513	188	(158)	(160)	186
Long-service award	76,980	5,974	(5,223)	(5,638)	6,329
Death benefits	2,770	350	(294)	(298)	348
Coal allowance benefits	97,501	11,777	(9,956)	(10,180)	11,833
	215,800	20,941	(17,887)	(18,796)	21,587

As at 31 December 2013:

Provision	Carrying amount	Deviations			
		Financial discount rate		Planned increases in bases	
		-1.0 p.p.	+1.0 p.p.	-1.0 p.p.	+1.0 p.p.
Pays upon retirement due to old age	34,306	1,535	(2,244)	(2,524)	1,806
Pays upon retirement due to disability	1,513	176	(149)	(154)	178
Long-service award	72,115	3,608	(6,156)	(6,621)	4,040
Death benefits	2,660	306	(262)	(270)	310
Coal allowance benefits	81,294	9,035	(7,684)	(8,966)	10,461
	191,888	14,660	(16,495)	(18,535)	16,795

Notes presented on pages 10 – 62 constitute an integral part of these consolidated financial statements.

The results of balance-sheet valuation as at 31 December 2014, 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	Coal allowance benefits	Total
2015*	15,312	70	9,524	118	4,332	29,356
2016	1,272	70	6,008	116	4,463	11,929
2017	1,164	72	5,977	119	4,443	11,775
2018	905	74	5,182	126	4,360	10,647
2019	726	76	4,594	131	4,259	9,786
Remainder	17,657	1,151	45,695	2,160	75,644	142,307
	37,036	1,513	76,980	2,770	97,501	215,800

* Value of benefits for payment in 2015 results from the acquired retirement rights and long-service awards for persons who achieved retirement age, but remain in the employment relationship.

5. Information on business segments

a) Key reporting structure - industry segments

The Group's core business is production and sale of coal. In 2014, revenue from sales of other products and services amounted to PLN 93,873,000 (in 2013: PLN 74,887,000), representing, 4.66% in 2014 and 3.94% in 2013, respectively, of total revenue.

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

b) Supplementary reporting structure - geographical segments

The Group operates primarily in Poland. In 2014, revenue from foreign sales amounted to PLN 448,000 (in 2013: PLN 1,047,000), representing, respectively, 0.02% and 0.06% of total revenue in each of the years. The Group does not hold the related assets or liabilities outside Poland.

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

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

c) Key coal customers

In 2014 and 2013 key customers for the Group's coal, whose share in sales exceeded 10% of the total revenue on sales, were:

	2014	2013
Elektrownia Kozienice S.A. – ENEA Group	40%	41%
GDF Suez Energia S.A.	17%	10%
ENERGA Elektrownie Ostrołęka S.A.	15%	9%
PGNiG Termika S.A.	13%	17%

6. Acquisition of subsidiary undertaking

On 17 April 2014 the Parent signed with WARBO S.A. a share purchase agreement covering 100% of shares in MR Bogdanka Sp. z o.o. The price paid by the Parent for the acquired shares amounted to PLN 5,000.

The activity of MR Bogdanka Sp. z o.o. includes repairs, regeneration and steel structure construction services.

In accordance with IFRS 3 “Business Combinations”, as at the MR Bogdanka Sp. z o.o. acquisition date, the Parent measured identifiable assets, liabilities and recognised contingent liabilities at their fair value.

Below is the information about the payment provided and the net assets acquired as at the acquisition date:

Identified acquired assets and assumed liabilities:	PLN ‘000
Property, plant and equipment	1,650
Intangible assets	34
Inventories - materials	31
Trade and other receivables	95
Recognised deferred tax assets	12
Cash and cash equivalents	4
Provisions for employee benefits	(63)
Trade and other liabilities	(508)
Recognised provision for deferred tax	(247)
Fair value of identified net assets	1,008
Goodwill/gain on a bargain purchase	PLN ‘000
Total payment made	5
(Percentage of shares acquired)	100%
Fair value of identified net assets	1,008
Gain on a bargain purchase	1,003

Gain on a bargain purchase of PLN 1,003,000 was disclosed in the consolidated income statement under “Other profit/(loss) - net”.

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7. Property, plant and equipment

	Land	Buildings and structures total	including excavations	Plant and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
As at 1 January 2013								
Cost or assessed value	4,338	2,384,845	1,686,894	1,491,002	111,825	15,437	367,547	4,374,994
Depreciation	-	(793,587)	(607,059)	(543,008)	(57,852)	(10,756)	-	(1,405,203)
Net book value	4,338	1,591,258	1,079,835	947,994	53,973	4,681	367,547	2,969,791

As at 31 December 2013

Net book value at beginning of year	4,338	1,591,258	1,079,835	947,994	53,973	4,681	367,547	2,969,791
Increases*	281	279	-	1,174	-	64	580,452	582,250
Transfer from construction in progress	558	390,234	261,480	215,446	4,856	2,185	(613,279)	-
Presentation adjustment	-	-	10,944	-	-	-	-	-
Decreases*	(544)	(24,617)	(12,543)	(28,275)	(603)	(8)	(782)	(54,829)
Presentation adjustment	-	-	(10,944)	-	-	-	-	-
Depreciation	-	(209,279)	(177,809)	(110,548)	(6,599)	(1,064)	-	(327,490)
Net book value	4,633	1,747,875	1,150,963	1,025,791	51,627	5,858	333,938	3,169,722

As at 31 December 2013

Cost or assessed value	4,633	2,632,629	1,818,083	1,669,720	114,450	17,558	333,938	4,772,928
Depreciation	-	(884,754)	(667,120)	(643,929)	(62,823)	(11,700)	-	(1,603,206)
Net book value	4,633	1,747,875	1,150,963	1,025,791	51,627	5,858	333,938	3,169,722

As at 31 December 2014

Net book value at beginning of year	4,633	1,747,875	1,150,963	1,025,791	51,627	5,858	333,938	3,169,722
Increases*	-	32,052	679	23,216	573	7	822,268	878,116
Presentation adjustment	108	(1,139)	-	121	-	165	242	(503)
Increase as a result of purchasing a subsidiary	-	11	-	1,566	56	17	-	1,650
Transfer from construction in progress	804	341,688	208,246	365,421	6,384	3,829	(718,126)	-
Decreases*	(142)	(14,277)	(13,399)	(24,903)	(576)	(15)	(10,241)	(50,154)
Depreciation	-	(247,517)	(210,745)	(130,219)	(6,650)	(1,277)	-	(385,663)
Net book value	5,403	1,858,693	1,135,744	1,260,993	51,414	8,584	428,081	3,613,168

As at 31 December 2014

Cost or assessed value	5,403	2,927,282	1,950,646	2,010,085	115,541	21,674	428,081	5,508,066
Depreciation	-	(1,068,589)	(814,902)	(749,092)	(64,127)	(13,090)	-	(1,894,898)
Net book value	5,403	1,858,693	1,135,744	1,260,993	51,414	8,584	428,081	3,613,168

* the items include creating and using the impairment losses on property, plant and equipment.

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

	31 Dec. 2014	31 Dec. 2013
Costs of products, goods and materials sold	(376,716)	(319,665)
Selling cost	(385)	(328)
Administrative costs	(8,562)	(9,497)
	(385,663)	(327,490)

The cost of third-party financing (interest and commissions on liabilities) activated in 2014 in the value of the property, plant and equipment totalled at PLN 13,769,000 (2013: PLN 15,247,000).

7.1 Property, plant and equipment - excavations

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

As at 31 December 2014:

Item	Number [pcs]	Length [m]	Initial value	Depreciation	Net value as at the balance- sheet date	Degree of depreciation at a given group
Galleries disclosed under non-current assets, depreciated by using a natural method, including:	27	32,811	522,486	305,732	216,754	59%
- <i>depreciated over the last 12 months</i>	16	10,594	371,465	305,732	65,733	82%
Galleries disclosed under non-current assets, depreciated according to useful life	233	97,724	1,133,124	404,940	728,184	36%
Other items, depreciated according to useful life (shafts, shaft towers, dams, reservoirs and other)	32	-	295,036	104,230	190,806	35%
Total as at 31 December 2014	292	130,535	1,950,646	814,902	1,135,744	42%

As at 31 December 2013:

Item	Number [pcs]	Length [m]	Initial value	Depreciation	Net value as at the balance- sheet date	Degree of depreciation at a given group
Galleries disclosed under non-current assets, depreciated by using a natural method, including:	26	38,055	490,770	203,099	287,671	41%
- <i>depreciated over the last 12 months</i>	17	23,425	382,577	203,099	179,478	53%
Galleries disclosed under non-current assets, depreciated according to useful life	216	94,233	1,028,149	369,847	658,302	36%
Other items, depreciated according to useful life (shafts, shaft towers, dams, reservoirs and other)	31	-	299,164	94,174	204,990	31%
Total as at 31 December 2013	273	132,288	1,818,083	667,120	1,150,963	37%

Notes presented on pages 10 – 62 constitute an integral part of these consolidated financial statements.

7.2 Property, plant and equipment – construction in progress

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

	31 Dec. 2014	31 Dec. 2013
Excavations (galleries)	187,118	155,280
Purchase of the ploughing systems	166,975	455
Modernisation of the railway siding Bogdanka - Jaszczów	11,971	-
Development of the central air-conditioning system in the Bogdanka Field	9,175	1,766
Expansion of the waste storage yard in Bogdanka	1,366	19,197
Development of the Mechanical Coal Processing Plant	1,154	99,956
Modernisation of the Main Transformer and Distribution Station in Bogdanka	165	13,717
Other	50,157	43,567
	428,081	333,938

7.3 Impairment losses of property, plant and equipment

The impairment losses of property, plant and equipment are made based on the analysis of individual items of non-current assets and of construction in progress taking into account their technological usefulness.

Non-current assets are classified to the following groups:

- non-current assets used in full,
- non-current assets fully unserviceable,
- non-current assets partially unserviceable.

The impairment losses are in full amount for the non-current assets fully unserviceable. The impairment losses on property, plant and equipment are presented in the table below:

	Land	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
As at 1 January 2013	4,435	5,143	1,453	-	-	898	11,929
Creating impairment losses	188	844	24,950	573	8	145	26,708
Using impairment losses created	(281)	(279)	-	-	-	(827)	(1,387)
As at 31 December 2013 – before adjustment	4,342	5,708	26,403	573	8	216	37,250
Presentation adjustment	-	3,885	-	-	-	-	3,885
As at 31 December 2013 – after adjustment	4,342	9,593	26,403	573	8	216	41,135
Creating	142	-	-	-	-	2,110	2,252

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impairment losses Using impairment losses created	-	(600)	(23,216)	(573)	(8)	(216)	(24,613)
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As at 31 December 2014	4,484	8,993	3,187	-	-	2,110	18,774
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*Presentation adjustment of the created impairment loss in one of the subsidiaries, disclosed in the consolidated financial statement under “Other profit/(loss) - net” in previous years, but not disclosed in the above table.

The creation and using the impairment losses as at 31 December 2014 was disclosed in the consolidated income statement under “Other profit/(loss) - net.”

8. Intangible assets

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 January 2013					
Cost or assessed value	4,656	4,497	25,548	22	34,723
Amortisation	(3,006)	(1,335)	(7,250)	(16)	(11,607)
Net book value	1,650	3,162	18,298	6	23,116
As at 31 December 2013					
Net book value at beginning of year	1,650	3,162	18,298	6	23,116
Increases	454	86	1,161	975	2,676
Decreases	(19)	-	-	-	(19)
Amortisation	(327)	(222)	(1,154)	(945)	(2,648)
Net book value	1,758	3,026	18,305	36	23,125
As at 31 December 2013					
Cost or assessed value	5,037	4,425	26,709	977	37,148
Amortisation	(3,279)	(1,399)	(8,404)	(941)	(14,023)
Net book value	1,758	3,026	18,305	36	23,125
As at 31 December 2014					
Net book value at beginning of year	1,758	3,026	18,305	36	23,125
Increases	226	2,347	-	557	3,130
Increase as a result of purchasing of a subsidiary	26	8	-	-	34
Decreases	-	(12)	-	(11)	(23)
Amortisation	(365)	(349)	(1,248)	(13)	(1,975)
Net book value	1,645	5,020	17,057	569	24,291
As at 31 December 2014					
Cost or assessed value	5,244	6,746	26,709	582	39,281
Amortisation	(3,599)	(1,726)	(9,652)	(13)	(14,990)
Net book value	1,645	5,020	17,057	569	24,291

Notes presented on pages 10 – 62 constitute an integral part of these consolidated financial statements.

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

	31 Dec. 2014	31 Dec. 2013
Costs of products, goods and materials sold	(1,929)	(2,568)
Selling cost	(2)	(3)
Administrative costs	(44)	(77)
Total	(1,975)	(2,648)

9. Financial instruments by category

	Loans and receivables	Total	
31 December 2014			
Assets as disclosed in the consolidated statement of financial position			
Trade debtors	255,931	255,931	
Cash and cash equivalents	284,313	284,313	
Total	540,244	540,244	
	Other financial liabilities	Hedging instruments	Total
Liabilities as disclosed in the consolidated statement of financial position			
Loans and borrowings	113,748	-	113,748
Liabilities due to bond issue	700,106	-	700,106
Financial liabilities	-	308	308
Trade and other financial liabilities	394,472	-	394,472
Total	1,208,326	308	1,208,634
Interest paid			
Interest			21,093
Fees and commissions			263
Total			21,356
	Loans and receivables	Total	
31 December 2013			
Assets as disclosed in the consolidated statement of financial position			
Trade debtors	185,324	185,324	
Cash and cash equivalents	289,916	289,916	
Total	475,240	475,240	
	Other financial liabilities	Hedging instruments	Total
Liabilities as disclosed in the consolidated statement of financial position			
Loans and borrowings	421,000	-	421,000
Liabilities due to bond issue	200,000	-	200,000

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Financial liabilities	-	5,232	5,232
Trade and other financial liabilities	249,320	-	249,320
Total	870,320	5,232	875,552
Interest paid			
Interest			18,523
Fees and commissions			90
Total			18,613

10. Trade and other receivables

	31 Dec. 2014	31 Dec. 2013
Trade debtors	256,930	186,523
Less: impairment losses of accounts receivable	(999)	(1,199)
Net trade debtors	255,931	185,324
Deferred expenses and rebates	15,120	17,922
Other accounts receivable	29,575	41,493
current	300,626	244,739
Deferred expenses and rebates	1,041	974
Other accounts receivable	454	454
non-current	1,495	1,428
Total trade and other receivables	302,121	246,167

Fair value of trade and other receivables does not differ significantly from their carrying amount. All receivables of the Group are expressed in PLN.

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

	2014	2013
As at 1 January	1,199	1,221
Creating impairment losses	30	82
Receivables written down during the year as uncollectible	(111)	(19)
Reversal of unused amounts	(119)	(85)
As at 31 December	999	1,199

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

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

	31 Dec. 2014	31 Dec. 2013
Up to 1 month inclusive	70	78
3 to 6 months	21	-
6 to 12 months	2	9
over 12 months	906	1,112
	999	1,199

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

	31 Dec. 2014	31 Dec. 2013
Up to 1 month inclusive	1,624	5,914
1 to 3 months	183	41
3 to 6 months	74	333
6 to 12 months	91	93
over 12 months	15	6
	1,987	6,387

Maximum exposure to credit risk as at the reporting date is the fair value of each category of accounts receivable described above. Accounts receivable on coal sales constitute collateral of bank loans and liabilities under the bond issue, as well as bank guarantees issued. Guarantees received are described in detail in section 3.12 of the Directors' Report on Operations of the Group.

11. Inventories

	31 Dec. 2014	31 Dec. 2013
Materials	78,434	66,283
Finished goods	54,242	48,539
Impairment losses of the sale price, likely to achieve, of the finished goods	(188)	(3,319)
	132,488	111,503

Cost of inventories in the consolidated income statement was disclosed under "Cost of products, goods and materials sold" totalling PLN 1,497,068,000 in 2014 (2013: PLN 1,305,264,000).

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

	2014	2013
As at 1 January	3,319	3,480
Creating impairment losses of the sale price, likely to achieve, of finished goods	188	3,319
Use of impairment losses of the sale price, likely to achieve, of the finished goods	(3,319)	(3,480)
As at 31 December	188	3,319

Creating and use of impairment losses of inventories was presented in the consolidated income statement in "Other profit/(loss) - net."

12. Cash and cash equivalents

	31 Dec. 2014	31 Dec. 2013
Cash in banks and at hand	143,579	132,767
Bank deposits	140,734	157,149
	284,313	289,916
including:		
Non-current*	88,832	77,912
Current	195,481	212,004
	284,313	289,916

* cash with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 93,208,000 as at 31 December 2014, including PLN 88,832,000 (as at 31 December 2013: PLN 77,912,000) of the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine. Cash and bank deposits are expressed in PLN.

Effective interest rates of short-term bank deposits are close to nominal interest rates, and the fair value of the short-term bank deposits does not differ materially from their carrying amount. Interest rates are based on WIBOR rates which stood at the following levels (1M WIBOR):

2014 – 2.0% - 2.7%
 2013 – 2.59% - 4.2%

13. Share capital

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2013	34,014	170,068	131,090	301,158
As at 31 December 2013	34,014	170,068	131,090	301,158
As at 1 January 2014	34,014	170,068	131,090	301,158
As at 31 December 2014	34,014	170,068	131,090	301,158

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

14. Other capital

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

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

- option allocation date (valuation date) was set to fall on 30 September 2013 for each of the tranches.
- current price for calculation purposes was the forecast share price of Lubelski Węgiel Bogdanka S.A. as at 30 September 2013,
- the option life was calculated with the assumption of its maturity falling in the middle of the range between the first and the last possible day of option exercise,
- risk-free rate was defined as the semi-annual average of weekly prices of 5-year Treasury bonds,

- share price variability was calculated on the basis of annual rates of return on shares of Lubelski Węgiel Bogdanka S.A. using continuous capitalisation for the 4-year period of Parent listings,

- zero dividend rate is assumed in connection with the MOS 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 2014 revaluation was made with respect to Management Options Scheme. The value of the scheme amounted to PLN 16,744,000.

As at 31 December 2014 the number of options granted under the Scheme for the year of 2013 was 220,406. The aggregate costs of the scheme as at 31 December 2014 amounted to PLN 8,241,000, out of which the amount of PLN 5,388,00 was recognised in the consolidated income statement under “Administrative expenses” and in the consolidated statement of changes in equity under “Other capitals” as at 31 December 2014 (31 December 2013: PLN 2,853,000).

Other capitals include also derivatives used as cash flow hedges after tax effect (in the part which is considered to be an effective hedge). The loss on cash flow hedges in 2014 amounted in total to PLN 1,484,000 (PLN 1,202,000 after tax effect), while in 2013 the loss amounted to PLN 4,238,000. The aggregate losses suffered (by 31 December 2014) were recognised under the following items in the consolidated statement of financial position and in the consolidated statement of comprehensive income:

- the loss of PLN 293,000 (PLN 237,000 after tax effect), relating to forward contracts open as at 31 December 2014, was recognised in the consolidated statement of comprehensive income in section cash flow hedges under “Profit/ (loss) for the period” and in the consolidated statement of financial position (balance sheet) under “Financial liabilities”;

- the loss attributable to 2014 in the amount of PLN 1,191,000 (PLN 965,000 after tax effect) together with the loss disclosed at the end of 2013 in the amount of PLN 5,232,000 (PLN 4,238,000 after tax effect) in relation to forward contracts concluded in 2013 and settled in 2014 – in aggregate PLN 6,423,000 (PLN 5,203,000 after tax effect) – was disclosed in the consolidated statement of comprehensive income in section cash flow hedges under “Adjustments from transferring amounts to original values of hedged items” and was taken to the initial value of non-current assets disclosed in the consolidated statement of financial position (balance sheet) under “Property, plant and equipment”.

In total, the consolidated statement of comprehensive income shows an increase in comprehensive income related to cash flow hedges in the amount of PLN 4,001,000.

Disclosures about financial instruments and applied hedging policy are provided in Note 3.1.b.

15. Trade and other liabilities

	31 Dec. 2014	31 Dec. 2013
Trade creditors	115,358	94,586
Other liabilities, including:	279,114	154,734
Company Employee Benefit Fund	11,085	9,925
Liabilities due security deposit	4,870	3,487
Investment liabilities	194,481	87,311
Salaries payable	43,050	40,316
Other liabilities	25,628	13,695
Total financial liabilities	<u>394,472</u>	<u>249,320</u>
Liabilities - social security and other tax payable	<u>77,639</u>	<u>45,895</u>
Trade and other liabilities	<u>472,111</u>	<u>295,215</u>
including:		
Non-current	18,933	17,907

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Current	453,178	277,304
	472,111	295,211

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

16. Grants

	31 Dec. 2014	31 Dec. 2013
Non-current liabilities		
Grants	15,109	16,145
Current liabilities		
Grants	988	988
	16,097	17,133

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.

17. Loans and borrowings

	31 Dec. 2014	31 Dec. 2013
Long-term:		
Special purpose loans:	13,222	-
- Provincial Fund for Environment Protection in Lublin	13,222	-
Short-term:	100,526	421,000
Special purpose loans:	1,518	-
- Provincial Fund for Environment Protection in Lublin	1,518	-
Bank loans:	99,008	421,000
- PKO BP S.A.	-	241,000
- PEKAO S.A.	-	180,000
- mBank S.A.	99,008	-
	113,748	421,000

In 2014 the subsidiary Łęczyńska Energetyka received from the Regional Environmental Protection Fund in Lublin a targeted loan intended for financing an investment "Construction of a water treatment facility in Bogdanka along with technological connections". The loan will be repaid in equal monthly instalments starting as of July 2015. The due date for payment of the last instalment is 31 March 2024. Interest on the loan corresponds to 0.7 of the rediscount rate determined by the Monetary Policy Council (not less however than 4% p.a.). The loan is secured with a blank promissory note to the amount of PLN 34,554,000 as well as assignment of receivables under a heat sale agreement concluded with the Parent.

On 21 May 2014, the Parent entered with mBank S.A. into a revolving overdraft facility agreement with the limit of PLN 150,000,000. As at the balance sheet date, the facility was drawn in the amount of PLN 99,008,000, at the same time unused credit line amounted to PLN 50,992,000. The credit line was granted for a period of 2 years, i.e. by 22 May 2016, and interest is WIBOR 1M + bank's margin.

The facility is secured with:

1. Statement by the Parent on the submission to execution, under Article 97.1 and 97.2 of the Banking Law of 29 August 1997, up to the amount of PLN 225,000,000.

Notes presented on pages 10 – 62 constitute an integral part of these consolidated financial statements.

2. Power of attorney to a current account kept by the Bank, granted by the Parent to the Bank.
3. Assignment of receivables of the Parent under the coal sale agreement up to the amount of debt under the facility together with interest and other costs, but no more than PLN 225,000,000, and transfer of proceeds from the agreement performance to the current account kept by the Bank for the Parent.

Credit facilities held in PKO BP S.A. and PEKAO S.A. as at 31 December 2013 in the aggregate amount of PLN 421,000,000 were repaid during 2014 in full (early repayment).

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

18. Financial liabilities on account of bond issue

	31 Dec. 2014	31 Dec. 2013
Non-current:		
Bond issue	700,000	200,000
- PEKAO S.A.	500,000	200,000
- BGK	200,000	-
	<hr/>	<hr/>
Current:		
Interest on bonds:	106	-
- PEKAO S.A.	76	-
- BGK	30	-
	<hr/>	<hr/>
	700,106	200,000

Financial liabilities under bonds relate to two program agreements covering bond issue scheme. Under the first Program Agreement concluded by the Parent on 27 September 2013 with Bank Polska Kasa Opieki S.A., 3,000 bonds in the aggregate amount of PLN 300,000,000 were issued (of which PLN 100,000,000 refers to bonds issued on 25 June 2014) and are to be redeemed by 31 December 2018. The redemption date of bonds in the amount of PLN 75 million in each case is 30 March 2018, 30 June 2018, 30 September 2018 and 30 December 2018. Interest on the bonds is based on WIBOR 3M plus a fixed margin.

Under the second Program Agreement concluded by the Parent on 30 June 2014 with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego, 400 bonds in the aggregate amount of PLN 400,000,000 were issued with the redemption date on 30 June 2015. Further, according to the issue Scheme, the Parent has the right to issue further bond series under a given tranche to refinance previous issue in a given tranche (roll up), which justifies the long-term nature of the scheme. The interest rate of the bonds is based on WIBOR 3M, increased by a fixed margin.

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

Fair value of the financial liabilities on account of bond issue does not differ materially from the carrying value. Detailed information about the Bond Issue Scheme is included in the Directors' Report on Operations of the Group in section 3.7.

19. Financial instruments (Financial liabilities)

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 2014 derivatives were the only financial instruments measured at fair value in the Group. Level 2 was used to measure the liabilities under derivatives measured at fair value, amounting to PLN 308,000 as at 31 December 2014 (31 December 2013: PLN 5,232,000). The measurement of fair value of currency forwards is determined on the basis of discounted future cash flows from concluded transactions, calculated based on difference between the forward price and the transaction price. The forward price is determined with reference to prices fixed by the National Bank of Poland and the interest rate curve implied from fx swap transactions.

20. Deferred income tax

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

	31 Dec. 2014	31 Dec. 2013
Deferred tax assets		
- to be realised after 12 months	39,950	36,776
- to be realised within 12 months	22,406	18,048
	62,356	54,824
Deferred tax liabilities		
- to be realised after 12 months	169,698	149,486
- to be realised within 12 months	4,516	3,343
	174,214	152,829
Deferred tax assets (net)	2,379	1,817
Deferred tax liabilities (net)	114,237	99,822

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

Deferred tax assets	Provisions for employee benefits and similar	Unpaid remuneration and other benefits	Provision for real property tax	Other	Total
As at 1 January 2013	36,607	1,802	1,421	6,147	45,977
(Decrease)/increase of the financial result, including:	1,398	1,573	2,828	3,048	8,847
- recognised in the consolidated income statement	2,084	1,573	2,828	2,054	8,539

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- recognised in the consolidated statement of comprehensive income	(686)	-	-	994	308
As at 31 December 2013	38,005	3,375	4,249	9,195	54,824
(Decrease)/increase of the financial result	5,077	1,498	(341)	1,298	7,532
- recognised in the consolidated income statement	1,358	1,498	(341)	2,236	4,751
- recognised in the consolidated statement of comprehensive income	3,719	-	-	(938)	2,781
As at 31 December 2014	43,082	4,873	3,908	10,493	62,356

Deferred tax liabilities	Valuation of non-current assets	Costs of panel strengthening	Provision for mine closure – net*	Real property tax receivable	Other	Total
As at 1 January 2013	106,538	2,867	5,344	4,175	214	119,138
(Decrease)/increase of the financial result, including:	33,500	(102)	869	(978)	402	33,691
- recognised in the consolidated income statement	33,500	(102)	869	(978)	402	33,691
As at 31 December 2013	140,038	2,765	6,213	3,197	616	152,829
(Decrease)/increase of the financial result, including:	19,988	(598)	702	(439)	1,732	21,385
- recognised in the consolidated income statement	19,988	(598)	702	(439)	1,732	21,385
As at 31 December 2014	160,026	2,167	6,915	2,758	2,348	174,214

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

21. Provisions for employee benefits

	31 Dec. 2014	31 Dec. 2013
Provisions as disclosed in the consolidated statement of financial position		
- Retirement and disability benefits	38,549	35,819
- Long service awards	76,980	72,115
- Coal allowances in kind	97,501	81,295
- Other benefits for employees (unused holidays, death benefits)	13,694	10,800
	226,724	200,029

	31 Dec. 2014	31 Dec. 2013
Costs recognised in the consolidated income statement:		
- Retirement and disability benefits	3,436	3,089
- Long service awards	14,479	21,079
- Coal allowances in kind	4,236	4,670
- Other benefits for employees (unused holidays, death benefits)	18,615	8,324
	40,766	37,162

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	31 Dec. 2014	31 Dec. 2013
Costs recognised in the consolidated statement of comprehensive income regarding the distribution of actuarial gains and losses resulting from demographic assumptions, financial assumption and other changes:		
- Retirement and disability benefits	4,503	1,250
- Coal allowances in kind	15,169	(5,132)
- Other benefits for employees (death benefits)	(98)	272
	19,574	(3,610)
 Change in provisions for employee benefits		
	31 Dec. 2014	31 Dec. 2013
As at 1 January	200,030	192,668
Costs of current employment (unused holidays, death benefits)	29,933	17,591
Interest expense	7,796	8,051
Actuarial gains/losses as recognised in the consolidated income statement	3,037	11,520
Actuarial gains/losses as recognised in the consolidated statement of comprehensive income	19,574	(3,610)
Recognised in the comprehensive income, total	60,340	33,552
 Benefits paid	(33,646)	(26,190)
As at 31 December	226,724	200,030
Including:		
- non-current	186,195	160,479
- current	40,529	39,551

Amounts disclosed in the consolidated income statement and in the consolidated statement of comprehensive income in 2014 are as follows:

	Benefits during employment	Post- employment benefits	Total
Liabilities as at 1 January	80,255	119,775	200,030
Costs of current employment (unused holidays, death benefits)	26,935	2,998	29,933
Interest expense	2,892	4,904	7,796
Actuarial gains/losses as recognised in the consolidated income statement:	3,037	-	3,037
Actuarial gains/losses as recognised in the consolidated statement of comprehensive income:	-	19,574	19,574
Recognised in the consolidated statement of comprehensive income, total	32,864	27,476	60,340

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Amounts disclosed in the consolidated income statement and in the consolidated statement of comprehensive income in 2013 are as follows:

	Benefits during employment	Post- employment benefits	Total restated
Liabilities as at 1 January	67,528	125,140	192,668
Costs of current employment (unused holidays, death benefits)	15,040	2,551	17,591
Interest expense	2,627	5,424	8,051
Actuarial gains/losses as recognised in the consolidated income statement:	11,520	-	11,520
Actuarial gains/losses as recognised in the consolidated statement of comprehensive income:	-	(3,610)	(3,610)
Recognised in the consolidated statement of comprehensive income, total	29,187	4,365	33,552

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

	31 Dec. 2014	31 Dec. 2013
Costs of products, goods and materials sold	29,940	26,471
Selling cost	178	143
Administrative costs	2,852	2,497
Finance cost	7,796	8,051
Recognised in the consolidated income statement, total:	40,766	37,162
Actuarial gains/losses as recognised in the consolidated statement of comprehensive income:	19,574	(3,610)
Recognised in the consolidated statement of comprehensive income, total	60,340	33,552

Main actuarial assumptions made:

	31 Dec. 2014	31 Dec. 2013
Discount rate	2.75%	4.50%
Increase in remunerations in the subsequent year	2.40%	2.90%
Increase in remunerations in 2015-2024	2.81%	2.99%
Increase in remunerations after 2024	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:

	31 Dec. 2014	31 Dec. 2013
Men	15.50	15.38
Women	23.86	23.77

22. Provisions for other liabilities and charges

	Mine closure	Mining damage	Legal claims	Real property tax	ZUS claims – contribution for accident insurance	Total
As at 1 January 2013	89,861	13,470	23,026	9,502	-	135,859
Including:						
Non-current	89,861	-	-	-	-	89,861
Current	-	13,470	23,026	9,502	-	45,998
Recognition in the consolidated statement of financial position						
- Revaluation of provision created	(8,806)	-	-	-	-	(8,806)
Recognition in the consolidated income statement						
- Creation of additional provisions	-	7,474	238	15,884	-	23,596
- Use of provision	-	(7,468)	(1,169)	(1,360)	-	(9,997)
- Release of an unused provision	-	(543)	-	-	-	(543)
- Interest	-	-	1,963	3,820	-	5,783
- Discount settlement	4,223	-	-	-	-	4,223
As at 31 December 2013	85,278	12,933	24,058	27,846	-	150,115
Including:						
Non-current	85,278	-	-	-	-	85,278
Current	-	12,933	24,058	27,846	-	64,837
Recognition in the consolidated statement of financial position						
- Revaluation of provision created	34,470	-	-	-	-	34,470
Recognition in the consolidated income statement						
- Creation of additional provisions	-	5,955	127	5,648	2,807	14,537
- Additional fine	-	-	-	-	12,053	12,053
- Use of the provision	-	(4,225)	(816)	(11,640)	-	(16,681)
- Release of an unused provision	-	(5,508)	-	-	-	(5,508)
- Interest	-	-	1,926	1,404	1,041	4,371
- Discount settlement	3,837	-	-	-	-	3,837
As at 31 December 2014	123,585	9,155	25,295	23,258	15,901	197,194
Including:						
Non-current	123,585	-	-	-	-	123,585
Current	-	9,155	25,295	23,258	15,901	73,609

(a) Mine closure

The Group establishes a provision for expenses related to closure of a mining plant, as required under applicable provisions. The value of expenses related to closure of a mining plant calculated as at 31 December 2014 amounts to PLN 123,585,000. The change in provision compared to 31 December 2013 is PLN 38,307,000, and an increase caused by discount write-off was recognised in the consolidated income statement under "Finance cost" in the amount of PLN 3,837,000, while an increase caused by new non-current assets and change in assumptions, amounting in total to PLN 34,470,000, was recognised in the consolidated statement of financial position as an increase in "Property, plant and equipment".

(b) Removing mining damage

Given the need of removing mining damage, the Group creates a provision for mining damage. The estimated value of works necessary to remove damage as at 31 December 2014 amounts to PLN 9,155,000, and covers predominantly planned costs which will have to be incurred in connection with repair of damaged power lines, buy-out of developed properties (where damage appeared) and compensations for damage to agricultural land. In 2014, the provision used amounted in total to PLN 4,225,000, and covered predominantly buy-out of developed properties (PLN 1,013,000) and compensations for damage to agricultural land (PLN 2,349,000).

(c) Legal claims

The amount disclosed constitutes a provision for certain legal claims filed against the Group by customers and suppliers. The amount of the provision is disclosed in the consolidated income statement as "Other profit/(loss) – net." In the Management Board's opinion, supported by an appropriate legal opinion, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 31 December 2014. The value of provision for legal claims as well as their legal status did not change materially compared to the end of the previous reporting period (31 December 2013), and the change primarily referred to the revaluation of interest as at the balance-sheet date.

(d) Real property tax

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

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

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

In connection with decisions issued by the Commune Heads and the Local Government Appellate Court in Lublin, determining real property tax of the Parent for 2008-2009 – with respect to all communes, and for 2006, 2010-2012 with respect to the Cyców Commune, and for 2004 with respect to Cyców and Puchaczów Communes, the amounts of real property tax calculated for 2010-2014 were adjusted – with respect to Ludwin and Puchaczów Communes, and for 2013-2014 with respect to the Cyców Commune. The adjustment of the tax provision calculated (for 2010-2014 - with respect to the Ludwin and Puchaczów Communes and for 2013-2014 with respect to the Cyców Commune) was supported by a risk that in tax proceedings relating to those years the tax authorities will decide in the same way as in relation to the years indicated in the previous sentence. Having taken the above into account, the provision disclosed in the

Parent's books as at 31 December 2014 (disclosed in the consolidated statement of financial position under "Provisions for other liabilities and charges") in the amount of PLN 23,258,000 (31 December 2013: PLN 27,846,000) represents a provision for real property tax liabilities, if any, and interest thereon for 2010-2014 with respect to the Ludwin and Puchaczów Communes and for 2013-2014 with respect to the Cyców Commune, should the tax authorities determine that mining excavations of the Parent contain objects constituting structures on which real property tax is chargeable. The values connected with real property tax are disclosed in the consolidated income statement under "Cost of products, goods and materials sold."

At the end of 2014 decisions issued by the Commune Heads and determining real property tax for the Parent for 2009 (Ludwin and Puchaczów Communes) and for 2009-2012 (Cyców Commune) were upheld by the Local Government Appellate Court, and so it was decided to make the settlement of real property tax receivables and liabilities. As a result of the settlement, a provision created previously in the amount of PLN 11,640,000 was used (mainly by offsetting it against tax overpaid by the Company). Real property tax liabilities arising from settled decisions were in exactly the same amount as the provision created by the Parent. However, in spite of having made the above settlement, the Parent takes all legal steps in order to challenge effectively the fact of assessment of real property tax in relation to the equipment and support. The Parent is going to appeal against the decisions to the Regional Administrative Court and next, if necessary, to the Supreme Administrative Court.

At the same time, based on the above facts, in connection with settlements (payments and offsetting overpayments against liabilities) of real property tax related to underground mining excavations for 2009 (in the case of all Communes) and 2010-2012 (Cyców Commune), the Parent calculated at 31 December 2014 the amounts due on account of overpaid tax of PLN 24,461,000 (31 December 2013: PLN 29,091,000). They are disclosed in the consolidated statement of financial position as current assets under "Trade debtors and other receivables".

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

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

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After taking the above into account, the provision disclosed in the Parent's books as at 31 December 2014 and amounting to PLN 15,901,000 represents a provision for claims of the Social Security Institution related to a contribution for accident insurance (PLN 2,807,000), the increased percentage rate of that contribution by 50% (PLN 12,053,000) and interest (PLN 1,041,000).

23. Revenue

	31 Dec. 2014	31 Dec. 2013
Sales of coal	1,919,695	1,817,425
Sales of ceramics	3,753	5,124
Other activities	77,890	67,545
Sales of goods and materials	12,230	9,736
Total revenue	2,013,568	1,899,830

24. Costs by type

	31 Dec. 2014	31 Dec. 2013
Amortisation / Depreciation	387,638	330,138
Materials and energy consumption	466,922	498,080
Outsourced services	503,822	458,254
Employee benefits	614,929	546,292
Entertainment and advertising expenses	7,737	7,603
Taxes, fees and charges	37,727	34,252
Other costs by type	21,144	20,258
Total costs by type	2,039,919	1,894,877
Consolidation exclusions (intragroup transactions)	(102,040)	(45,541)
Activities for the Company's own needs	(237,230)	(312,724)
Deferrals and accruals	(2,821)	475
Value of coal obtained from excavations	(92,487)	(99,742)
Provisions and other presentation adjustments between costs by type and by function	16,211	29,589
Total production cost	1,621,552	1,466,934
Change in products	443	(33,151)
Value of goods and materials sold	11,998	10,248
Cost of products sold, including:	1,633,993	1,444,031
Costs of products, goods and materials sold	1,497,068	1,305,264
Selling cost	39,714	43,664
Administrative costs	97,211	95,103

25. Other income

	31 Dec. 2014	31 Dec. 2013
Compensations and damages received	381	1,057
Other,	1,054	2,780
including:		
- Release of used other provisions for liabilities	408	954
- Release of impairment losses	425	1,669
- Other income	221	157
Total other income	1,435	3,837

26. Other costs

	31 Dec. 2014	31 Dec. 2013
Donations	(683)	(458)
Enforcement fees and penalties	(196)	9
Compensation	(2,531)	(2,530)
Other	(92)	(83)
Total other costs	(3,502)	(3,062)

27. Other profit/(loss) – net

	31 Dec. 2014	31 Dec. 2013
Profit / (loss) on sale of non-current assets	1,294	(34)
Currency exchange differences	(582)	(954)
Impairment losses of the sale price, likely to achieve, of finished goods	(171)	(3,319)
Creating and using impairment losses of property, plant and equipment	(2,532)	(25,321)
Liquidation of investment without effect in Łęczyńska Energetyka	(4,897)	-
Provision for mining damage	3,778	537
Profit on bargain purchase	1,003	-
Creation of provision for ZUS claims related to contribution for accident insurance, including:	(14,860)	-
- Creation of the provision for the contribution	2,807	-
- Creation of the provision for additional fine	12,053	-
Other,	1,774	(2,680)
including:		
- Creation of other provisions	(123)	(233)
- Other	1,897	(2,447)
Total other net losses	(15,193)	(31,771)

28. Finance income and costs

	31 Dec. 2014	31 Dec. 2013
Interest income on short-term bank deposits	4,377	3,766
Other, including: <i>interest regarding the Mine Closure Fund</i>	2,694	3,501
	<u>2,385</u>	<u>2,690</u>
Total finance income	<u>7,071</u>	<u>7,267</u>
Interest on bank loans and commissions on loans	(7,693)	(3,366)
Interest expense on valuation of employee benefits	(7,796)	(8,051)
Settlement of discount on other non-current provisions and liabilities	(4,846)	(5,127)
Creation of a provision and impairment losses of interest	(2,143)	(1,797)
Provision on interest on ZUS claims related to contribution for accident insurance	(1,041)	-
Other cost	(13)	-
Total finance cost	<u>(23,532)</u>	<u>(18,341)</u>
Finance cost - net	<u>(16,461)</u>	<u>(11,074)</u>

29. Income tax

	31 Dec. 2014	31 Dec. 2013
Current tax	56,868	58,849
Deferred tax charged into profit or loss (Note 20)	16,634	25,152
Deferred tax charged into other comprehensive income:		
- as cash flow hedge (Note 20)	938	(994)
- as actuarial gains/losses as recognised in the consolidated statement of comprehensive income (Note 20)	(3,719)	686
	<u>70,721</u>	<u>83,693</u>

	31 Dec. 2014	31 Dec. 2013
Profit before taxation	345,854	413,729
Tax calculated at the rate of 19%	65,712	78,609
Tax effect of income permanently excluded from the taxable base, including:	(622)	(3,230)
- revenue due in respect of the real property tax	(42)	(1,220)
- release of impairment loss regarding revenue due in respect of the real property tax	-	(1,142)
- other	(580)	(868)

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Tax effect of income permanently excluded from the taxable base	8,412	8,622
- difference between value of non-current assets and intangible assets for balance sheet purposes and for tax purposes	509	4,562
- payment to the National Fund for the Disabled	971	838
- provision for interest on real property tax	1,528	726
- Impairment loss for interest receivable from the central budget and interest payable to the central budget	1,080	-
- provision for ZUS claims related to contribution for accident insurance	1,798	-
- other	2,526	2,496
Decrease in financial result by the income tax	73,502	84,001

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

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

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

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

30. Earnings per share

Basic

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

	31 Dec. 2014	31 Dec. 2013
Earnings attributable to owners of the Parent	272,845	329,417
Weighted average number of ordinary shares ('000)	34,014	34,014
Basic earnings per share (in PLN per share)	8.02	9.68

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 2014, the Parent

held instruments resulting in potential dilution of ordinary shares due to the introduction of the Management Options Scheme in 2013. As at 31 December 2014, the impact of the dilution is immaterial. Diluted earnings per share are therefore equal to basic earnings per share of the Parent (analogous situation occurred as at 31 December 2013).

31. Dividend per share

Under Resolution No. 22 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 12 June 2014, profit for 2013 in the amount of PLN 197,279,000 has been allocated for distribution among the shareholders of the Parent. Dividend for 2013 in the amount of PLN 197,279,000 was paid on 2 October 2014. The dividend rate to shareholders of the Parent is presented in the table below.

	31 Dec. 2014	31 Dec. 2013
Dividend paid	197,279	172,110
Number of ordinary shares as at the dividend date ('000)	34,014	34,014
Dividend per share (in PLN per share)	5.80	5.06

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

The Parent's Management Board did not decide upon the proposal regarding the distribution of profit for 2014.

32. Contingent items

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

The contingent liability concerning the value of mining excavations from which the Parent does not create a provision (provision for real property tax, in its parts deemed as probable by the Parent, amounts to PLN 23,258,000 and is presented in Note 22), may primarily result from the existing discrepancies between the position of the Parent and the position of tax authorities with respect to the subject of that tax. The issue revolves around the question of whether there are in the mining excavations any structures within the meaning of the Act on Local Taxes and Charges which would be subject to the property tax. The discrepancies may also occur with regard to the value of particular facilities — in the event that it is agreed that the facilities are subject to the real property tax. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2013).

The contingent liability for legal claims related to the fee for co-inventors of inventions covered with patents no. 206048 and 209043 functioning at the Parent from which the Parent does not create provision may primarily result from impossibility to assess whether the claim in question is justified and different positions taken by the Parent and the co-inventors of inventions covered with the abovementioned patents. The value of the possible liability as at the day of publishing these consolidated financial statements amounts to PLN 48 million. The Parent estimated a provision for remuneration for co-inventors to the best of its knowledge and in line with principles so far applied at the Parent when calculating remunerations for inventors. The item provisions for legal claims shows a provision for legal claims regarding remuneration for co-inventors of inventions covered by patents No. 206048 and 209043, used at the Parent. The amount of remuneration will be subject to analysis of court experts or experts accepted by both parties. The extent of such liability has not changed significantly compared to the end of the prior financial year (31 December 2013).

33. Future contractual liabilities

Investment liabilities

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

	31 Dec. 2014	31 Dec. 2013
Property, plant and equipment	207,601	392,364
	207,601	392,364

34. Operating lease

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

	31 Dec. 2014	31 Dec. 2013
Less than 1 year	3,356	1,401
From 1 year to 2 years	3,304	91
From 2 to 5 years	1,214	300
	7,874	1,792

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

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

35. Information on remuneration of the Management Board, the Supervisory Board and the commercial proxies of the Parent

	31 Dec. 2014	31 Dec. 2013
Remuneration of Management Board members and commercial proxies	5,085	4,386
Including:		
Annual award	746	402
Pay for termination of employment relationship	165	30
Other benefits	121	113
Remuneration of the Supervisory Board members of the Parent	930	843

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Parent’s Supervisory Board allocated a total of 1,102,032 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management

Board, received 183,672 Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Parent's development. Options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares.

The total cost of valuation of the Management Options Scheme included in the Group's costs as at 31 December 2014 amounts to PLN 8,241,000 of which PLN 5,388,000 was disclosed in the consolidated income statement for 2014. Details are specified in Note 14.

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

On 27 June 2012, the Supervisory Board of the Parent adopted a resolution on appointing Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) with registered office in Warsaw, al. Jana Pawła II 19, as an entity authorised to:

- review the Parent's financial statements and the Group's consolidated financial statements for the first halves of 2012, 2013 and 2014,
- audit the Parent's financial statements and the Group's consolidated financial statements for 2012, 2013 and 2014.

The agreement with the auditor was concluded on 17 July 2012.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) has been entered since 7 February 1995 into the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 73.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) along with Deloitte Advisory Sp. z o.o., Deloitte Doradztwo Podatkowe Sp. z o.o., Deloitte Business Consulting S.A., Deloitte Polska Sp. z o.o., Deloitte PP Sp. z o.o., Deloitte Strategy and Research Sp. z o.o., Deloitte Services Sp. z o.o. and Deloitte Legal, Pasternak, Korba i Wspólnicy Kancelaria Prawnicza Sp. k. jointly referred to as - Deloitte PL – are associated entities of Deloitte Central Europe Holdings Limited.

The auditor's remuneration in 2014 and 2013 is as follows:

	31 Dec. 2014	31 Dec. 2013
Auditor's fee	145	138
Including:		
Audit of the annual financial statements	60	60
Review of the financial statements	40	40
Tax advisory services	-	1
Other certification services (verification of ratios)	45	37

37. Events after the balance-sheet date

After the balance-sheet date, to the best of the Group's knowledge, no material event occurred, which could affect the result for 2014 and were not disclosed in the Group's consolidated financial statements. By the publication date of these consolidated financial statements, the no material events affecting the Group's operations in 2015 occurred.

38. Approval of the consolidated financial statements

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 11 March 2015, it approves for publication these consolidated financial statements of the Group for the period from 1 January to 31 December 2014.

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

Zbigniew Stopa President of the Management Board

Waldemar Vice-President of the Management
Bernaciak Board, Trade and Logistics

Roger de Bazelaire Vice-President of the Management
Board, Economic and Financial Affairs

Krzysztof Szlaga Vice-President of the Management
Board, Procurement and Investments

Urszula Piątek Chief Accountant