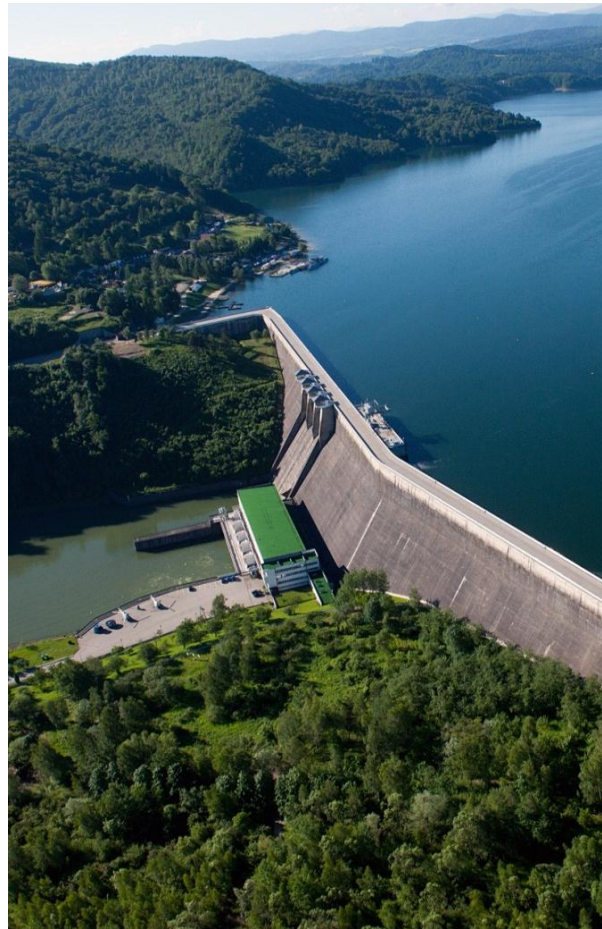


Land reclamation accounting policy change

January 29, 2015



Previous accounting method

Provision for expected land reclamation obligation is equal to the present value of expected future expenses (discount rate = yield on 10Y Polish treasury bonds).

The amount of provision is driven by the lignite depletion ratio (cumulative excavation since inception vs. targeted final excavation) climbing from 0% to 100% over the lifetime of the mine.

Period cost = increase of the provision (caused by the period's excavation), "unwinding" of the discount (as the time passes) and the changes of assumptions.

All the changes of assumptions (both financial and technical) are immediately incurred in period's P&L.

The rationale behind the change

The drawback of previous method was the sensitivity of financial results to actuarial assumptions, particularly severe in the dynamic macro environment. The newly applied change in accounting principles diminishes the volatility of financial results unrelated to operational performance. The new method is more compliant with the IAS and better reflects the economic substance of the reclamation process.

New accounting method

The newly computed land reclamation provision contains two components: lignite and overburden, weighing c. $\frac{1}{4}$ and $\frac{3}{4}$, respectively (weights reflect the actual volume).

The lignite component is treated as previously (changes of provision caused by changes of assumptions are taken straight to the P&L).

The overburden component of provision is driven by the technical ratio (current volume of the overburden to be reclaimed vs. the final volume of overburden to be reclaimed), however, the present value of future overburden reclamation costs is now capitalized and the corresponding tangible asset is being depreciated over the remaining lifespan of the mine.

The gross value of the asset increases with the above-mentioned technical ratio (meanwhile, the depreciation decreases the net value of the asset).

Changes in estimates of provision related to the reclamation of the overburden causes the corresponding adjustment to the respective asset without impacting the P&L. Exception: if the carrying value of tangible asset is insufficient to cover the decrease of provision (e.g. maturing mine) then the adjustment will be recognized in the P&L.

Impact of the accounting changes

Increased provisions

Both components (lignite and overburden) recomputed based on actual depletion since inception.

Increased tangible assets

Assets increase is caused by the capitalization of the present value of future overburden reclamation costs (which was not capitalized under the previous method).

Higher EBITDA

The provision related to the lignite component (c. $\frac{1}{4}$) increases due to the current period's excavation and is immediately incurred in operating costs.

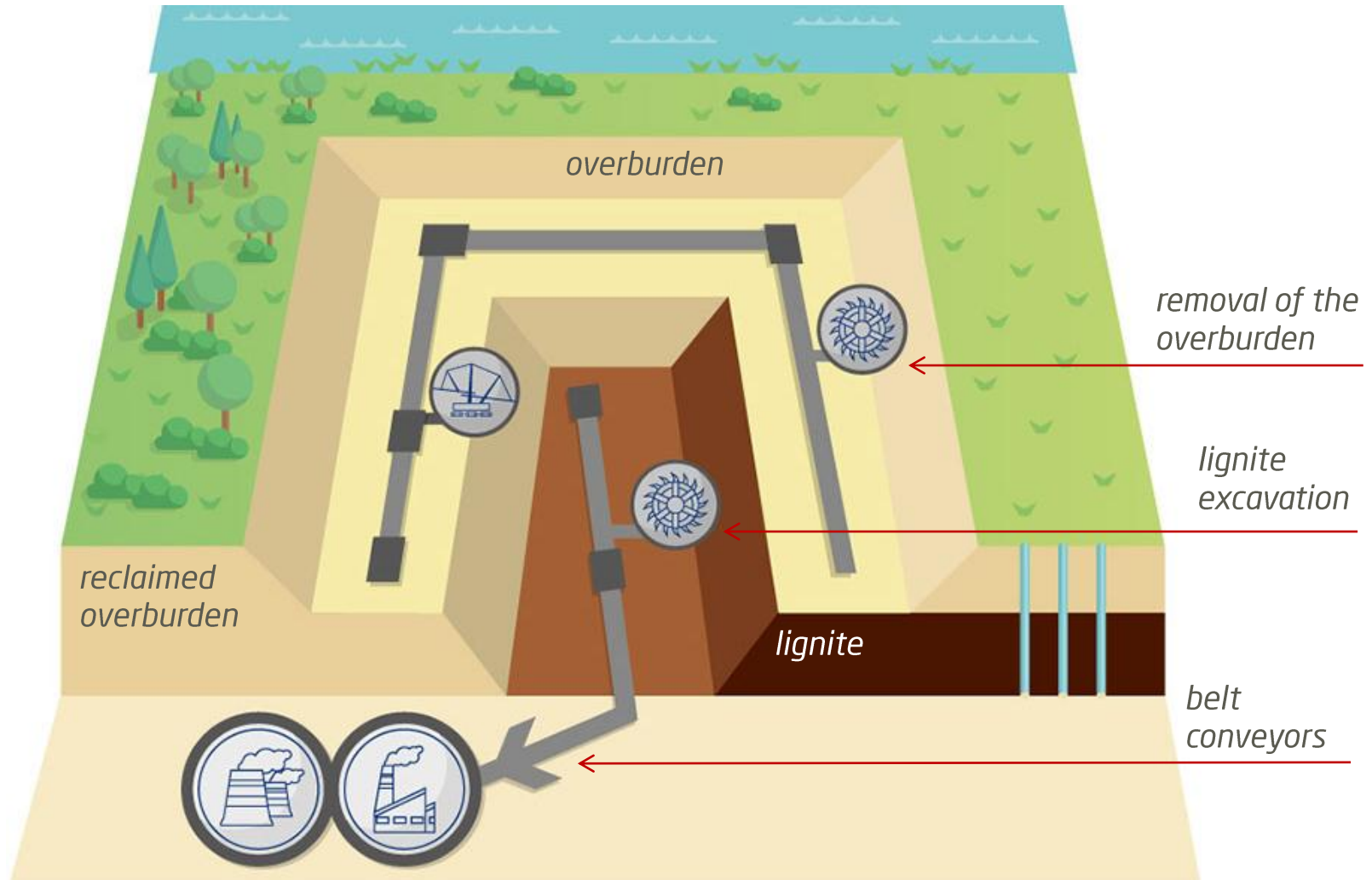
However, the increase of provision regarding the overburden (c. $\frac{3}{4}$) caused by period's excavation increases the corresponding asset and the depreciation, without burdening the operating costs.

Decreased volatility of operational results

The changes in the value of provision related to overburden (c. $\frac{3}{4}$) are balanced with the adjustment of respective tangible assets without impacting the P&L.

The indirect impact through depreciation is mild as it is distributed across the useful life of the mine.

The reclamation of the overburden



overburden - the material overlying a lignite deposit (most commonly the rock, soil and ecosystem)

Comparison

Issue	Previous method	New method
<ul style="list-style-type: none"> Provision computation 	<ul style="list-style-type: none"> Function of the cumulative excavation since inception vs. targeted final excavation. 	<ul style="list-style-type: none"> Lignite component computed as under the old method. Overburden component driven by the ratio = current volume of the overburden to be reclaimed vs. final volume of the overburden to be reclaimed.
<ul style="list-style-type: none"> Capitalizing of costs 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Capitalized overburden reclamation cost. The increase of the excavation volume increases the gross value of the asset.
<ul style="list-style-type: none"> Operational increase of provision 	<ul style="list-style-type: none"> Current period's extraction vs. <u>total</u> costs of reclamation. 	<ul style="list-style-type: none"> Current period's extraction vs. cost of reclamation of the <u>lignite</u> component only → straightforward recognition in P&L. Increase of volume of overburden vs. cost of reclamation of overburden component → adjustment of tangible assets.
<ul style="list-style-type: none"> Depreciation 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Depreciation of capitalized reclamation costs (natural method).
<ul style="list-style-type: none"> "Unwinding" of the discount 	<ul style="list-style-type: none"> Yes 	<ul style="list-style-type: none"> Yes
<ul style="list-style-type: none"> Change of assumptions regarding computation of provision 	<ul style="list-style-type: none"> Fully recognized in the income statement. 	<ul style="list-style-type: none"> Recognized in P&L only for the lignite component of provision. For the overburden component the respective tangible asset is adjusted. If carrying value is low then P&L impact is possible

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