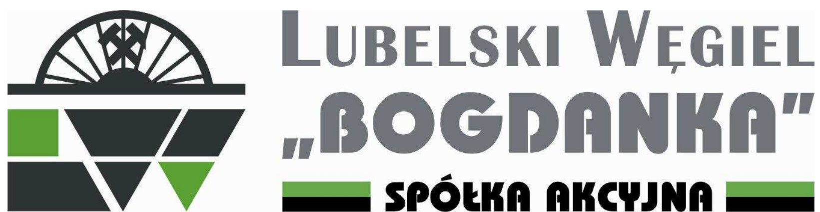

LUBELSKI WĘGIEL BOGDANKA S.A. CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the financial year from 1 January 2009 to 31 December 2009

BOGDANKA, MARCH 2010

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Consolidated Statement of Financial Standing (Balance Sheet)

	Note	31 Dec. 2009	31 Dec. 2008
Assets			
Fixed assets			
Tangible fixed assets	6	1,558,727	1,333,959
Intangible fixed assets	7	12,199	10,141
Investments in affiliated undertakings	8	77	8
Trade debtors and other receivables	9.1	367	852
Cash and cash equivalents	11	46,158	41,073
		1,617,528	1,386,033
Current assets			
Stock	10	50,382	35,055
Trade debtors and other receivables	9.1	117,491	135,783
Overpaid income tax		2,754	685
Cash and cash equivalents	11	681,659	99,874
		852,286	271,397
TOTAL ASSETS		**2,469,814**	**1,657,430**
Shareholders' equity			
Shareholders' equity attributable to the shareholders of the Parent Undertaking			
Ordinary shares	12	301,158	246,158
Other capitals		890,456	400,015
Retained profits		538,340	460,090
		1,729,954	1,106,263
Minority interests		**8,943**	**9,485**
Total shareholders' equity		**1,738,897**	**1,115,748**
Liabilities			
Long-term liabilities			
Loans and borrowings	15	250,000	-
Deferred income tax liabilities	16	58,278	57,346
Employee benefits liabilities	17	98,588	101,549
Provisions for other liabilities and charges	18	63,079	54,337
Trade creditors and other liabilities	14	7,834	9,622
		477,779	222,854
Short-term liabilities			
Loans and borrowings	15	-	100,000
Employee benefits liabilities	17	26,338	18,877
Provisions for other liabilities and charges	18	63,596	51,948
Trade creditors and other liabilities	14	163,204	148,003
		253,138	318,828
Total liabilities		**730,917**	**541,682**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2,469,814**	**1,657,430**

Consolidated Statement of Comprehensive Income

	Note	for the financial year from 1 January to 31 December	
		2009	**2008**
Revenue on sales	19	1,118,393	1,033,275
Costs of products, goods and materials sold	20	(760,933)	(727,864)
Gross profit		**357,460**	**305,411**
Cost of sales	20	(41,316)	(40,584)
Administrative costs	20	(66,617)	(53,018)
Other income	21	6,143	1,222
Other expenses	22	(2,140)	(3,707)
Other profits/(losses) - net	23	(26,820)	(5,867)
Profit on operating activities		**226,710**	**203,457**
Financial income	24	18,112	7,609
Financial expenses	24	(7,076)	(9,060)
Net financial expenses	24	11,036	(1,451)
Share in (losses)/profits of affiliated undertakings		89	(99)
Profit before taxation		**237,835**	**201,907**
Income tax	25	(46,993)	(46,116)
Net profit for the financial year		**190,842**	**155,791**
of which:			
- attributable to shareholders of the Parent Undertaking		191,472	156,009
- attributable to minority shareholdings		(630)	(218)
Total income for the period		**190,842**	**155,791**
of which:			
- attributable to shareholders of the Parent Undertaking	26	191,472	156,009
- attributable to minority shareholdings		(630)	(218)
Earnings per share attributable to the shareholders of the Parent Undertaking during the year (in PLN per share)			
- basic	26	6.64	6.78
- diluted	26	6.64	6.78

Consolidated Statement of Movements in Shareholders' Equity

	Attributable to shareholders of the Parent Undertaking					
	Ordinary shares	**Other capitals**	**Retained profits**	**Total**	**Minority interests**	**Total shareholders' equity**
As at 1 January 2008	**246,158**	**325,540**	**384,194**	**955,892**	**9,736**	**965,628**
Total income for the accounting period	-	-	156,009	156,009	(218)	155,791
Dividends concerning 2007	-	-	(5,638)	(5,638)	(33)	(5,671)
Transfer of the result for 2007	-	74,475	(74,475)	-	-	-
As at 31 December 2008	**246,158**	**400,015**	**460,090**	**1,106,263**	**9,485**	**1,115,748**
As at 1 January 2009	**246,158**	**400,015**	**460,090**	**1,106,263**	**9,485**	**1,115,748**
Total income for the accounting period	-	-	191,472	191,472	(630)	190,842
Proceeds from issue of shares	55,000	-	-	55,000	-	55,000
Share premium	-	466,051	-	466,051	-	466,051
Dividends concerning 2008	-	-	(88,832)	(88,832)	88	(88,744)
Transfer of the result for 2008	-	24,390	(24,390)	-	-	-
As at 31 December 2009	**301,158**	**890,456**	**538,340**	**1,729,954**	**8,943**	**1,738,897**

Cash Flow Statement

	Note	for the financial year from 1 January to 31 December	
		2009	**2008**
Operating cash flow			
Operating cash inflow	28	423,069	395.251
Interest paid		(9,353)	(5.522)
Income tax paid		(48,130)	(55.934)
Net operating cash flow		365,586	333.795
Investing cash flow			
Acquisition of tangible fixed assets	28	(373,468)	(327.928)
Acquisition of intangible fixed assets		(4,331)	(858)
Inflow from the sale of tangible fixed assets		188	337
Interest received		16,764	6.734
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(5,085)	(4.815)
Net investing cash flow		(365,932)	(326.530)
Financing cash flow			
Net proceeds from the sale of shares		521,051	
Loans and borrowings received		180,000	70.000
Loans and borrowings repaid		(30,000)	(20.000)
Dividend paid to shareholders of the Parent Undertaking		(88,832)	(5.638)
Dividend paid to minority shareholders		(88)	(33)
Other net financing cash flow		-	(219)
Net financing cash flow		582,131	44.110
Net increase in cash and cash equivalents		581,785	51.375
Cash and cash equivalents at beginning of period		99.874	48,499
Cash and cash equivalents at end of period		**681.659**	**99,874**

Notes to the Consolidated Financial Statements

Additional information

1. General information

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

The Lubelski Węgiel Bogdanka S.A. Capital Group (hereinafter referred to as the „Group") is composed of the following companies:

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

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

The deed of transformation of a state enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A. was drawn up on 1 March 1993 (Rep. A No. 855/1993) by Notary Public Jacek Wojdyło maintaining a Notarial Office at ul. Kopernika 26, Katowice.

The Company was entered in Section B of the Commercial Register of the District Court in Lublin, VIII Commercial Division, under No. H - 2993, on the basis of a valid decision of that Court issued on 30 April 1993 (file ref. No. HB - 2993, Ns. Rej.).

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

Subsidiary undertaking - Łęczyńska Energetyka Sp. z o.o., with registered office in Bogdanka, 21-013, Puchaczów.

As at 31 December 2009, the Parent Undertaking held 88.70% of share in capital of its subsidiary Łęczyńska Energetyka Sp. z o.o.

Łęczyńska Energetyka Sp. z o.o. provides services to mines involving supplying heat energy and conducts water/wastewater management. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations. The company prepares its balance sheet as at 31 May.

The Group's affiliated undertakings are:

Affiliated undertaking - EKSPERT Sp. z o.o. with registered office in Bogdanka, 21-013, Puchaczów.

As at 31 December 2009, Łęczyńska Energetyka Sp. z o.o. held 50% of shares in the capital of EKSPERT Sp. z o.o.

1.2. Assumption of continued business activity

The consolidated financial statements were prepared under the assumption of continued business activity of the Group's undertakings 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 undertakings become aware of events which have a significant bearing on the consolidated financial statements or which result in the going concern assumption being no longer appropriate for the Group, the Management Board of Lubelski Węgiel Bogdanka S.A. is authorised to make amendments to the consolidated financial statements until the date of their approval. This does not preclude a possibility to make amendments to the 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.

In the opinion of the Management Board of Lubelski Węgiel BOGDANKA S.A., there are currently no circumstances indicating any risk to continuation of the Group's activities.

2. Description of key accounting principles applied

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

2.1. Basis for preparation

These consolidated financial statements of Lubelski Węgiel BOGDANKA S.A. Capital Group were prepared in accordance with the International Financial Reporting Standards (IFRS) as approved by the European Union.

These consolidated financial statements were prepared according to the historical cost principle, including the valuation at fair value of certain components of tangible fixed assets in connection with assuming fair value as a presumed cost, which was carried out as at the day of the Group's transition to the IFRS, i.e. 1 January 2005.

The accounting policies described below were applied in accordance with the continuity principle in all the financial years presented.

Preparing financial statements in accordance with IFRS requires the application of certain significant accounting estimates. It also requires that Management Board exercise its own judgment while applying accounting principles adopted by the Group. For information on issues which require a greater degree of judgement, more complex issues and issues in respect of which assumptions and estimates were made which are material for the consolidated financial statements, please refer to Note 4.

(a) New standards and interpretations effective as of 1 January 2009

- IFRS 8 "Operating Segments"

IFRS 8 was issued by the International Accounting Standards Board on 30 November 2006, and it is mandatory for annual financial statements for periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14 "Segment Reporting". This standard lays down new requirements related to disclosing information concerning segments of business activity, as well as information concerning products and services, geographical areas in which activities are conducted, and major customers. IFRS 8 requires a "management approach" to reporting financial results of business segments.
Since the Group only conducts its business activities in one segment, the introduction of this standard does not affect the consolidated financial statements of the Group.

- IAS 1 (revision) "Presentation of Financial Statements"

The revised IAS 1 was published by the International Accounting Standards Board on 6 September 2007, and it is mandatory for annual periods beginning on or after 1 January 2009. The changes introduced mainly relate to presentation issues regarding changes in equities and are aimed at improving users' ability to analyse and compare the information given in financial statements.
The Group applied the revised IAS 1 as of 1 January 2009.

- IAS 23 (revision) "Borrowing costs"

The revision of IAS 23 was published by the International Accounting Standards Board on 29 March 2007, and it is mandatory for annual periods beginning on or after 1 January 2009. The revision relates to the accounting treatment of borrowing costs, which can be directly attributed to the acquisition, construction or production of an asset that requires a significant period of time to prepare it for its intended use or sale. The revision removed the option of immediately recognising these costs in the consolidated statement of comprehensive income for the period in which they were incurred. Pursuant to a new requirement of the Standard, those costs should be capitalised.
The introduction of the Standard did not materially affect the consolidated financial statements of the Group.

- Improvements to IFRS 2008

In May 2008, the International Accounting Standards Board (IASB) published Improvements to International Financial Reporting Standards, hereinafter referred to as the "changes", as part of an annual procedure of implementing changes aimed at improving the International Accounting Standards and making them more precise. Those changes include 35 amendments to existing IAS, which are of two types: part I contains amendments which involve changes in accounting that are related to presentation, recognition and valuation, while part II concerns changes in terminology or editorial corrections. Most changes will be mandatory for annual periods beginning on 1 January 2009.
The Group applied amendments to the IFRS pursuant to transitional provisions.

(b) Standards, revisions and interpretations of existing standards which are not yet mandatory and have not been previously applied by the Group.

In these consolidated financial statements the Group did not decided to earlier apply the following published standards or interpretations before they become effective:

- IAS 27 (revision) – "Consolidated and Separate Financial Statements".

The revised IAS 27 was published by the International Accounting Standards Board on 10 January 2008, and it is mandatory for annual periods beginning on or after 1 July 2009. The standard requires that the effects of transactions with minority interests be presented directly in capital if the control over the entity is retained by the existing Parent Undertaking. The standard specifies in a greater detail also the manner of presentation in the event of loss of control over a subsidiary, i.e. it requires that other interests are revalued to fair value and the difference be disclosed in the consolidated statement of comprehensive income.

The Group has implemented the revised IAS 27 as from 1 July 2009. It did not affect the consolidated financial statements of the Group.

- Improvements to IFRS 2009

On 16 April 2009 the International Accounting Standards Board published "Improvements to IFRS 2009" amending 12 standards. The improvements include changes in the presentation, recognition and measurement, as well editorial and terminological changes. Most of them will be effective for annual periods beginning as of January 2010.

The Group will apply the improvements to IFRS in accordance with interim provisions.

As at the date of drawing up the present consolidated financial statements, the improvements have not been yet endorsed by the European Union.

- Amendments to IAS 24 "Related Party Disclosures".

Amendments to IAS 24 "Related Party Disclosures" were published by the International Accounting Standards Board on 4 November 2009 and are effective for annual periods beginning on or after 1 January 2011.
The amendments simplify the requirements for disclosure of information by entities related to state institutions and specify more precisely definitions of a related party.

The Group will apply the amendments to IAS 24 as of 1 January 2011.

As at the date of drawing up these consolidated financial statements, the amendments to IAS 24 have not been yet endorsed by the European Union.

- IFRS 9 "Financial Instruments".

IFRS 9 "Financial Instruments" was published by the International Accounting Standards Board on 12 November 2009 and is effective for annual periods beginning on or after 1 January 2013.
The standard introduces one model providing for only two classification categories: amortised cost and fair value. The IFRS 9 approach is based on a business model used by an undertaking for asset management and on contractual features of financial assets. IFRS 9 also requires the application of one method for the assessment of asset impairment.

The Group will apply IFRS 9 as of 1 January 2013.

As at the date of drawing up the present consolidated financial statements, IFRS 9 has not been yet endorsed by the European Union.

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC 19 was issued by the International Financial Reporting Interpretations Committee on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation explains the accounting principles applied in a situation where a liability is extinguished by the issue of equity instruments addressed to the creditor following renegotiation by the undertaking of the terms of its indebtedness. The interpretation requires the measurement of equity instruments at fair value and the recognition of a gain or loss equal to a difference between the liability carrying amount and the equity instrument fair value.

The Group will apply IFRIC 19 as of 1 January 2010.

As at the date of drawing up the present consolidated financial statements, IFRIC 19 has not been yet endorsed by the European Union.

(c) Existing standards, amendments and interpretations to the existing standards which are not applicable to the operations of the Group.

- IFRS 3 (Z) "Business Combinations"

Amended IFRS 3 was published by the International Accounting Standards Board on 10 January 2008 and is effective prospectively for business combinations in which the acquisition date falls on or after 1 July 2009. The introduced amendments include a possibility to chose to recognise the minority interests either at their fair value or their share in the fair value of identifiable net assets, to re-measure

the interests held hitherto in the acquiree to fair value and take the resulting difference to the consolidated statement of comprehensive income as well as additional guidance for the application of the acquisition method, including treatment of transaction costs as the costs of the period in which they were incurred.

The Group implemented amended IFRS 3 as of 1 July 2009. As at the date of drawing up the financial statements, the above IFRS was not applicable to the operations of the Group.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – "Eligible Hedged Items"

Amendments to IAS 39 "Eligible Hedged Items" were published by the International Accounting Standards Board on 31 July 2008 and are effective for annual periods beginning on or after 1 July 2009.
The amendments include clarifications how to apply in special circumstances the principles specifying whether a hedged risk or portion of cash flows are eligible for being a hedged item. A prohibition was introduced to designate inflation as a component of a fixed rate debt instrument which may be hedged. The amendments also prohibit including the time value to a one-sided hedged risk when options are treated as hedging instruments.

- Amendments to IFRS 2 "Share-based Payment".

Amendments to IFRS 2 "Share-based Payment" were published by the International Accounting Standards Board on 18 June 2009 and are effective for annual periods beginning on or after 1 January 2010.
The amendments specify more precisely the recognition of share-based payments settled in cash within a capital group. They make the scope of IFRS 2 more specific and regulate the joint application of IFRS 2 and other standards. The amendments introduce to the standard issues regulated previously in IFRIC 8 and IFRIC 11.

The Group will apply the amendments to IFRS 2 as of 1 January 2010.

As at the date of drawing up the present consolidated financial statements, the amendments to IFRS 2 have not been yet endorsed by the European Union.

- Amendments to IFRS 1 "First-time Adoption of IFRS".

Amendments to IFRS 1 "First-time Adoption of IFRS" were published by the International Accounting Standards Board on 23 July 2009 and are effective for annual periods beginning on or after 1 January 2010.
The amendments introduce additional exceptions from the measurement of assets for the date of transition to IFRS for companies operating in oil and gas sector.

As at the date of drawing up the present consolidated financial statements, the amendments to IFRS 1 have not been yet endorsed by the European Union.

- Amendments to IAS "Classification of Rights Issues".

Amendments to IAS 32 "Classification of Rights Issues" were published by the International Accounting Standards Board on 8 October 2009 and are effective for annual periods beginning on or after 1 February 2010.
The amendments relate to the accounting of issues of rights (rights, options, warrants) denominated in a currency other than the issuer's functional currency. They require that if specified conditions are satisfied, the issue of rights should be classified as shareholders' equity regardless of a currency in which the exercise price is denominated.

- Amendments to IFRS 1 "First-time Adoption of IFRS".

Amendments to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" were published by the International Accounting Standards Board on 28 January 2010 and are effective for annual periods beginning on or after 1 July 2010.
The amendments introduce additional exemptions for first-time adopters of IFRS regarding disclosures which are required by the amendments to IFRS 7 issued in March 2009, in respect of measurement to fair value and liquidity risk.

As at the date of drawing up the present consolidated financial statements, the amendments to IFRS 1 have not been yet endorsed by the European Union.

- IFRIC 12 "Service Concession Agreements"

IFRIC 12 was issued by the International Financial Reporting Interpretations Committee on 30 November 2006 and is effective for annual periods beginning on or after 29 March 2009. The interpretation includes guidance for the application of the existing standards by entities participating in service concession agreements between public and private sector. IFRIC 12 is applicable to agreements in which the ordering party controls which services will be provided by the operator with help of the infrastructure, to whom such services are provided and at what price.

- IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC 15 was issued by the International Financial Reporting Interpretations Committee on 3 July 2008 and is effective for annual periods beginning on or after 1 January 2010. The interpretation includes general guidance how to assess a construction contract in order to determine whether its effects should be presented in the financial statements according to IAS 11 Construction Contracts or IAS 18 Revenue. Moreover, IFRIC 12 indicates at what point revenue from performance of a construction service should be recognised.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC 16 was issued by the International Financial Reporting Interpretations Committee on 3 July 2008 and is effective for annual periods beginning on or after 1 July 2009. The interpretation includes general guidance regarding determination whether there exists a risk of foreign exchange changes between the functional currency of the foreign operation and the presentation currency for the purpose of consolidated financial statements of the parent company. Moreover, IFRIC 16 explains which undertaking in the capital group may disclose a hedging instrument under hedge of a net investment in a foreign operation, and in particular whether the parent company holding a net investment in a foreign operation has to hold also the hedging instrument. IFRIC 16 also explains how an undertaking should specify the amounts subject to reclassification from shareholders' equity to the statement of comprehensive income both for the hedging instrument and the hedged item when the investment is disposed of by the undertaking.

Implementation of the standard does not have any impact on the consolidated financial statements of the Group as the latter does not have any investments in foreign operations.

- IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC 17 was issued by the International Financial Reporting Interpretations Committee on 27 November 2008 and is effective for annual periods beginning on or after 1 November 2009. The interpretation includes guidance regarding the time of dividend recognition, the measurement of dividend and the recognition of a difference between the value of dividend and the carrying amount of distributed assets.

There were no actions described in IFRIC 17 in the existing operations of the Group.

- IFRIC 18 "Transfers of Assets from Customers"

IFRIC 18 was issued by the International Financial Reporting Interpretations Committee on 29 January 2009 and is effective for annual periods beginning on or after 1 November 2009. The interpretation includes guidance regarding the recognition of transfers of assets from customers, namely situations in which definition of an asset is satisfied, identification of separately identifiable services (services provided in exchange for the transferred asset), recognition of revenue and recognition of cash funds received from customers.

There were no actions described in IFRIC 18 in the existing operations of the Group.

- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement"

Amendments to IFRIC 14 were issued by the International Financial Reporting Interpretations Committee on 26 November 2009 and are effective for annual periods beginning on or after 1 January 2011. The interpretation includes guidance regarding the recognition of prepaid contributions for covering minimum funding requirements as assets in an undertaking making such prepayment.

As at the date of drawing up the present consolidated financial statements, the amendments to IFRIC 14 have not been yet endorsed by the European Union.

- IFRIC 13 – Customer Loyalty Programmes

IFRIC 13 explains that where goods or services are sold together with incentives creating customer loyalty (e.g. loyalty credits or free of charge products) we have to do with an agreement with many elements and the compensation receivable from the customer is allocated between the agreement elements at fair value. IFRIC 13 does not apply to the operations of the Group as the latter does not operate any customer loyalty programmes.

2.2. Consolidation

(a) Subsidiary undertakings

Subsidiary undertakings are all undertakings (including the special purpose vehicles) with respect to which the Group is able to manage their financial and operating policy, which is usually accompanied by holding the majority of the total number of votes in the governing bodies. In assessing whether the Group controls a given undertaking, the existence and influence of potential voting rights which may be exercised or exchanged at the moment is taken into account. Subsidiary undertakings are subject to full consolidation from the date on which the Group takes over control of them. Consolidation ends on the date when the control ceases to exist.

Income and expenses, settlements and unrealised gains on intra-Group transactions are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of a given item of assets being transferred. Where necessary, the accounting policies applied by the subsidiary undertakings were changed to ensure compliance with the accounting policies applied by the Group.

The Group recognises all changes in the interest of the Parent Undertaking's shareholders in equity for as long as the Parent Undertaking controls a given subsidiary undertaking. Any gains or losses on acquisition or sale of equity instruments from or to minority interests are directly recognised in equity of the Parent Undertaking.

(b) Affiliated entities

Affiliated undertakings are all undertakings over which the Group has significant influence but which it does not control, which is usually accompanied by holding from 20 to 50%% of the total number of votes in

governing bodies. Investments in affiliated undertakings are valued using the equity method and initially recognised at cost.
As of the date of acquisition, the Group's share in net profit or loss of associated undertakings is disclosed in the consolidated statement of comprehensive income while the Group's share in changes in other funds – under other funds. The carrying value of investments is adjusted for aggregate changes in the balance as of the date of acquisition. If the Group's share in losses of an associated undertaking is equal to or greater than the Group's interest in a given undertaking, including other unsecured claims, if any, the Group ceases to recognise any further losses, unless the Group has assumed obligations or become obliged to make payments on behalf of a given business undertaking.
Unrealised gains on transactions between the Group and its associated undertakings are eliminated proportionately to the Group's interest in such undertakings. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of a given item of assets being transferred. Where necessary, the accounting policies applied by the associated undertakings were changed to ensure compliance with the accounting policies applied by the Group.
Gains and losses in associated undertakings arising from dilution are recognised in the consolidated statement of comprehensive income.

2.3. Reporting on activity segments

IFRS 8 – "Operating segments" is applicable for the purposes of preparing these consolidated financial statements. That standard requires that consolidated financial statements of the entity present a series of data concerning individual segments, while the approach to segmentation of the entity presented in the consolidated financial statements should be consistent with the division into segments used for the purposes of making strategic management decisions. The Management Board does not apply division into segments for managing the Group since the Group mainly focuses its activities on the production and sale of coal.

2.4. Measurement of items expressed in foreign currencies

(a) Functional and presentation currency
Items expressed in the financial statements of the Group's undertakings are measured in the currency of the basic economic environment in which a particular undertaking conducts its operations ("functional currency"). The functional currency of the Group's undertakings is Polish zloty. The consolidated financial statements are presented in Polish zlotys ("PLN"), being the presentation currency of the Group.

(b) Transactions and balances
Transactions expressed in foreign currencies are translated into the functional currency at the exchange rate prevailing on the transaction date. Foreign exchange gains and losses from accounting for such transactions and from the balance sheet measurement of monetary assets and liabilities expressed in foreign currencies are recorded in the consolidated statement of comprehensive income, provided they are not deferred under shareholders' equity, when they qualify for recognition as a cash flow hedge and hedge of a net investment.

2.5. Tangible fixed assets

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

Tangible fixed assets are initially recognised at acquisition or production cost.

As at initial recognition, the acquisition or production cost of tangible fixed assets includes costs of construction of underground tunnels (the so-called main tunnels and operational tunnels) and longwall

headings driven in the extraction fields net of revenue from sales of coal mined during construction of such tunnels and headings.

As at initial recognition, the acquisition or production cost of tangible fixed assets includes estimated cost of dismantling and removing the asset and restoring the site, which the Group is obliged to incur at the installation of an item of tangible fixed assets or its placement in service. In particular, the initial value of tangible fixed assets includes discounted cost of decommissioning tangible fixed assets related to underground mining as well as other structures which, under the applicable mining laws, are subject to decommissioning when operations are discontinued.
The cost of mine decommissioning recognised in the initial value of tangible fixed assets is depreciated using the same method as that used for the tangible fixed assets to which the cost relates. Depreciation starts as soon as a given tangible asset is placed in service, and continues over a period determined in the decommissioning plan for groups of structures under the estimated mine decommissioning schedule.

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

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

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

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

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

Material components of an item of tangible fixed assets whose useful lives are different from the useful life of the entire asset and whose acquisition or production cost is material relative to the acquisition or production cost of the entire asset are depreciated separately, using the depreciation rates which reflect such items' estimated useful lives.
The residual value and useful lives of tangible fixed assets are reviewed and, if necessary, changed as at each balance-sheet date.

If the carrying value of an item of tangible fixed assets exceeds its estimated recoverable value, then the carrying value of that asset is reduced to its recoverable value (Note 2.7).

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

Borrowing costs which may be directly attributed to acquisition, construction or production of an item of tangible fixed assets which require a significant amount of time in order to prepare a given asset for intended use or sale, increase the value of tangible fixed assets under construction over the period of their construction.

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

Gain or loss on sale of items of tangible fixed assets is calculated by comparing the revenue from sale with the carrying value, and is recognised in the consolidated statement of comprehensive income under other (loss)/gain, net.

2.6. Intangible fixed assets

(a) Geological information
The acquisition cost of purchased geological information is capitalised. The capitalised cost is amortised over the estimated period of use of the information. Geological information is amortised over a period of 10 years.

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

Intangible fixed assets are amortised using the straight-line method.

2.7. Impairment of non-financial assets

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

2.8. Financial assets

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

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

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

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

The Group assesses at each balance-sheet date whether there is objective evidence that an item or a group of financial assets may be impaired. A test for impairment of trade debtors is described in Note 2.10.

2.9. Stock

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

2.10. Trade debtors

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

2.11. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits payable on demand and other highly liquid current investments with original maturities of up to three months. Overdraft facilities are presented in the balance-sheet as an item of current loans and borrowings under current liabilities.
Restricted cash and cash equivalents where the restriction persists for at least 12 months as from the balance-sheet date are classified as non-current assets.

2.12. Share capital

Ordinary shares are classified as shareholders' equity.
Expenditures directly connected with issuance of new shares or options are presented under equity as a decrease, after taxation, of issue proceeds.
If a Group's undertaking acquires shares in its share capital (its treasury shares), then the payment, including the marginal costs directly related to acquisition (net of income tax), decrease the equity attributable to the owners of the company until the shares are retired or reissued. If such shares are subsequently reissued, the payment for such shares (net of marginal transaction costs directly related to such payment and applicable tax effects) is recognised in equity attributable to the owners of the company.

2.13. Trade creditors

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

2.14. Loans and borrowings

Loans and borrowings are initially measured at fair value, net of transaction costs incurred. Subsequently, loans and borrowings are carried at adjusted acquisition cost (amortised cost). Any difference between the amounts received (net of transaction cost) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the loan or borrowing using the effective interest rate method.

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

Borrowing costs are expensed in the period in which they are incurred, except costs which increase the value of tangible fixed assets under construction (Note 2.5).

2.15. Current income tax and deferred tax

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

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

Deferred tax liability resulting from timing differences attributable to investment in subsidiary and associated undertakings is recognised unless the Group controls the timing of the reversal of timing differences and it is probable that the differences will be reversed in the foreseeable future.

2.16. Employee benefits

(a) Retirement and other employee benefits

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

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

As at the balance-sheet date, the Group recognises liabilities under the above stated benefits in the consolidated statement of financial standing at the current value of the liability, taking into account the

adjustment for unrecognised actuarial gains or losses and costs of past service. The Group's liability under employment benefits is assessed by an independent actuary using the projected unit credit model.

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

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

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

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

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

Actuarial gains and losses are charged or credited to expenses in the consolidated statement of comprehensive income in the period which they arise.

Past service costs arising from plan changes are recognised immediately in the consolidated statement of comprehensive income, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

(b) Profit-sharing programmes and bonus programmes

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

2.17. Provisions

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

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

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

The provision for closure 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 estimates (discount rate, inflation rate, expected nominal value of expenditures on decommissioning) is recognised as adjustment to the value of tangible fixed assets for which a decommissioning obligation exists.

2.18. Recognition of revenue

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

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

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

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

2.19. 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 shareholders of the Parent Undertaking is disclosed as a liability in the Group's financial statements in the period in which the dividend payment is approved by the shareholders of the Parent Undertaking.

3. Managing financial risk

3.1. Financial risk factors

The Group is exposed to various types of financial risks connected with its activities, such as market risk (including cash flow risk resulting from change in interest rates), credit risk and liquidity risk. The Group's general programme for risk management focuses on ensuring sufficient liquidity to enable the Group to implement its investment projects and secure the Group's dividend policy.

(a) Risk of a change in cash flows resulting from a change in interest rates
Given that the Group holds a significant amount of interest-bearing assets, the Group's revenue and cash flows are affected by changes in market interest rates.
The Group is also exposed to interest rate risk in connection with its current and non-current debt instruments. Loans bearing interest at variable rates result in the Group's exposure to a change in cash flows resulting from changes in interest rates. In 2008 and 2009, the Group used external financing denominated in the złoty.

The Group's current indebtedness amounts to PLN 250 million. Based on simulations, it was determined that a 1% change in interest rates would increase or decrease, as applicable, the Group's net profit by an amount lower or equal to PLN 2,025,000.

(b) Credit risk
The Group is exposed to credit risk in connection with cash and cash equivalents, deposits at banks and financial institutions, as well as credit exposures of the Group's customers. When selecting banks and financial institutions, the Group only accepts highly credible entities. In addition, the Group pursues a policy limiting credit exposure connected with particular financial institutions. As regards customers, the Group sells its products to a group of regular customers whose credibility has been proven in the years of cooperation.
The table below shows exposure to credit risk and credit risk concentration:

	2009	**2008**
Cash in hand and bank deposits	727,817	140,947
Current trade debtors	96,454	106,979
Total exposure to credit risk	824,271	247,926
Receivables from 7 key customers	78,459	99,368
Concentration of credit risk under receivables from 7 key customers	81%	93%
Cash deposited at banks: Bank Millennium S.A., BOŚ S.A., PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	65%	91%
Cash deposited at BRE BANK S.A. (expressed as % of total cash and bank deposits)	30%	

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

The banks at which the Group places its cash and deposits have been awarded the following ratings (data as at the date of these consolidated financial statements):
- Bank Millennium S.A. – long-term Fitch rating: A

- Bank Ochrony Środowiska S.A. – long-term Fitch rating: BBB
- PKO Bank Polski S.A. – Fitch support rating: 2 (no long-term rating was awarded)
- BRE Bank S.A. – long-term Fitch rating: A

(c) liquidity risk

Conservative management of liquidity risk consists in, *inter alia*, maintaining appropriate amounts of cash and ensuring availability of financing through securing credit facilities of appropriate size. The management monitors the current forecasts concerning the Group's liquid assets (comprising available credit facilities as well as cash and cash equivalents) based on estimated cash flows.

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

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Balance as at 31 December 2009				
Loans and borrowings	12,175	61,954	218,351	-
Trade creditors and other liabilities	119,044	8,725	9,894	8,776

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Balance as at 31 December 2008				
Loans and borrowings	106,480	-	-	-
Trade creditors and other liabilities	117,223	1,408	4,225	4,225

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

(d) sensitivity analysis of the financial result

Based on the 2009 data concerning the Group's core business, the sensitivity of the financial result to changes in market risk factors (price of coal and interest rates) has been assessed.

The assessment indicates that a 1% increase in the unit price of coal (translating into a 1% increase in revenues from the sale of coal) results in a rise of the result on sales by 4.32%. Similarly, a 1% decrease in the coal price reduces the result on sales by 4.32%. The table below shows changes in the result in other analysed ranges (assuming that other factors remain unchanged).

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in result	-64.82%	-43.22%	-21.61%	-8.64%	-4.32%	0.00%	4.32%	8.64%	21.61%	43.22%	64.82%

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

3.2. Managing capital risk

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

In order to maintain or adjust the capital structure, the Group may change the amount of dividend declared to be paid to shareholders, refund capital to shareholders, issue new shares or dispose of assets with a view to reducing indebtedness.
In the area of capital management, the Group focuses on managing cash and cash equivalents, and debts under contracted loans.

In 2008 and 2009, the Group contracted a bank loan for the financing of current operations and investment activities of the Parent Undertaking. The table below shows the relation between the net debt and the capital employed:

	31 Dec. 2009	**31 Dec. 2008**
Total loans	250,000	100,000
Less: Net of cash and cash equivalents	(727,817)	(140,947)
Net debt / (liquid assets)	(477,817)	(40,947)
Total shareholders' equity	1,738,896	1,115,748
Employed capital	1,261,079	1,074,801

4. Material accounting estimates and judgments

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

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

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

Based on the current coal reserves and estimated production capacities, the mine's life has been estimated to continue until 2034. However, the actual date of the mine closure may differ from the Group's estimates. This follows from the fact that the length of the mine's life has been estimated using the current coal reserves only. Over the next few years, the Group plans to expand its mining area by adding K-3, K-6 and K-7 reserves which may significantly prolong the mine's life. The Group has already commenced work on acquiring licenses necessary to add these reserves to the mining area.

Estimate concerning provision for mining plant decommissioning

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 value of the provision.

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

The table below shows inflation rates assumed for the years 2004-2034:

year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
inflation (%)	3.50	2.10	1.00	2.50	4.20	3.50	2.30	2.50	2.80	2.40	2.00	2.50	3.00	3.50	3.30	3.20

year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
inflation (%)	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.40	2.30	2.20	2.20	2.20	2.20	2.20	2.20

The long-term discount rates were estimated on the basis of the inflation rates shown above, increased by a premium of 2 percentage points.

If the actual interest rates departed from the Management Board's estimates by 10%, the carrying value of provisions would be PLN 895,000 higher or PLN 885,000 lower.

Retirement benefits

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

5. Information on business segments

(a) Key reporting structure – industry segments

The Group's core business is production and sale of coal. In 2009, revenue from sales of other products and services amounted to PLN 39,712,000 (in 2008: PLN 37,026,000), representing, respectively, 3.55% in 2009 and 3.58% in 2008 of total sales revenue.

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

(b) Supplementary reporting structure – geographical segments

The Group operates primarily in Poland. In 2009, revenue from foreign sales amounted to PLN 705,000 (in 2008: PLN 257,000), representing, respectively, 0.06% and 0.03% of total revenue in each of the years. The Group does not hold assets or liabilities outside Poland.

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

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

6. Tangible fixed assets

	Land	Buildings and structures (including mining excavations)	Plant and equipment	Vehicles	Other tangible fixed assets	Tangible fixed assets in construction	Total
As at 1 January 2008							
Cost or assessed value	2,013	966,853	592,957	81,433	11,167	273,404	1,927,827
Depreciation	-	(423,409)	(306,173)	(33,376)	(6,592)	-	(769,550)
Net book value	2,013	543,444	286,784	48,057	4,575	273,404	1,158,277
As at 31 December 2008							
Net book value at beginning of year	2,013	543,444	286,784	48,057	4,575	273,404	1,158,277
Increases	99	243,251	76,940	6,925	1,527	287,554	616,296
Decreases	(15)	(94)	-	(25)	-	(306,275)	(306,409)
Depreciation	-	(83,905)	(38,843)	(10,307)	(1,150)	-	(134,205)
Net book value	**2,097**	**702,696**	**324,881**	**44,650**	**4,952**	**254,683**	**1,333,959**
As at 31 December 2008							
Cost or assessed value	2,097	1,133,335	669,909	88,034	12,555	254,683	2,160,613
Depreciation	-	(430,639)	(345,028)	(43,384)	(7,603)	-	(826,654)
Net book value	2,097	702,696	324,881	44,650	4,952	254,683	1,333,959
As at 31 December 2009							
Net book value at beginning of year	2,097	702,696	324,881	44,650	4,952	254,683	1,333,959
Increases	1,004	252,944	72,173	8,839	2,793	373,032	710,785
Decreases*	-	(14,013)	(2,078)	(107)	(4)	(330,810)	(347,012)
Depreciation	-	(88,622)	(40,125	(9,051)	(1,207)	-	(139,005)
Net book value	**3,101**	**853,005**	**354,851**	**44,331**	**6,534**	**296,905**	**1,558,727**
As at 31 December 2009							
Cost or assessed value	3,101	1,391,301	723,819	93,171	15,203	296,905	2,523,500
Depreciation	-	(538,296)	(368,968)	(48,840)	(8,669)	-	(964,773)
Net book value	**3,101**	**853,005**	**354,851**	**44,331**	**6,534**	**296,905**	**1,558,727**

* the item includes write-offs revaluating tangible fixed assets

The write-offs revaluating tangible fixed assets are made based on the analysis of individual tangible fixed assets and tangible fixed assets under construction taking into account their technological usefulness.
Tangible fixed assets are classified to the following groups:
- tangible fixed assets used in full,
- tangible fixed assets fully unserviceable,
- tangible fixed assets partially unserviceable.

The revaluation write-offs made in full amount for the tangible fixed assets fully unserviceable. Based on the analysis as at 31 December 2009, revaluation write-offs for the tangible fixed assets and tangible fixed assets under construction were made in the amount of PLN 7,190,000.

	Buildings and structures (including mining excavations)	Plant and equipment	Tangible fixed assets in construction	Total
Revaluation write-offs	5,580	1,490	120	7,190

due to impairment of
value

The revaluation write-off due to impairment of value as at 31 December 2009 amounting to PLN 7,190,000 was disclosed in the consolidated statement of comprehensive income under other the 'net profits / losses' item.

The percentage of impairment charges for tangible assets relating to the Kalenica resort which are partly useless was determined on the basis of a detailed analysis of usefulness.

Based on the analysis as at 31 December 2009, revaluation write-offs for the tangible fixed assets of the abovementioned resort were made in the amount of PLN 4,000,000.
The revaluation write-off due to impairment of value as at 31 December 2009 amounting to PLN 4,000,000 was disclosed in the Statement of comprehensive income under other the 'net profits / losses' item.

The item "Increase in tangible fixed assets under construction" comprises the value of third party financing according to the capitalisation rate applied for these costs in 2009, i.e. 4.75%.

	2009	2008
Capitalised borrowing costs	(9,353)	-
Adjustment by income on temporary investments of cash	6,852	-
	(2,501)	**-**

The "Decreases in tangible fixed assets in construction" item mainly consists of reclassifications of items to other categories of fixed assets, where the same values are disclosed in the "Increases" item.

Depreciation of tangible fixed assets is disclosed in the consolidated statement of comprehensive income as follows:

	2009	2008
Costs of products, goods and materials sold	(132,903)	(130,787)
Cost of sales	(305)	(174)
Administrative costs	(5,797)	(3,244)
	(139,005)	**(134,205)**

7. Intangible fixed assets

	Computer software	Fees and licences	Geological information	Other	Total
As at 1 January 2008					
Cost or assessed value	2,412	607	10,789	49	13,857
Amortisation	(790)	(544)	(1,079)	(29)	(2,442)
Net book value	1,622	63	9,710	20	11,415
As at 31 December 2008					
Net book value at beginning of year	1,622	63	9,710	20	11,415
Increases	385	255	-	63	703
Amortisation	(918)	(100)	(948)	(11)	(1,977)
Net book value	**1,089**	**218**	**8,762**	**72**	**10,141**
As at 31 December 2008					
Cost or assessed value	2,797	781	10,789	79	14,446
Amortisation	(1,708)	(563)	(2,027)	(7)	(4,305)
Net book value	1,089	218	8,762	72	10,141
As at 31 December 2009					
Net book value at beginning of year	1,089	218	8,762	72	10,141
Increases	807	3,437	-	87	4,331
Amortisation	(885)	(100)	(1,275)	(13)	(2,273)
Net book value	**1,011**	**3,555**	**7,487**	**146**	**12,199**
As at 31 December 2009					-
Cost or assessed value	3,635	4,449	10,789	225	19,098
Amortisation	(2,624)	(894)	(3,302)	(79)	(6,899)
Net book value	1,011	3,555	7,487	146	12,199

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

	2009	2008
Costs of products, goods and materials sold	(2,173)	(1,876)
Cost of sales	(5)	(5)
Administrative costs	(95)	(96)
	(2,273)	**(1,977)**

8. Investments in affiliated undertakings

	2009	2008
As at the beginning of period	8	107
Sale of shares	(20)	-
Share in (losses)/profits	89	(99)
As at the end of period	**77**	**8**

The Group's shares in the associated undertakings, none of which is listed on the stock exchange, as well as shares in the aggregate assets, liabilities, revenue and profits:

Name of the undertaking	**Registration country**	**Assets**	**Liabilities**	**Revenue**	**Net profit/(loss)**	**Shares held (%)**
2008						
EKSPERT Sp. z o.o.	Poland	184	209	1,561	(170)	44.4
Górnik Łęczna S.A.	Poland	1,410	1,351	7,954	274	35.0
		1,594	1,560	9,515	104	
2009						
EKSPERT Sp. z o.o.	Poland	220	68	1,704	180	44.4
Górnik Łęczna S.A.	Poland	-	-	-	-	-
		220	68	1,704	180	

In connection with the Ordinance by the Minister of the State Treasury upon rules of running sponsoring activities by companies that are partially owned by the State Treasury, the Management Board of the Parent Undertaking adopted a resolution to submit a sale offer for 420 shares in Górnik Łęczna S.A. in Łęczna.

On 1 December 2009, the Management Board decided to sell to GKS Górnik Łęczna Association in Łęczna 420 shares in Górnik Łęczna S.A. held by Lubelski Węgiel BOGDANKA S.A. for the total price PLN 420,000, i.e. the nominal price. The shares were sold on 14 December 2009.

The result of investment disposal calculated by way of comparing the proceeds from sale with their carrying value was disclosed in the consolidated statement of comprehensive income, under the 'financial income / expenses' item.

9. Financial instruments by type

Accounting policies for financial instruments were applied to the items presented below:

	Loans and receivables	**Total**
31 December 2009		
Assets as disclosed in the consolidated statement of financial standing		
Trade debtors	96,454	96,454
Cash and cash equivalents	727,817	727,817
Total	**824,271**	**824,271**

	Other financial liabilities	**Total**
Liabilities as disclosed in the consolidated statement of financial standing		
Loans and borrowings	250,000	250,000
Trade creditors and other financial liabilities	101,721	101,721
Total	**351,721**	**351,721**

Interest and commissions paid	
Interest	9,237
Fees and commissions	786
Total	**10,023**

	Loans and receivables	**Total**
31 December 2008		
Assets as disclosed in the consolidated statement of financial standing		
Trade debtors	106,979	106,979
Cash and cash equivalents	140,947	140,947
Total	**247,926**	**247,926**

	Other financial liabilities	**Total**
Liabilities as disclosed in the consolidated statement of financial standing		
Loans and borrowings	100,000	100,000
Trade creditors and other financial liabilities	73,579	73,579
Total	**173,579**	**173,579**

Interest and commissions paid	
Interest	8,978
Fees and commissions	310
Total	**9,288**

9.1. Trade debtors and other receivables

	31 Dec. 2009	**31 Dec. 2008**
Trade debtors	102,864	115,038
Less: write-off revaluating accounts receivable	(6,410)	(8,059)
Net trade debtors	**96,454**	**106,979**
Prepayments	11,268	16,262
Other accounts receivable	9,768	12,542
short-term	**117,490**	**135,783**
Prepayments	367	852
Other accounts receivable	-	-
long-term	**367**	**852**
Total trade debtors and other receivables	**117,857**	**136,635**

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

All receivables of the Group are expressed in PLN.

Changes in the write-off revaluating trade debtors are presented below:

	2009	**2008**
As at 1 January	**8,059**	**3,884**
Creating a write-off	2,562	7,067
Receivables written down during the year as uncollectible	(448)	(252)
Reversal of unused amounts	(3,763)	(2,640)
As at 31 December	**6,410**	**8,059**

Creating and releasing the write-off for the impairment of value was disclosed in the 'other net (loss) / profit' item of the consolidated statement of comprehensive income.

Other categories of trade debtors and other accounts receivable do not included items of reduced value.

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

	31 Dec. 2009	**31 Dec. 2008**
Up to 1 month inclusive	5,435	6,633
1 to 3 months	-	128
3 to 6 months	69	38
6 to 12 months	38	-
Above 12 months	868	1,260
	6,410	**8,059**

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. 2009	31 Dec. 2008
Up to 1 month inclusive	4,833	4,158
1 to 3 months	32	263
3 to 6 months	41	323
6 to 12 months	202	2
Above 12 months	35	-
	5,143	**4,746**

Maximum exposure to credit risk as at the reporting date is the fair value of each category of accounts receivable described above. The Parent Undertaking has a bank loan secured with the transfer of receivables from the sale of coal.

10. Stocks

	31 Dec. 2009	31 Dec. 2008
Materials	32,201	30,374
production in progress	615	770
Write-off for revaluating to the sale price, likely to achieve	(63)	(129)
Finished goods	18,529	4,749
Write-off for revaluating to the sale price, likely to achieve	(900)	(709)
	50,382	**35,055**

Write-offs revaluating the value of stock was presented in the consolidated statement of comprehensive income in the 'other net profit / (loss)' item.
Cost of stock disclosed under 'Cost of products, goods and materials sold' amounted to PLN 760,933,000 in 2009 (2008: PLN 786,003,000).

11. Cash and cash equivalents

	31 Dec. 2009	31 Dec. 2008
Cash in banks and at hand	159,301	4,099
Short-term bank deposits	568,516	136,848
	727,817	**140,947**
including:		
Long-term*	46,158	41,073
Short-term	681,659	99,874
	727,817	**140,947**

* cash with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 46,963,000 as at 31 December 2009, (2008: PLN 42,231,000) and primarily comprises the funds deposited in the Mine Closure Fund for the coverage of the costs of closing a mine.

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

2009 – 3.5% - 5.6%
2008 – 5.4% - 6.6%

12. Share capital

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2008	2,301	115,068	131,090	246,158
As at 31 December 2008	23,014	115,068	131,090	246,158
Increase due to share issue	11,000	55,000	-	55,000
As at 31 December 2009	34,014	170,068	131,090	301,158

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

On 29 October 2008, the General Shareholders Meeting of the Parent Undertaking adopted a resolution on changing the existing number of the Parent Undertaking's shares by dividing their par value in a ratio of 1:10, so that the previous par value of each share of PLN 50 would be established as PLN 5 per share. As a result of the change in the par value of the shares, each series A, B and C share that has so far been issued, with a previous par value of PLN 50, was exchanged for 10 shares of series A, B and C respectively, with rights identical to those of the shares before the division and a par value of PLN 5 per share. The divided shares will participate in the dividend to the same extent as before the division.

On 22 June 2009, pursuant to the decision of the Polish Financial Supervision Authority, Series A and C Shares and Rights to Series C Shares were admitted to public trading on the WSE main market. On 25 June 2009, the Parent Undertaking made its debut on the WSE by introducing Rights to Series C Shares to trading. The issue price of Series C Shares was PLN 48.00 and the value of the public offering was PLN 528 million. The above amount was reduced by the costs of carrying out the offering and disclosed as a capital increase in July 2009. The value of the share issue costs, which reduced the value of other capitals, amounted to PLN 6,949,000. The share capital of the Parent Undertaking was increased by means of an issue of 11 million shares with a value of PLN 55 million and currently amounts to PLN 170,068,000 (PLN 301,158,000 after hyperinflation revaluation). The increase in the share capital was registered on 10 July 2009 by the District Court in Lublin, XI Commercial Division of the National Court Register.

The funds obtained by the Parent Undertaking from the new issue of shares conducted in June 2009 were deposited in the account of the undertaking on 15 July 2009. Currently the Group finances its investments from its own resources and the loan contracted with Bank PKO BP in the amount of PLN 250 million. The commencement of tender procedures for the most asset-intensive investments, such as the extension of the Mechanical Processing Plant for Coal, the construction of a flyover from Stefanów to Bogdanka or general mining works in the Stefanów Field, will mean that the funds obtained from the issue will be used successively, already in 2010.

13. Other capitals

Pursuant to the Articles of Association, the Parent Undertaking can create supplementary capital and other reserve capitals, the purpose of which is determined by provisions of law and resolutions of decision-making bodies.

In 2009 the value of other capitals was increased by PLN 466,051,000. The increase in other capitals derives from the share premium of PLN 473,000,000 less the costs of carrying out the public offering in the amount of PLN 6,949,000.

14. Trade creditors and other liabilities

	31 Dec. 2009	31 Dec. 2008
Trade creditors	63,402	50,600
Accruals	26,951	26,137
Other liabilities, including:	51,983	48,653
the Company Social Benefits Fund,	4,811	5,197
Liabilities due security deposit	3,047	2,634
Investment liabilities	35,272	20,345
Other liabilities	8,853	20,477
Total financial liabilities	142,326	125,390
Non–financial liabilities – social security and other tax payable	28,712	32,235
Total trade creditors and other liabilities	**171,038**	**157,625**
including:		
Long-term	7,834	9,622
Short-term	163,204	148,003
	171,038	**157,625**

15. Loans and borrowings

	31 Dec. 2009	31 Dec. 2008
Long-term:		
Bank loans	250,000	-
Short-term:		
Working capital bank loans	-	100,000
	250,000	**100,000**

The bank loan matures on 31 December 2014 and bears interest equal to 3M WIBOR + bank margin. Details on maturity dates of the loan are presented in note 3.1.

The fair value of loans does not significantly differ from their carrying value.

The Group takes out loans in PLN.

The Group has the following unused credit lines:

	31 Dec. 2009	31 Dec. 2008
with a variable interest rate:		
- expiring within one year	-	60,000
	-	60,000

Limits expiring within one year are limits granted for a one-year period or shorter.

16. Deferred income tax

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

	31 Dec. 2009	**31 Dec. 2008**
Deferred income tax assets		
- to be realised after 12 months	35,363	31,330
- to be realised within 12 months	3,722	8,974
	39,085	40,304
Deferred income tax liabilities		
- to be realised after 12 months	95,127	92,354
- to be realised within 12 months	2,236	5,296
	97,363	97,650
Deferred income tax liabilities (net)	**58,278**	**57,346**

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

Deferred income tax assets	**Employee benefits and similar liabilities**	**Write-offs due to impairment of value**	**Unpaid remuneration and other benefits**	**Provision for real property tax**	**Other**	**Total**
As at 1 January 2008	18,646	3,388	7,549	-	208	29,791
Decrease/(increase) of the financial result	4,235	(1,271)	(113)	6,145	1,517	10,513
As at 31 December 2008	22,881	2,117	7,436	6,145	1,725	40,304
Decrease/(increase) of the financial result	739	2,126	(5,519)	1,355	80	(1,219)
As at 31 December 2009	23,620	4,243	1,917	7,500	1,805	39,085

Deferred income tax liabilities	**Valuation of fixed assets**	**Costs of panel strengthening**	**Provision for mine closure**	**Other**	**Total**
As at 1 January 2008	86,011	1,001	5,349	342	92,703
Decrease/(increase) of the financial result	2,331	1,051	17	1,548	4,947
As at 31 December 2008	88,342	2,052	5,366	1,890	97,650
Decrease/(increase) of the financial result	1,772	(130)	(353)	(1,576)	(287)
As at 31 December 2009	90,114	1,922	5,013	314	97,363

17. Employee benefits liabilities

	31 Dec. 2009	**31 Dec. 2008**
Liabilities as disclosed in the consolidated statement of financial standing		
- Retirement and disability benefits	29,353	30,403
- Long service awards	37,712	33,998
- Coal allowances in kind	52,705	54,690
- Other benefits for employees	5,156	1,335
	124,926	**120,426**

	2009	**2008**
Costs as disclosed in the consolidated statement of comprehensive income		
- Retirement and disability benefits	798	8,422
- Long service awards	11,427	8,774
- Coal allowances in kind	299	15,346
- Other benefits for employees	4,054	(256)
	16,578	**32,286**

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

	2009	**2008**
Liabilities at the beginning of period	120,426	100,557
Costs of current employment	8,449	4,480
Interest expense	6,394	5,762
Costs of past employment	-	-
Actuarial losses / (profits)	1,735	22,044
Disclosed in total in the employee benefits costs	**16,578**	**32,286**
Benefits paid	(12,078)	(12,417)
Liabilities at end of period	**124,926**	**120,426**
including:		
- long-term	98,588	101,549
- short-term	26,338	18,877

Amounts disclosed in the consolidated statement of comprehensive income in 2009 are as follows:

	Benefits during employment	**Post-employment benefits**	**Total**
Liabilities at the beginning of period	35,350	85,076	120,426
Costs of current employment	6,357	2,092	8,449
Interest expense	1,803	4,591	6,394
Costs of past employment		-	-
Actuarial losses / (profits)	7,319	(5,584)	1,735
Disclosed in total in the employee benefits costs	**15,479**	**1,099**	**16,578**

Amounts disclosed in the consolidated statement of comprehensive income in 2008 are as follows:

	Benefits during employment	**Post-employment benefits**	**Total**
Liabilities at the beginning of period	35,090	65,467	100,557
Costs of current employment	2,905	1,575	4,480
Interest expense	1,944	3,818	5,762
Costs of past employment	-	-	-
Actuarial losses / (profits)	3,668	18,376	22,044
Disclosed in total in the employee benefits costs	**8,517**	**23,769**	**32,286**

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

	2009	**2008**
Costs of products, goods and materials sold	15,139	30,671
Cost of sales	93	96
Administrative costs	1,346	1,519
Disclosed in total in the employee benefits costs	**16,578**	**32,286**

Main actuarial assumptions made:

	2009	**2008**
Discount rate	6.00%	5.50%
Increase in remunerations in the subsequent year	4.50%	7.40%
Increase in remunerations in 2011-2019 / 2010-2018	1.00%	1.00%
Increase in remunerations after 2019	2.50%	2.50%

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

	2009	**2008**
Men	12.69	12.69
Women	22.94	22.94

18. Provisions for other liabilities and charges

	Mine closure	**Mining damage**	**Legal claims**	**Total**
As at 1 January 2008	**44,300**	**-**	**6,136**	**50,436**
including:				
Long-term	44,300	-	-	44,300
Short-term	-	-	6,136	6,136
Recognition in the consolidated statement of comprehensive income				
- Creation of additional provisions	6,840	-	36,350	43,190
- Release of an unused provision	-	-	(1,796)	(1,796)
- Interest	-	-	11,257	11,257
- Discount settlement	3,197	-	-	3,197
As at 31 December 2008	**54,337**	**-**	**51,947**	**106,284**
including:				
Long-term	54,337	-	-	54,337
Short-term	-	-	51,947	51,947
Recognition in the consolidated statement of comprehensive income				
- Creation of additional provisions	5,784	6,680	15,332	27,796
- Release of an unused provision	-	-	(18,403)	(18,403)

- Interest	-	-	8,040	8,040
- Discount settlement	2,958	-	-	2,958
As at 31 December 2009	**63,079**	**6,680**	**56,916**	**126,675**
including:				
Long-term	63,079	-	-	63,079
Short-term	-	6,680	56,916	63,596

Cost of interest was disclosed in the statement of comprehensive income under the 'costs of products, goods and materials sold'.

(a) Closure of mines and removal of mining damage

The Parent Undertaking creates a provision for costs of liquidating a mining plant, which it is obliged to incur under current laws.
Given the need of removing mining damage, in 2009 the Parent Undertaking created a provision for mining damage. Estimated value of works necessary for the damage removal is: PLN 6,680,000.

(b) Legal claims

The amounts disclosed constitute:

- a provision for certain legal claims filed against the Group by customers and suppliers. The amount of the provision is disclosed in the consolidated statement of comprehensive income as administrative expenses. 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 2009.
- a provision for real property tax. While preparing statements for real property tax, the Parent Undertaking (like other mining companies in Poland) does not take into account the value of buildings and equipment located in mining excavations for the purpose of calculating this tax. By the decision of 30 May 2008, the Administrator of Puchaczów Commune stated that tax arrears for 2003 on this account amounted to PLN 6,965,000, which was paid by the Parent Undertaking. The amount of tax arrears was calculated based on the assumption that most building structures entered in the fixed assets register maintained for tax purposes as type 200 (construction for mining and extraction) in group 2 (land and water engineering structures) are taxable, although according to recent developments in case law only buildings and equipment located in mining excavations should be subject to taxation, while the excavation itself, understood as "space in a land property or in a rock mass created as a result of mining works" should not be subject to taxation. In 2008, the Parent Undertaking paid a total of PLN 7,968,000 of tax with interest to the Communes of Cyców and Puchaczów. On 24 February 2009 and 17 March 2009 the Local Government Appellate Court in Lublin issued final decisions concerning liabilities on the account of real property tax related to mining excavations for 2003 in the Communes of Cyców and Puchaczów, ruling that the amounts of the tax together with interest paid by the Parent Undertaking to these communes in 2008 should be returned. Although the paid amounts concerning 2003 were returned, the Communes of Cyców and Puchaczów filed complaints to the District Prosecutor in Włodawa and District Prosecutor in Lublin, respectively. As a result, the Provincial Administrative Court in Lublin overturned the decision of the Local Government Appellate Court with respect to the Commune of Puchaczów and suspended the proceedings regarding the real property tax for 2003 with respect to the Commune of Cyców until the Constitutional Tribunal issues decision on Polskie Sieci Elektroenergetyczne S.A. and replies the question posed by the Provincial Administrative Court in Gliwice. In 2009, the communes where the Parent Undertaking extracts coal conducted clarification proceedings regarding mining pits released for mining in 2004. Proceedings to determine the amount of property tax liability for 2004 we completed with the issuance of decisions by the Head of the Puchaczów commune and the Head of the Cyców commune on 30 November 2009. The decisions are immediately enforceable as of 2 December 2009. Under the

writs of enforcements, on 22 December 2009 the total of PLN 7,190,200 was remitted to the account of the Lubelski Tax Office. The amount comprised: real property tax of PLN 4,973,800, interest of PLN 1,746,000 and enforcement costs of PLN 470,400.

Based on the above assumption and the fact that other mining communes in Poland have taken action aimed at charging mining companies such a tax, the Group also calculated an amount of arrears on account of real property tax for other periods not covered by statute of limitations and for all communes in which it conducts mining activities. The amount the provision so estimated of PLN 55,217,000 was disclosed in the books as at 31 December 2009 (as at 31 December 2008 – PLN: 42,090,000).

19. Revenue on sales

	2009	2008
Sales of coal	1,078,681	996,249
Sales of ceramics	8,528	2,501
Other activities	22,514	26,145
Sales of goods and materials	8,670	8,380
Total revenue on sales	**1,118,393**	**1,033,275**

20. Costs by type

	2009	2008
Amortisation/depreciation	141,278	136,182
Materials and energy used	321,540	195,681
Contracted services	206,245	169,623
Employee benefits	404,724	337,742
Entertainment and advertising expenses	9,110	8,407
Taxes and charges	21,537	51,340
Other costs by type	31,272	15,030
Total costs by type	**1,135,706**	**914,005**
Cost of sales	(41,316)	(40,584)
Administrative costs	(66,617)	(53,018)
Activities for own needs	(264,009)	(111,670)
Change in products	(10,983)	11,266
Cost of products sold	**752,781**	**719,999**
Value of goods and materials sold	8,152	7,865
Costs of products, goods and materials sold	**760,933**	**727,864**

21. Other income

	2009	2008
Interest	-	123
Compensations and damages received	1,677	741

Other	4,466	358
Total other income	**6,143**	**1,222**

22. Other expenses

	2009	2008
Interest	-	(226)
Donations	(845)	(2,749)
Enforcement fees and penalties	(1,053)	-
Other	(242)	(732)
Total other expenses	**(2,140)**	**(3,707)**

23. Other profits/(losses) - net

	2009	2008
Profit / (loss) on sale of tangible fixed assets	1,811	203
Result from settlement of the results of fortuitous events	-	1,045
Currency exchange differences	(696)	(1,758)
Revaluation of stock	(963)	(838)
Other	(26,972)	(635)
of which:		
- Creating revaluation write-offs for tangible fixed assets	(11,190)	(3,885)
- Creating provision for mining damage	(6,680)	-
Total other profits/(losses) - net	**(26,820)**	**(5,868)**

The result from settlement of the results of fortuitous events results from the difference between the damages received from the insurance company (2008: PLN 5,200,000), and the value of assets damaged in fire of the brick plant (2008: PLN 4,155,000).

24. Financial income and expenses

	2009	2008
Interest income on short-term bank deposits	16,953	7,559
Other	1,159	50
Financial income	18,112	7,609
Interest expenses:		
- bank loans	(3,332)	(5,553)
- settlement of discount on long-term provisions	(2,958)	(3,197)
Fees and commissions	(786)	(310)
Financial expenses	(7,076)	(9,060)
Net financial expenses	**11,036**	**(1,451)**

25. Income tax

	2009	2008
Current tax	46,061	51,681
Deferred tax	932	(5,565)
	46,993	**46,116**

The Group's income tax on the gross profit before taxation differs from the theoretical amount which would be obtained if the rate of 19% was applied (applicable to the profit of the consolidated companies), as follows:

	2009	2008
Profit before taxation	237,835	201,907
Tax calculated at the rate of 19%	45,189	38,362
Non-taxable income	(21,610)	(808)
Costs not carried as costs of sales	23,414	8,562
Decrease in financial result by the income tax	**46,993**	**46,116**

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

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

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

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

26. Earnings per share

(a) Basic

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

	2009	2008
Earnings attributable to shareholders of the Parent Undertaking	191,472	156,009
Weighted average number of ordinary shares ('000)	28,830	23,014
Basic earnings per share (in PLN per share)	**6,64**	**6,78**

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. The Parent Undertaking does not have instruments causing dilution of potential ordinary shares. Diluted earnings per share are therefore equal to basic earnings per share of the Parent Undertaking.

27. Dividend per share

(a) Basic

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

	2009	**2008**
Dividend paid	88,832	5,638
Number of ordinary shares as at the dividend date ('000)	23,014	23,014
Dividend per share (in PLN per share)	**3.86**	**0.24**

(b) Diluted

Diluted dividend rate per share are calculated by adjusting the number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. The Parent Undertaking does not have instruments causing dilution of potential ordinary shares. Therefore, the diluted dividend per share is equal to basic dividend per share of the Parent Undertaking.

28. Net operating cash inflow

	2009	**2008**
Profit before taxation	237,835	201,907
- Depreciation of tangible fixed assets (note 6)	139,005	134,205
- Amortisation of intangible fixed assets (note 7)	2,273	1,977
- (Profit)/Loss on sale of tangible fixed assets (see below)	1,811	(203)
- Net financial expenses (note 24)	(11,036)	1,452
- Share in (losses)/profits of affiliated undertakings (note 8)	(89)	99
- Change in employee benefits liabilities (note 17)	4,500	19,869
- Changes in provisions (note 18)	20,390	52,652
- Creating revaluation write-offs for tangible fixed assets	11,190	-
- Other flows	631	4,785
- Stock	(15,327)	6,720
- Trade debtors and other receivables	18,778	(34,560)
- Trade creditors and other liabilities	13,108	6,348
Operating cash inflow	**423,069**	**395,251**

Balance-sheet change in accounts receivable	(18,778)	34,567
Change in accrued interest	-	(7)
Change in accounts receivable for the purposes of the consolidated cash flow statement	**(18,778)**	**34,560**
Balance-sheet change in liabilities	13,413	(7,673)
Change in investment liabilities	(305)	(14,021)
Change in liabilities for the purposes of the consolidated cash flow statement	**13,108**	**6,348**

Increase in tangible fixed assets	376,274	313,907
Capitalised borrowing costs	(9,353)	-
Adjustment by income on temporary investments of cash	6,852	-
Change in investment liabilities	(305)	14,021
Acquisition of tangible fixed assets	**373,468**	**327,928**

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

	2009	**2008**
Net book value	1,999	134
(Profit)/Loss on sale of tangible fixed assets	(1,811)	203
Inflow from the sale of tangible fixed assets	**188**	**337**

29. Contingent items

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

No significant liabilities are expected to arise on account of these contingent liabilities, apart from those for which provisions were created (Note 18) and those described in Note 33.

In connection with the conclusion of the long-term loan agreement with PKO Bank Polski S.A. on 27 May 2008, the Parent Undertaking issued a blank promissory note with declaration, covering the amount corresponding to the amount of debt under the loan plus interest and other Bank's costs, for the purpose of securing the repayment of the abovementioned loan. The value of the used portion of the loan as at 31 December 2009 amounted to PLN 250 million and has been disclosed as liability in the consolidated statement of financial standing of the Group. Further, the loan agreement provides for a collateral in the form of deduction from the Parent Undertaking's bank account and transfer of receivables from the sale of coal up to the amount of liability under the loan plus interest.

30. Future contingent liabilities

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

	2009	**2008**
Tangible fixed assets	311,028	72,485
	311,028	**72,485**

31. Transactions with related entities

As at 31 December 2009, the Group was controlled by the State Treasury, which held 60,53% of the Company shares.

Information on transactions with undertakings related to the State Treasury

As the State Treasury does not provide information to the public and to the companies held by the State Treasury regarding a complete list of entities held or controlled by the State Treasury, the Management Board disclosed in these financial statements the transactions with those related entities, which were identified according to its best knowledge.

All transactions with the entities held or controlled by the State Treasury are concluded as part of regular operations of the Group and are performed on an arms' length basis.

In the years ending on 31 December 2008 and 2009, the following entities - companies controlled by the State Treasury - were the most important suppliers of the Group: Huta Łabędy S.A., PGE Lubelskie Zakłady Energetyczne S.A., PGNiG in Warsaw, Zakład Gazowniczy in Lublin, Łęczyński District *(Powiat)*, Kompania Węglowa S.A. The value of trade with these entities in subsequent financial years and the total liabilities of the Group to those entities for subsequent balance-sheet dates were as follows:

	2009	**2008**
Purchases in period (*)	188,949	163,065
Total liabilities at end of period	12,324	8,496

(*) including VAT

In the years ending on 31 December 2008 and 2009, the following entities - companies controlled by the State Treasury - were the most important customers of the Group: Elektrownia „Kozienice" S.A., ENERGA Elektrownie Ostrołęka S.A., Zakłady Azotowe „Puławy" S.A., PKP Cargo S.A., MPEC Sp. z o.o., PGE Elektrownie Opole S.A., Węglokoks S.A. The value of trade with these entities in subsequent financial years and the total receivables of the Group from those entities for subsequent balance-sheet dates were as follows:

	2009	**2008**
Sales in period (*)	935,566	897,208
Total receivables at end of period	55,992	91,603

(*) including VAT

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

	2009	2008
Remuneration of Management Board members	**1,850**	**1,543**
Including:		
Annual award	247	44
Long-service award	110	37
Additional (incentive) award	54	-
Bonus for innovative projects	88	-
Other benefits	22	22
Pay for termination of employment relationship and for unused holidays	-	126
Remuneration of the Supervisory Board members	**238**	**217**

On the moment of the issue, the Management Board took up shares allocated to general trading and from the employee shares pool. According to the Issue Prospectus, the shares from the employee shares pool were offered at the market price, i.e. at PLN 48.00.

32. Instability of the markets in Poland and worldwide

The crisis prevailing on the financial markets results, among other factors, in lower liquidity of the banking sector, increased loan interest rates in the interbank sector as well as very high instability of the equity markets. Uncertainty on the global financial markets has also evoked bankruptcies and the implementation of recovery plans in banks in the United States, the Western European countries, Russia and many others. Total impact of the financial crisis is impossible to be estimated and therefore it is impossible to plan and take measures to ensure full protection against its effects. Low liquidity on the financial markets may affect the Group's customers and their ability to pay their receivables. Deteriorating conditions of the customers' business activities may also affect the cash flow forecasted by the Group's Management Board as well as the assessment of the loss in value of financial and non-financial assets. Based on the available information, the Management Board of the Group has taken into account the revised estimates of the forecasted cash flow in the assessment of the loss in value of the assets. Lower liquidity of the banking system and high interest rates may have negative impact on the Group's ability to obtain the debt and on the debt service costs.

The Group's Management Board is not able to make a reliable estimation of the impact that the possible further deterioration of liquidity on the financial markets and the increased instability on the capital and the foreign exchange markets may have. According to the Management Board, all necessary steps have been taken in order to maintain balance and further development of the Group in the current conditions.

33. Events after the balance-sheet date

After the balance-sheet date, to the best of the Group's knowledge, no material event occurred, which could affect the result for 2009 and were not disclosed in the consolidated financial statements.

By the publication date of these consolidated financial statements, the following material events affecting the Group's operations in 2010 occurred:

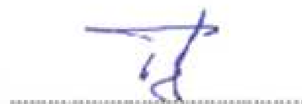
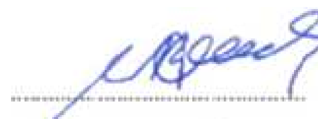
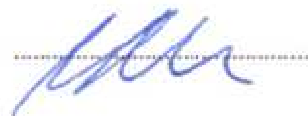
- on 15 January 2010 the Parent Undertaking concluded the Annex No. 5 to the Long-Term Agreement on Sale of Power Coal No. 3/W/2007, with Elektrownia Połaniec S.A. – Grupa GDF SUEZ ENERGIA POLSKA (Current Report 2/2010);

- on 26 January 2010 the Parent Undertaking concluded an agreement for extension the shaft top building for Shaft 2.1 with PEMUG S.A. in Katowice;
- in February 2009 the Parent Undertaking received the report from the inspection carried out by the Fiscal Inspection Authority in Lublin, case no. WIP-410-128/08-0736-01 and 02 regarding the correctness of settlements with the central budget for the corporate income tax for 2006 and for VAT for months from January to December 2006. No irregularities regarding the settlement of the above taxes were found;
- on 2 March 2010 the Parent Undertaking concluded an insurance agreement regarding the Company's assets with WARTA S.A.;
- on 4 March 2010 the Parent Undertaking concluded a new Long–Term Agreement on the Supply of Power Coal for the period of 2010 and 2025 with Elektrownia Kozienice S.A. registered office in Świeże Górne. Estimated net value of the agreement according to supply prices in the current year accounts for PLN 10,432 million;
- on 9 March 2010, the Ministry of State Treasury sold 15,882,000 ordinary bearer shares of the Lubelski Węgiel Bogdanka S.A. held by the State Treasury. Before the transactions the State Treasury held the total of 20,589,931 shares of the Parent Undertaking, representing in total 60.53% share in the share capital. Currently the State Treasury holds the total of 4,707,931 shares of the Parent Undertaking, representing in total 13,84% share in the share capital of the Parent Undertaking.

34. Approval of the consolidated financial statements

The Management Board of Lubelski Węgiel BOGDANKA S.A. declares that as of 21 March 2010, it approves these consolidated financial statements of the Group for the period from 1 January to 31 December 2009.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Mirosław Taras	President of the Management Board	
Krystyna Borkowska	Vice-President for Economic and Financial Affairs, Chief Accountant	
Waldemar Bernaciak	Vice-President for Trade and Logistics	
Zbigniew Stopa	Vice-President for Technical Affairs	
Janusz Chmielewski	Member of the Management Board elected by the employees