DIRECTORS' REPORT ON OPERATIONS

OF LUBELSKI WĘGIEL BOGDANKA S.A.

for the period from 1 January 2009 to 31 December 2009

BOGDANKA, MARCH 2010

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1. BASIC INFORMATION ON LW BOGDANKA S.A.

1.1 Name and registered office of the Company

Lubelski Węgiel BOGDANKA Spółka Akcyjna (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Węgiel BOGDANKA S.A." or "LW BOGDANKA").

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	(81) 462 51 00, (81) 462 51 01
Fax:	(81) 462 51 91
Website:	www.lw.com.pl
e-mail:	bogdanka@lw.com.pl
industry identification number (REGON):	430309210
tax registration number (NIP):	713-000-57-84

1.2 Legal Form

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 (Dz. U. No. 51, item 298, as amended). The deed of transformation of a state-owned enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A. was prepared on 1 March 1993 (Rep. A No. 855/1993). In performance of a bank settlement, as a result of debt conversion, mine plant KWK Bogdanka S.A. ceased to be a state-stock company as at 29 December 1994, as the new shareholders (creditors) took up 4.0 % shares in the Company. On 9 March 2010 the State Treasury sold 15,882,000 shares of the Company on the Warsaw Stock Exchange. As a result of the concluded transaction, the State Treasury held 13.84 % of the share capital of the LW BOGDANKA S.A. as at the date of submitting the Report (i.e. 22 March 2010). Therefore, it ceased to hold a majority in the Company's share capital.

1.3 Legal regulations which provide a basis for the Company's activities

The Company operates on the basis of legal acts which include the following:

- the Commercial Companies Code of 15 September 2000 (Dz.U. No. 94, item 1037, as amended),
- the Act on Commercialisation and Privatisation of 30 August 1996 (uniform text Dz.U. of 2002 No. 171, item 1397, as amended),
- the Geological and Mining Law of 4 February 1994 (uniform text Dz.U. of 2005 No. 228, item 1947, as amended),
- the Company's Articles of Association.

The founder of the Company is the State Treasury, represented by the Minister of the State Treasury.
The Company may operate in Poland and abroad.
The Company was established for an indefinite term.

1.4 History of the Company and its legal predecessors

Lubelski Węgiel BOGDANKA S.A. with registered office in Bogdanka is a legal successor of a state enterprise under name KWK Bogdanka with registered office in Bogdanka.

The enterprise history begins with Resolution No. 15/75 of the Council of Ministers adopted on 17 January 1975 – i.e. decision on construction of a pilot and excavation mine in Bogdanka. Groundbreaking plaque for the enterprise was Ordinance No. 4 of the Minister of Mining and Power Industry on establishment of a state enterprise under name Kopalnie Lubelskiego Zagłębia Węglowego w Budowie (under construction) (KLZW w budowie) of 17 January 1975. The Minister of Mining and Power Industry with Ordinance No. 15/Org/84 of 1 January 1985 put KLZW w Budowie into liquidation and on its base he created Lubelsko-Chełmskie Gwarectwo

Węglowe w budowie (under construction) (LChGW w budowie). By virtue of Resolution of the Council of Ministers No. 34/88 of 8 February 1988, construction of one of the two mines of LChGW w budowie – i.e. K-2 mine in Stefanów - was discontinued. With Ordinance No. 72/Org/88 of the Minister of Industry of 30 June 1988, LChGW w budowie was put in liquidation on 1 October 1988. On 31 December 1988, the property and rights and obligations of the liquidated company were transferred to a state-owned enterprise under the name Dąbrowskie Gwarectwo Węglowe in Sosnowiec.

As at 31 December 1988, under Ordinance No. 44 of the President of the Council of Ministers of 4 November 1988, the state enterprise Dąbrowskie Gwarectwo Węglowe was divided, along with other mining consortia, and Przedsiębiorstwo Eksploatacji Węgla Wschód in Sosnowiec was created, into which KWK Bogdanka was included as an independent establishment of that enterprise. In November 1989, by virtue of Resolution of the Council of Ministers No. 7/89 financing construction of the mine from the state budget means was suspended.

On 23 December 1989, the Minister of Industry, as a result of a division of the state-owned enterprise – Przedsiębiorstwo Eksploatacji Węgla Wschód, on 1 January 1990 formed, pursuant to Ordinance No. 335/Org/89 – a state-owned enterprise under the name Kopalnia Węgla Kamiennego Bogdanka in Bogdanka.

In connection with the political and economic transformation started in Poland, under Ordinance No. 42/Org/93 as at 1 March 1993, pursuant to Article 2.1 of the Act on Transformations of Certain State-Owned Enterprises of Particular Importance for the State Economy of 27 February 1993 (Dz.U. No. 16, item 69), the state-owned enterprise was transformed in a state-stock company under the name Kopalnia Węgla Kamiennego Bogdanka Spółka Akcyjna in Bogdanka. The Company was registered on 30 April 1993 in the District Court in Lublin, VIII Commercial Division.

On 26 August 1994, pursuant to provisions of the Act on Financial Restructuring of Enterprises and Banks and Amending Certain Acts (Dz.U. No. 18, item 82 as amended), KWK Bogdanka S.A. concluded a bank settlement with Bank Depozytowo Kredytowy w Lublinie S.A., which became final on 28 September 1994. As a result of the bank settlement, on 29 December 1994 the Company's share capital was increased by means of an issue of Series B shares and Series C shares (18 April 1995), which were taken up under debt conversion by: State Treasury, Bank Depozytowo-Kredytowy w Lublinie S.A., Puchaczów Municipality and National Fund for Environmental Protection and Water Management in Warsaw. Creditors in the settlement procedure took up the total of 4.01% of the Company's share capital.

Within the process of equity and organisation restructuring of the Capital Group, the Extraordinary General Shareholders Meeting of KWK Bogdanka S.A. on 10 August 2000 as well as GK Lubelski Węgiel S.A. on 11 August 2000 adopted resolutions on the merger of KWK Bogdanka S.A. (the acquiring company) and GK Lubelski Węgiel S.A. (the target company) by way of incorporation with no increase in the capital, in accordance with the balance sheets as of 30 June 2000. The established share exchange ratio was: 1 share of KWK Bogdanka S.A. for 4.59 shares of GK Lubelski Węgiel S.A.

The District Court in Lublin – XI Commercial and Registration Division registered the merger of the companies and crossed out GK Lubelski Węgiel S.A. from the register as of 2 January 2001.

For the purpose of allocating shares to the existing shareholders of GK Lubelski Węgiel S.A. – KWK Bogdanka S.A., on the basis of the resolution of the Extraordinary General Shareholders Meeting No. 2 of 10 August 2000, acquired 181 own shares from KOBO sp. z o.o. on 2 January 2001. The shares were issued to one legal person and ten natural persons.

By virtue of Resolution No. 1 of the Extraordinary General Shareholders Meeting of 12 February 2001, the Company's name was changed from KWK Bogdanka S.A. into Lubelski Węgiel BOGDANKA S.A.

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.

By virtue of Resolution No. 2 of 28 December 2004, the Extraordinary General Shareholders Meeting, with the shareholders' consent, retired 19,610 Series B registered Shares and by virtue of Resolution No. 3 has decreased the share capital of the Company by PLN 980,500 to the amount of PLN 115,067,950.

The District Court in Lublin – XI Commercial Division of the National Court Register as of 13 January 2005 registered the change to the Company's share capital and the amendment to the Articles of Association.

On 29 April 2008 the Extraordinary General Shareholders Meeting of the Company adopted a resolution authorising the Management Board to undertake activities aimed at preparing the procedure for the first public offering of the shares issued within the framework of increasing the Company's share capital as well as admitting and introducing shares to trading on the stock exchange.
On 14 November 2008 the Extraordinary General Shareholders Meeting of the Company adopted a resolution regarding:

- preparing financial statements of the Company in compliance with the International Accounting Standards (IAS) as well as International Financial Reporting Standards (IFRS);
- increasing the Company's share capital by up to PLN 55,000,000.00 by means of a public issue of up to 11,000,000 of the new ordinary Series C bearer Shares with par value of PLN 5.00 per share, with a total exclusion of a pre-emptive right of the previous Company's shareholders;
- applying for admitting Series A Shares, Series B Shares and Series C Shares as well as rights to the Company's Series C Shares to trading on the regulated market as well as their dematerialisation;
- authorising the Management Board to acquire Rights to Series C Shares and the Company shares.

On 28 November 2008 the Company submitted the Issue Prospectus to the Financial Supervision Authority (the "Financial Supervision Authority"), which was prepared in relation to the public offering of Series C Shares and intention to apply for admitting Series A Shares, Series C shares and Rights to Series C Shares to trading on the regulated market (the "Issue Prospectus" or the "Prospectus") . The Prospectus was approved by the Authority on 14 May 2009.

On 22 June 2009 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, WSE) decided to admit to public trading on the main market the following Company shares:

- 19,770,590 Series A Shares,
- 11,000,000 Series C Shares.

On 23 June 2009 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. decided to introduce on a standard basis, 11,000,000 Rights to ordinary Series C bearer Shares of Lubelski Węgiel BOGDANKA S.A. with par value of PLN 5.00 per share, to trading on the main market as of 25 June 2009.

The first day of quotation of Rights to Series C Shares at the WSE was 25 June 2009.

O 13 July 2009 the Company received the decision of the District Court in Lublin, XI Commercial Division of the National Court Register of 10 July 2009 regarding the registration of the increase in the share capital of LW BOGDANKA S.A. by means of the issue of 11,000,000 of Series C Shares of the Company.

As at the date of submitting the Report, the share capital after the registration amounts to PLN 170,067,950 and is divided in 34,013,590 shares with par value of PLN 5 per share.

On 17 July 2009, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. adopted a resolution designating 21 July 2009 as the date of the last quotation of 11,000,000 rights to the Company shares.

The Management Board of the WSE also adopted a resolution on introducing on a standard basis to trading on the main market the following ordinary bearer shares of LW BOGDANKA S.A.:

- 19,770,590 Series A Shares, marked with the code "PLLWBGD00016" by the National Depository of Securities (the "NDS");
- 11,000,000 Series C Shares, on the condition that on 22 July 2009 the NDS would register the Series C Shares and mark them with the code "PLLWBGD00016".

The first quotation of the Series C Shares on the WSE was carried out on 22 July 2009.

More information about the public offering of the Company shares is presented in section 6.1 of the Report.

On 9 March 2010, the State Treasury sold 15,882,000 shares of the Company on the Stock Exchange. As a result of the transaction, as at the date of submitting the Report, the State Treasury held 13.84% of the Company's share capital.

The stages of privatisation of LW BOGDANKA S.A. were recorded at the beginning of 2008 in the "Privatisation Plan for 2008-2011", prepared by the Minister of the State Treasury.

1.5 Organisational structure and management system at LW BOGDANKA S.A. and its Capital Group

The role of LW BOGDANKA S.A. within the Group primarily involves defining the Group's development strategy. The Company also exercises ownership supervision, mainly by way of exercising rights conferred by the shares in Łęczyńska Energetyka, at the Shareholders Meeting of that company. Moreover, as at the day of submitting the Report, three members of the Company's Management Board perform functions in the Supervisory Board of the subsidiary.

Internal organisation of LW BOGDANKA S.A. is determined by Organisational Rules of the Company. Each amendment to the Organisational Rules of the Company as a whole Company's enterprise shall be adopted by the Company's Management Board and approved by the Supervisory Board.

The Company's corporate bodies are:

a) the Management Board;
b) the Supervisory Board;
c) the General Shareholders Meeting.

Powers of the Company's governing bodies result from the provisions of the Commercial Companies Code as well as the Company's Articles of Association. Particular powers of the Company's individual governing bodies are determined by:

a) for the Management Board - the Rules of Procedure of the Management Board of Lubelski Węgiel BOGDANKA S.A.;
b) for the Supervisory Board – Rules of Procedure of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.;
c) for the General Shareholders Meeting – Rules of Procedure of the General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A.

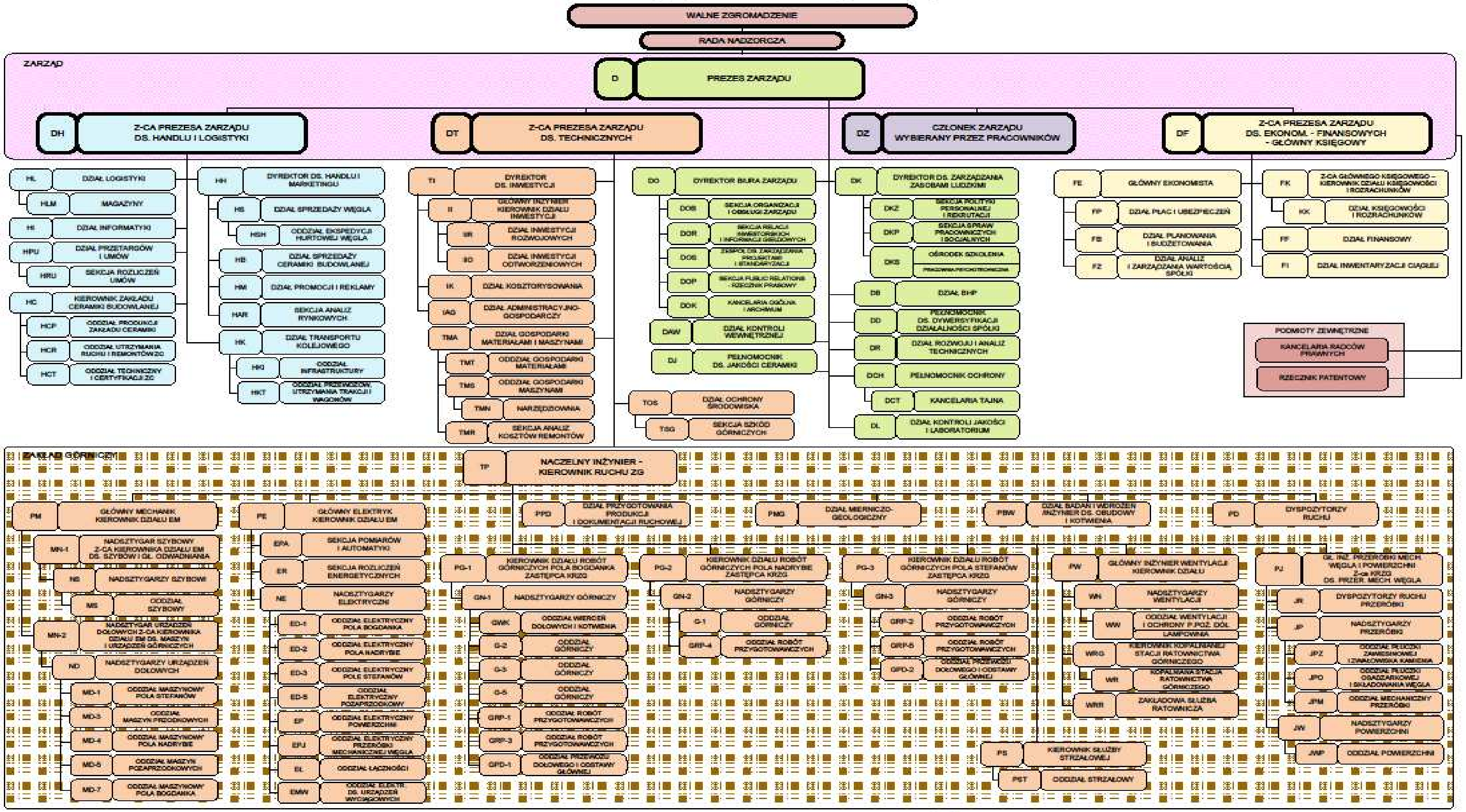
The Company is headed by the Management Board of LW BOGDANKA, which consists of five members:

a) President of the Management Board;
b) Vice-President of the Management Board, Trade and Logistics;
c) Vice-President of the Management Board, Technical Affairs;
d) Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;
e) Member of the Management Board, elected by the employees.

Each member of the Management Board organises and supervises the organisational units within their own division. The organisational structure of the Company also includes the Chief Engineer - Head of Mining Supervision in Mining Facility, who organises and supervises the operation of the mine in accordance with the provisions of the Geological and Mining Law. As of the date of submitting the Report, the position of the Chief Engineer and the Member of the Management Board elected by the employees is held by Mr Janusz Chmielewski. More information on the rules governing the appointment and functioning of the Management Board is provided in section 13.8.1 of the Report.

The following organisation chart presents the organisational structure of the Company.

Schemat organizacyjny Lubelski Węgiel „Bogdanka" S.A.



1 stycznia 2010

1.5.1 Changes in basic principles of management of LW BOGDANKA S.A.

In 2009 the following organisational changes were carried out in the Company:

1. Bearing in mind an improvement in effectiveness of operation of the Company's organisational units, the Administrative and Economic Department was moved from the Division of the Vice-President of the Management Board for Trade and Logistics into the Division of the Vice-President of the Management Board for Technical Affairs, reporting directly to the Investment Director;
2. In connection with a planned launch of wall 1/VI in deposit 385 equipped with a coal plough complex in the Nadrybie Field, new mining section G-1 was created in the Division of the Manager of the Department of Mining Works in the Nadrybie Field, reporting directly to Mining Chief Foremen,
3. In connection with a change in operation organisation of a mine establishment, consisting in transferring the Section of Preparatory Works from the Bogdanka Field to the Stefanów Field and section G-5 from the Nadrybie Field to the Bogdanka Field, the following changes were introduced:
   - from the Division of the Manager of the Department of Mining Works in the Bogdanka Field, the Section of Preparatory Works was transferred to the Division of the Manager of the Department of Mining Works in the Stefanów Field, reporting directly to the Mining Chief Foremen,
   - from the Division of the Manager of the Department of Mining Works in the Nadrybie Field, Mining Section G-5 was transferred to the Division of the Manager of the Department of Mining Works in the Bogdanka Field, reporting directly to the Mining Chief Foremen,
4. In order to rationalise the use of the "Stary Tartak" Training Centre, it was transferred within the Company's structure from the OHS Department to the Administrative and Economic Department,
5. In order to create in the Company's structure a coherent human resources management system, as well as a modern system of increasing professional qualifications, and in order to transfer certain assignments resulting from a current organisation of organisational units, duties of the OHS and Training Department as regards training of employees were transferred to the Training Section, created in the Division of the President of the Management Board, reporting directly to the Human Resources Management Director.

In order to precise principles of management in LW BOGDANKA S.A. in 2009, the following procedures, rules and instructions were introduced:

- procedure of concluding civil law agreements by the Company,
- instruction specifying a decision making procedure of the Company's Management Board and rules for preparation and circulation of documents submitted at the Management Board meetings,
- policy of payment of remunerations and work related benefits in 2009,
- principles of HR policy at the Company,
- the Rules of circulation of stock exchange information in the Company,
- procedure specifying in detail the tasks regarding planning purchases of finished goods.

1.6 Information on branches (establishments) owned by the Company

Lubelski Węgiel BOGDANKA does not have any branches (establishments).

1.7 Organisational and capital affiliations of LW BOGDANKA S.A.

In 2009 Lubelski Węgiel BOGDANKA had capital interests in the following business entities:

Table 1 Capital interests of the Company

Company's business name Registry No.	Company's share in the share capital		Share capital	Core activities
	31 December 2008	31 December 2009		
Łęczyńska Energetyka Spółka z ograniczoną odpowiedzialnością in Bogdanka KRS 0000007317	88.70 % (73,332 shares)	88.70 % (73,332 shares)	PLN 82,677,000.00 divided into 82,677 shares of PLN 1,000	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water
Górnik Łęczna Spółka Akcyjna KRS 0000260820	35.00 % (420 shares)	0 %	PLN 1,200,000.00 divided into 1,200 shares of PLN 1,000	service activities, education, industry processing
Kolejowe Zakłady Maszyn KOLZAM S.A. in Racibórz KRS 0000115564	34.75 % (33,610 shares, including 13,750 preferred shares)	34.75 % (33,610 shares, including 13,750 preferred shares)	PLN 750,000.00 divided into 150,000 shares of PLN 5.00	manufacturer of a rolling stock company in bankruptcy

Łęczyńska Energetyka sp. z o.o.

Łęczyńska Energetyka sp. z o.o. with registered office in Bogdanka (hereinafter referred to as "Łęczyńska Energetyka", the "subsidiary") provides the Company with services with regard to heat energy supplies and conducts water and wastewater management. The subsidiary holds water supply and sewage effluent disposal consent for:

- use of intakes and collection of underground waters in Bogdanka, Nadrybie and Stefanów,
- disposal of cleaned sewage,
- usage of devices cleaning sewage.

Łęczyńska Energetyka also conducts activities with regard to producing hazardous and other than hazardous waste, arising during exploitation in the company's area in Bogdanka, Nadrybie, Zawadów and Łęczna.

The Company's turnover with Łęczyńska Energetyka on account of sale in 2009 amounted to PLN 9,475,000.

Górnik Łęczna Spółka Akcyjna

Until 14 December 2009 the Company held 35% of shares in Górnik Łęczna S.A., whose business includes activities connected with sport, services, education and industrial processing. Information on sale of Górnik Łęczna S.A. shares by the Company is included in section 5.4 of the Report.

By the sponsoring of Górnik Łęczna S.A. the following brands were promoted: Bogdanka and EkoKLINKIER, specified in the "Programme of Marketing Communication of Lubelski Węgiel BOGDANKA S.A. 2008-2010" adopted by the Company's Management Board on 18 July 2008 and approved by the Supervisory Board on 3 October 2008 and in the "Plan of Sponsorship Activities of Lubelski Węgiel BOGDANKA S.A. in 2009", approved by the Supervisory Board of LW BOGDANKA S.A. on 14 May 2009.

Sponsoring of Górnik Łęczna S.A. built a social dimension of the brand in direct surroundings of the enterprise, making the influence of sport organisations operating in local community more dynamic also towards the Company's employees. When selecting such a direction of marketing communication as the sport sponsorship or publicity accompanying sport events, significant impact of sport advertisement on creating dynamic image of the Company connected with sport, broad range of sport advertisement, possibility of using additional channels of information communication within sponsoring, which the sport allows, were taken into consideration. Local and social dimension of sponsoring clubs, as well as supraregional dimension (football) builds an image of the corporation brand BOGDANKA as the brand of the enterprise responsible for development and maintenance of relations in local communities.

More information on principles of conducting Company's marketing activities is included in section 11.1.2 of the Report.

2. DESCRIPTION OF THE COMPANY'S BUSINESS ACTIVITY

2.1 Information on activities conducted by the Company

The scope of the Company's main business activity includes mining activities related to economic mining of hard coal and enriching excavated raw coal, sale of coal to consumers, and the protection and reclamation of mining areas.

According to the Company's Articles of Association, the business activities of Lubelski Węgiel BOGDANKA S.A. are:

a) agriculture, forestry, hunting and fishery (Section A),
b) mining and production (Section B),
c) industrial processing (Section C),
d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D),
e) water supply; liquid and solid waste management; activities related to reclamation (Section E),
f) construction (Section F),
g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G),
h) transport and warehouse management (Section H),
i) activities related to lodging and catering (Section I),
j) information and communications (Section J),
k) finance and insurance (Section K),
l) real estate activities (Section L),
m) professional, scientific and technical activities (Section M),
n) administration and support activities (Section N),
o) education (Section P).

The Company's supplementary activities

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EKOKLINKIER Building Ceramics Plant. In September 2007, its building materials production business was discontinued as a result of a fire at ZCB EKOKLINKIER. In 2009, intensive works were continued in the Building Ceramics Plant connected with reconstruction of its manufacturing buildings and process line that had been commenced in 2008. These reconstruction works were completed and the production was restarted in September 2009.

Within the framework of the Company's capital group, its business additionally includes production of heat energy, repairs of energy facilities, and production of potable and industrial water.

2.2 Compliance with technical regulations and standards

The Mining Plant Lubelski Węgiel BOGDANKA S.A. is operated in line with requirements of Geological and Mining Law (4 February 1994, Dz.U. 27 item, 96 of 1 March 1994, as amended) and in line with requirements of executive regulations as issued pursuant to Article 78 of the Geological and Mining Law, and using the Polish Standards.

Works in the operation of the mining plant are carried out with the observance of principles of mining technology, occupational health and safety rules, fire safety rules, rationalised deposit management, environmental protection and securing and repairing mining damage. The basic ground for the Lubelski Węgiel BOGDANKA S.A. mining plant to conduct its operations is its Operational Plan. In 2009, a new edition was compiled of the Operational

Plan's detailed part, which covered the period 2010-2012, approved by the Director of the District Mining Authority in Lublin on 14 December 2009.

The mine holds the technical designs required to extract its deposits nos. 382 and 385/2, technical designs for its extraction and heading workings, technical documentations for its transport systems, as well as the necessary technologies and work safety instructions. Operation of the mine's basic buildings and facilities (e.g. shafts, fan stations, personnel transport systems) takes place based upon permits issued by the Director of the District Mining Authority in Lublin, whereas operation of its remaining machinery based upon permits issued by the Mining Plant's maintenance manager. Its machines, facilities and materials, as well as its blasting means, have their relative permits obtained from the Head of the State Mining Authority to be used underground, voluntary certificates, or conformance statements issued by their manufacturers. Works in the operation of the Mining Plant are managed by its engineering staff who have qualifications as required by law and have been confirmed by the District Mining Authority in Lublin or the State Mining Authority in Katowice.

2.3 Quality Control

I. Coal Quality Control in Lubelski Węgiel BOGDANKA S.A. includes:

1. Sampling and analysis at the bottom of the mine of the coal excavated by the particular Departments, as well as taking and analysing channel samples.
2. Control of operation, calibrating and adjusting the RODOS system that covers monitoring quantitative and qualitative analysis of the material being excavated from the panels.
3. Sampling and testing the raw coal being excavated from the bottom of the mine and conveyed to its mechanical processing plant.
4. Sampling and tests of the commercial coal, i.e. fine coal, nut coal and pea coal produced by Lubelski Węgiel BOGDANKA S.A.
5. Controlling the processes that are going on in the Mechanical Coal Processing Plant (Zakład Przeróbki Mechanicznej Węgla) in the area of:
   a. jig drilling fluid:
      - analysing the material treated mechanically with the drilling fluid for crushing and drilling purposes, analysis of screenings and drilling fluid products, i.e. waste, concentrate, slurry, and washing water,
   b. heavy drilling fluid:
      - analysing the material treated mechanically with the drilling fluid for crushing and drilling purposes, analysis of drilling fluid products, i.e. waste, concentrate, interlayer, washing water, and slurry.
6. Control of processes going on at the EKOKLINKIER Building Ceramics Plant in the area of sampling and testing coal shale and the ceramic mass.
7. Commercial coal quality claims.

Within the structure of the Quality Control Department, the mine's laboratory also conducts:

- mine air and mine gas analyses,
- dust levels and silica content analyses,
- measurements of noise intensity,
- measurements of mechanical vibrations.

In line with the requirements of PN – EN ISO/IEC 17025:2005/Apl:2007, the Company's laboratory holds its accreditation no. AB 895 issued by the Polish Accreditation Centre in Warsaw to make measurements and analyses of its work environment, i.e.:

- noise intensity and mechanical vibrations,
- air dust and free crystalline silica content

and the accreditation scope extending process was started on 22 February 2010 by:

- sampling and chemical analysis of coal shale and the ceramic mass,
- sampling of the commercial coal chemical analyses.

II. The EKOKLINKIER Building Ceramics Plant has in place its "Plant Building Ceramics Production Control System" that is compliant with PN-EN 771-1: 2006 (EN 771-1 : 2003; EN 771-1 : 2003/A1 : 2005) - PCBC S.A. Certificate no. 1434-CPD-0002. The following items are inspected are: raw material (coal shale), additives (sand, pigment, clay), parameters of manufacturing processes, and the finished products themselves. The finished products are tested for their dimensions, strength, water absorption, and frost resistance. The instruments that are used to make the above-mentioned tests are calibrated.

2.4 Description and assessment of technical equipment and the technologies used

In 2009, Lubelski Węgiel BOGDANKA S.A. excavated its coal using the panel "from the field" system with fall of roof, by means of the coal-cutting machine mining technique.
The main gates are drilled in appropriate advance and built in full prior to starting up the panel. Both main gates are liquidated on a regular time basis downstream the front of the panel and two new headings are built for each successive panel. It is economically unviable to leave one of the main gates for the next panel in exploitation system used, as it is done in many coal mines in Poland and all over the world, as, due to a high rock mass pressure, strong lateral clamping force that affects heading lining and floor uplift, it would be highly labour-consuming and expensive to maintain a working like this downstream the front of the panel.

The panels are up to 320 m long, and panel lengths, depending upon the exploitation field size, are up to 3300 m.

The main gates are most frequently built in an open (5-element) support arch lining arrangement of the ŁPS/C series of types with sections V-32 or V-36 with set size 10 and span of 0.75 ÷ 0.9 m.
Four-piece sets are usually used in corridor workings that have been in existence for longer periods of time, and in the main gates only in case of intensive horizontal clamping and strong floor uplift, whereas the lining is then closed with a certain delay, as soon as the floor uptake has been completed. In case of four-piece sets in the main gates, within the distance of several dozen metres before the panel, foot pieces are being dismantled.

In 2009, a new series of types of ŁPSC sets was implemented, in which element quantities and lengths were selected taking into account the fact that the heading had to cross with the panel. In the new series of types, there are sets for the main gates of 6-element coal-cutting and coal ploughing panels for thicker deposits, and 7-element ones for thinner deposits.
In 2009, the whole of the new heading lining used was built of prolonged lifetime steel (with increased strength and corrosion resistance parameters).

Crossings of the main gates with the panel are maintained by anchoring support lining sets' roof-bar arches using anchoring horseheads, i.e. simple elements made of sections V-32 or V-36 with a hole, anchored using a string anchor with its total length of 6.0 m (the so called high anchoring).

In 2009, wall panels were exploited using heavy-duty mining and lay-by coal-cutting machine complexes, which consisted of:

a) panel and under-panel conveyor with performance up to 1 600 MT/h and high reliability and durability,
b) panel coal-cutting machine with web depth up to 1.0 m or 0.8 m, working and manoeuvring speeds up to 20 m/min, equipped with automatic travelling speed adjustment systems and operation mode signalising systems
c) powered roof support with support capacity of 0.8 – 1.0 MPa, which provides for appropriate roof maintenance, equipped with the latest generation control systems that make it possible to build the roof with speed adjusted to the coal-cutting machine's mining speed.

For a number of years now, LW BOGDANKA has been achieving the highest panel excavation concentration levels and the highest efficiency of work in the entire industry. This is provided by heavy-duty powered panel complexes and using lay-by cycles in the form of long belt conveyors with belts 1200 mm long, high belt travelling speeds and peak performance levels as high as 1600 MT/h.
In 2009, LW BOGDANKA S.A. owned 3 powered panel coal-cutting machine complexes. The machinery that these complexes consist of and their main parameters are listed in Table 2.

Table 2 Basic equipment of panels as used in 2009

Equipment element	**Complex no.**		
	I of 1997	**II of 2001**	**III of 2005**
Panel roof support			
- type	Glinik 10/23 POz	Glinik 15/32 POz	Glinik 12/27 POz
- section's support capacity	0.8 MPa	1.0 MPa	0.9 MPa
Panel conveyor			
- type	PF-4/932	JOY AFC	JOY AFC
- driving power	3×400 kW	3×500 kW	3×500 kW
Panel coal-cutting machine			
- type (swath)	JOY 4LS3 (0.8 m)	JOY 4LS8 (1.0 m)	JOY 4LS8 (1.0 m)
In 2009, the complex was operated in panels:	7/V/385 and 5/IV/385	8/I/382 and 12/II/382	3/IV/385

From 1997 until June 2009, Complex I emptied 7 panels situated in field V of deposit 385/2, and since December 2009 it has been working in field IV of deposit 385/2 in panel 5/IV/385. These panels' total length is 16.8 km, and their total gross output is approximately 16.8 million MT.

In January 2009, Complex II finished to be operated in panel 8/I at deposit 382. In May of the reporting year, the complex started to be operated in the sixth panel - 12/II/382. From 2002 till the end of 2009, this complex was used to excavate the panels, whose total length was 15.5 km, and its output was 20.7 million MT of the excavated material.

In December 2009, complex III (purchased in 2005) finished to exploit panel 3/IV/385, the third one in field IV of deposit 385/2. The total gross output of complex III was 10.9 million MT at the end of 2009, in panels of total panel length of approximately 9.4 km.

In 2009, powered complexes owned were started to be relocated into new fields. In connection with exploitation completion in field V of deposit 385/2 (the last panel 7/V finished to be operated in June 2009) and the powered complex operated in this field was relocated to mine field IV of deposit 385/2. Panel 5/IV was started up in December 2009. In 2010, complex III, which finished to be operated in field IV in the accounting year, will be installed in panel 7/I at deposit 382, whereas the complex that is currently being operated in field I and II (northern) of deposit 382 will be relocated to Nadrybie to mine the last panels in field II of deposit 382.

In 2009, the basic scope of preparatory works was carried out in order to implement a new mining technique in panels, using coal ploughs that make it possible to exploit thinner deposits o (starting from 1.2 m). In April 2009, a contract was concluded to build a coal ploughing complex for LW BOGDANKA. It will be a new 4th powered, and the first coal ploughing complex. A new Mining Department (G-1) was established, and also the personnel training programme was completed in its basic scope both domestically and at the manufacturer's premises (in Germany). Over- and under-panel headings were built, and a commissioning cutting was made for the first panel. Panel strengthening works were commenced in the new complex. Start-up of the testing coal ploughing panel (panel 1/VI at deposit 385/2) is planned for late March 2010. Since 2009, a cutting has been made in the Stefanów Field for yet another coal ploughing panel (panel 7/VII at deposit 385/2) with panel length of approximately 5000 m.

Preparatory workings are drilled mechanically using heading coal-cutting machines AM-75. In 2009, the mine owned five heading coal-cutting machines: four AM-75s, and one coal-cutting machine MR-340X.

Within the exploitation system employed, the main gates are drilled by preparatory work teams, and panels are strengthened or liquidated by excavating teams on their own. Some mining works are carried out by external specialised companies at the mine's request.

For transport purposes in the Mine's underground workings, a system of combustion slackline cableways is used. This system makes it also possible to transport the crew into the Mine's more remote areas.
2009 was another year, in which the initial separation system of stone from the excavated coal material under the ground was operated, using screens installed above retention tanks and at stone separation points. Having been separated, the stone is loaded onto mining trucks, conveyed onto the surface using the 1.2 shaft, and directly passed onto the heap. At the moment, most of the excavated material excavated onto the surface comes through three stone separation points, situated above the Granby tank in location 960 m, above the 6fB tank at a level of 920 m, and at the crossing of the conveyor heading with the lay-by heading 4fB at a level of 920 m. On the other hand, the excavated material from the preparatory works in the Stefanów area (chiefly stone) is separated through the high-diameter hole TU 5fN to mining trucks. In 2009, within this system, almost 600 MT of stone were separated, conveying it in trucks using the 1.2 shaft onto the surface, which made it possible to increase the commercial coal output by approximately 365 thousand MT.

2.5 Licences and permits

Mining activities in the area of economic scale hard coal mineral excavation must be compliant with Geological and Mining Law.
In connection with its requirements, the Company holds:

1. The right to use geological information concerning the BOGDANKA hard coal deposit, acquired against remuneration, pursuant to Agreement No. 266/IG/2006 (982/G/2006) of 8 December 2006, signed with the State Treasury – Ministry of the Environment.
2. Geological documentation supplemented by the Attachment no. 3 for the BOGDANKA hard coal deposit in the new "Puchaczów V" mining area, which was approved with no reservations by the Ministry of the Environment (letter ref. no. DGkzk-479-57/7755/9743/07/EZD of 13 November 2007).
3. A project to manage the BOGDANKA hard coal deposit in the new extended "Puchaczów V" mining area, which enjoyed a favourable opinion issued by the Director of the District Mining Authority in Lublin (opinion no. L.dz. LUB-5350/41/07/08/JD of 11 February 2008).
4. License to excavate hard coal from the BOGDANKA deposit (deposits 385, 385/2, 389, 391) covered by the "Puchaczów V" mining area, issued by the Minister of the Environment no. 5/2009 of 6 April 2009. The license has been granted until 31 December 2031.
5. Agreement upon establishing mining usage to excavate hard coal from the BOGDANKA deposit concluded on 6 April 2009 between the State Treasury – Ministry of the Environment and Lubelski Węgiel BOGDANKA S.A.
6. The Operational Plan approved by the Director of the District Mining Authority in Lublin for its basic part by force of his decision of 30 December 1994 (L.dz. 7/74/213/94/MM). Its basic part will be in force over the license's validity period. Its detailed part that covers years 2007 ÷ 2009 was approved by the Director of OUG [District Mining Authority] in Lublin by force of his Decision of 6 November 2006 (no. L.dz. LUB-0234/72/2006/MM), whereas for the period 2010-2012, it was approved on 14 December 2009.

Furthermore, Lubelski Węgiel BOGDANKA S.A. holds the following decisions and permits:

1. Aquatic legal survey - Decision taken by the Lublin Province Governor of 31 December 2007, ref. no.: ŚiR.III.6811/91/07, for special usage of water resources, which covers:
   a) drainage of the Mining Plant Lubelski Węgiel BOGDANKA S.A. in Bogdanka in volumes not exceeding:
      $Q_{dśr}$ = 20 000 m^3/d, Q_{max} = 22 000 m^3/d, Q_{hmax} = 917 m^3/h,
      with deadline <u>until 31 December 2010,</u> and
      $Q_{dśr}$ = 26 700 m^3/d, Q_{max} = 32 000 m^3/d, Q_{hmax} = 1 400 m^3/h,
      with deadline from 1 January 2011 <u>until 31 December 2017.</u>
   b) disposal of unused mining water from the pit water settling tank using the outflow ditch into the RE "Żelazny" stream, which is a tributary of the Świnka river.
   c) until 31 December 2011, in situations that result from technological and exploitation conditions, it is allowed to dispose pit waters through the tank situated at the waste rock heap.

2. Permit to generate, recover and neutralise waste, including a description of how to handle this waste – Decision taken by the Lublin Province Governor of 10 September 2004 - no. ŚiR VII. 6620/32/2004 – valid until 10 September 2014, as amended.
3. Integrated permit no. PZ 17/2006 for the Building Ceramics Plant installations and waste dump – Decision taken by the Lublin Province Governor of 29 December 2006, valid until 28 December 2016.
4. Integrated permit – Decision no. PZ 21/2009 for the Building Ceramics Plant installation and waste dump No. RŚ.V.MJ.7624/3/09 of 6 July 2009, which altered Decision no. PZ 17/2006 in the area of the waste dump installation, valid until 1 May 2012.
5. Permit received from OUG [District Mining Authority] in Lublin of 30 March 1993, no. L.dz.5/512/1/93/AG to conduct mining / building works connected with mining waste dump extension.
6. Permit to take part in the EU's CO_2 emissions trading scheme for ZCB EKOKLINKIER of 28 March 2006 (L.dz. ŚiR.V.66100/14/20060).
7. Telecommunications Permit No. 74/2004/Z of 27.07.2004 (DRT-WZZ-6080-31/03) to exploit stationary public telephone network – valid for 25 years.

Furthermore, **ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. in Bogdanka**, which provides its services for Lubelski Węgiel BOGDANKA S.A., holds the following permits:

1. Permit to exploit water intakes in Bogdanka and Nadrybie and to exploit liquid waste treatment facilities and to dispose of the treated liquid waste in Bogdanka and Nadrybie (BAO OSR 6223/10/4/2002/2003 of 23 January 2003) – valid until 31 December 2012.
2. Aquatic legal survey to uptake the underground water from the water intake situated in Stefanów (BAO 6223/7/3/2005 of 11 October 2005) – valid until 30 September 2015.
3. Decision taken by the Poviat Starosty [county authorities] in Łęczna, which approves the hazardous waste management programme of 11 July 2008, no. BAO 6140/20/08-7, which defines hazardous waste management methods – valid until 30 June 2018.
1. Integrated permit (Decision No. PZ 13/2007 of 22 October 2007, ref. no. ŚiR.V.6618/8-10/2007, issued by the Lublin Province Governor) valid until 21 October 2017.

3. INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF LW BOGDANKA S.A. CONCLUDED IN 2009 AND FOLLOWING THE BALANCE-SHEET DATE

3.1 Trade agreements

3.1.1 Long-Term Agreement with Elektrownia Kozienice S.A. for the supply of coal in 2003-2011

The Long-Term Agreement on the Supply of Power Coal (hereinafter the "Long-Term Agreement") between the Company and Elektrownia Kozienice S.A., pursuant to which the volume of coal supplies to Elektrownia Kozienice S.A. for a given year is specified by means of concluding an annual agreement, has been in effect since 31 December 2003.

On 3 August 2009, the Company and Elektrownia Kozienice S.A. signed the following agreements and annexes to agreements amending the existing principles of cooperation:

- A new annual agreement on supplying coal in 2010, updating the volume, schedule and value of coal sales. The agreement will be applicable from 1 January 2010 to 31 March 2011. Deliveries will commence after the completion of the deliveries provided for in the annual agreement on supplying coal in 2009. In connection with the performance of that agreement, LW BOGDANKA S.A. expects to generate net revenues of approx. PLN 643.31 million (+/-1%), according to the quality parameters for power coal declared in the agreement (without secondary quality settlements). The agreement provides for liquidated damages for failing to accept or failing to deliver the volume of coal specified in the delivery schedule in the period between 1 January 2010 to 31 March 2011, in the amount of 7.5% of the value of the unaccepted or undelivered coal in settlement periods.

- Annex No. 1 to the Long-Term Agreement, which extends its term by three months, i.e. to 31 March 2011.

- Annex No. 2 to the Annual Agreement on the Supply of Power Coal for 2009, which extends its term by three months, i.e. to 31 March 2010 and shall become effective in the period between 1 July 2009 and 31 March 2010. That annex contains an updated schedule of deliveries in the second half of 2009 and in the first quarter of 2010 and a reduction of the price of coal by 4.55 %, relative to the previous agreed price. As a result of the conclusion of Annex 2, the Company's revenues from deliveries of coal to Elektrownia Kozienice S.A. carried out from the date when the Company's securities were admitted to stock exchange trading (i.e. 22 June 2009) to the end of the term of the Annual Agreement On Supplying Power Coal for 2009 will amount to approx. net PLN 385.15 million.

The Company announced the conclusion of these agreements in Current Report no. 21/2009 of 3 August 2009.

3.1.2 Long-Term Agreement with Elektrownia Kozienice S.A. for the supply of coal in 2011-2025

On 4 March 2010 the Company concluded a new Long–Term Agreement on the Supply of Power Coal with Elektrownia Kozienice S.A. between 4 March 2010 and 31 December 2025. Estimated value of the agreement according to supply prices in 2010 amounts to PLN 10,432 million. The commencement of the actual deliveries of power coal will take place in the first quarter of 2011, following the completion of deliveries pursuant to the current Long-Term Agreement.

The agreement for 2011-2025 provides for the Parties concluding annual agreements specifying: volume, supply schedule, supply prices, other rules governing logistics and supply settlements during the term of the Agreement.

The agreement stipulates a two-year notice period for the termination of the agreement and liquidated damages for the failure to collect or supply the volume of coal specified in the supply schedule in the amount of 20% of the value of coal which has not been collected or supplied. Each of the Parties has the right to claim supplementary damages on general terms if the liquidated damages are insufficient to cover the value of the incurred damage.

The Company announced the conclusion of this Long-Term Agreement in Current Report no. 5/2010 of 5 March 2010.

3.1.3 Annex to the significant agreement with Zakłady Azotowe Puławy S.A.

On 25 November 2009 the Company and Zakłady Azotowe Puławy S.A. with registered office in Puławy concluded an Annex to the Long-Term Agreement on Sale of Power Coal of 8 January 2009.

The subject of the Long-Term Agreement is the sale of power dust to Zakłady Azotowe Puławy S.A. The Annex extends the term of this agreement to 31 December 2013 (previously the term of the agreement was to 31 December 2012). The Annex updates the volume of the deliveries of power coal for 2010-2012, extends the term of the agreement to 2013, and specifies the prices for delivery of power coal in 2010.

The Agreement provides for the following liquidated damages:
- The party at fault in the event of failure to deliver the volumes specified in the agreement, is entitled to charge the other Party with liquidated damages in the amount of 10% of the value of the undelivered volume;
- Each Party has the right to claim supplementary damages on general terms, if the liquidated damages fail to cover the value of damage incurred by the Party.

The Company announced the conclusion of this Annex in Current Report no. 29/2009 of 25 November 2009.

3.1.4 Agreements concluded with Elektrownia Połaniec S.A. – GDF SUEZ ENERGIA POLSKA

On 15 January 2010 the Company and Elektrownia Połaniec S.A. concluded an Annex to the Long-Term Agreement on Sale of Power Coal, concluded on 30 October 2007 and described in the Issue Prospectus in section 8.6.3.2. The Annex shall remain in effect until 31 December 2010. As a result of its conclusion the Company's revenue from supply of coal to Elektrownia Połaniec S.A. in 2010 shall amount to PLN 215.28 million.

The Agreement provides for the following liquidated damages:
- For the failure to supply or collect the amount of coal indicated in the Agreement, liquidated damages shall be paid in the amount of 10% of the value of coal which has not been supplied or collected.
- Each Party has the right to claim supplementary damages on general terms, if the liquidated damages fail to cover the value of damage incurred by the Party, except for lost profit.

The Company announced the conclusion of this Annex in Current Report no. 2/2010 of 15 January 2010.

3.2 Agreements related to achieving issue objectives

3.2.1 Concluding an agreement on the construction of a system for transporting excavated material from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka Field

On 30 November 2009 the Company and POLIMEX – MOSTOSTAL S.A. with registered office in Warsaw concluded an agreement the subject of which is the construction of a system for transporting excavated material from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka Field at LW BOGDANKA S.A., with the scope of the agreement covering preparing detailed designs, facility construction, delivery of machines and equipment, on-site assembly, launch and start-up of machines and equipment, and obtaining permits for use.

The construction of a system for transporting excavated material from the Stefanów Field to the Mechanical Coal Processing Plant is one of the main issue objectives of LW BOGDANKA S.A., as presented in section 3.1 of the Company's Issue Prospectus.

The net value of the agreement amounts to approx. PLN 99.5 million. The time limit for the performance of the agreement has been specified for 12 months from its conclusion.

The Agreement provides for the following liquidated damages:
- The Contractor agrees to pay to the Client liquidated damages for any delay in the performance of the Subject of the Agreement, caused by any fault of the Contractor, in the amount of 0.05% of the net value of the maximum remuneration per each day of delay;
- In the event of a termination of the agreement by the Client due to reasons attributable to the Contractor, the Client shall be entitled to charge the Contractor with liquidated damages in the amount of 10% of the net value of the maximum remuneration.
- The Contractor agrees to pay the Client liquidated damages for delays caused by reasons attributable to the Contractor, for delays in remedying faults discovered during the technical acceptance of the facilities or upon final acceptance of the subject of the agreement or during the warranty period – in the amount of 0.02% of the net value of the maximum remuneration, per each commenced day of delay with respect to the dates of remedying the faults, as set out in the agreement or defined by the Client pursuant to the agreement.
- In the event of termination of the agreement by the Contractor for reasons attributable to the Client, the Contractor shall be entitled to charge the Client with the liquidated damages in the amount of 10% of the net value of the maximum remuneration.
- In the event that the incurred damage exceeds the value of the liquidated damages and in other cases of non-performance or undue performance of the agreement, the Parties may seek redress on general

terms resulting from the Civil Code. The Client is entitled to concurrently demand liquidated damages specified in sections above.

Termination of the agreement by any of the Parties shall not deprive the Client of the right to charge the Contractor with liquidated damages on the grounds stated above. Reservation of the liquidated damages does not exclude the possibility of terminating the Agreement by the Client due to the untimely performance thereof on terms and conditions provided for in the Agreement and the Civil Code.

The Company announced the conclusion of this Agreement in Current Report no. 30/2009 of 30 November 2009.

3.2.2 Conclusion of an agreement on preparing designs and constructing a headframe and shaft top building

On 26 January 2010 the Company signed an agreement for the preparation of designs and construction of a headframe for shaft 2.1 and a shaft top building along with remaining facilities, including winch foundations, friction lift foundations, an air trunk, roads, yards, tracks and area lighting in the Stefanów Field.

The investment will be carried out by Przedsiębiorstwo Montażu Konstrukcji Stalowych i Urządzeń Górniczych Pemug S.A. in Katowice. The agreement value amounts to net PLN 34.4 million.

Pemug S.A. is a leader of a consortium in this undertaking, formed also by KPBP BUDUS from Katowice. The consortium won the tender for the investment due to the best price offer.

The investment will be carried out within 12 months from the day of signing the agreement, not later, however, than by 31 January 2011.

3.2.3 Conclusion of an agreement with PRS WSCHÓD Sp. z o.o.

On 21 September 2009 the Company and Przedsiębiorstwo Robót Specjalistycznych WSCHÓD Sp. z o.o. with registered office in Lublin concluded an agreement the subject of which is the performance by PRS WSCHÓD of mining works consisting in the execution of mining excavations in Lubelski Węgiel BOGDANKA S.A. Stefanów Field.

The maximum net value of the agreement amounts to approx. PLN 54 million, and the deadline for its performance is specified as 31 December 2012.

In connection with the signing of the agreement, the total value of agreements concluded between the Company and Przedsiębiorstwo Robót Specjalistycznych WSCHÓD Sp. z o.o. with registered office in Lublin, from 22 June 2009, i.e. from the date of admission of the Company's securities to public trading, until 21 September 2009 amounted to net PLN 112.2 million.

The Agreement provides for the following liquidated damages:

1. a) Due to delay in performance of the subject matter of the agreement with respect to the time limit specified in the agreement - liquidated damages in the amount of 0.05% of the net value of the maximum remuneration due for the performance of the subject matter of the agreement, for each commenced day of delay,
   b) Due to delay in liquidation of defects found during the acceptance procedure or within the warranty period, with respect to the time limit specified by the Client - liquidated damages in the amount of 0.05% of the net value of the maximum remuneration due for the performance of the subject of the agreement, for each commenced day of delay,
   c) Due to the termination of the agreement by the Client for reasons attributable to the Contractor - liquidated damages in the amount of 10% of the net value of the maximum remuneration due for the performance of the subject matter of the agreement,
2. Due to the termination of the agreement by the Contractor for reasons attributable to the Client, the Contractor shall be entitled to charge the Client with the liquidated damages in the amount of 10% of the net value of the maximum remuneration due for the performance of the subject matter of the agreement.
3. In the event that the incurred damage exceeds the value of the liquidated damages and in other cases of

non-performance or undue performance of the agreement, the Parties may seek redress on general terms resulting from the Civil Code, including the redress transferring the amount of the reserved liquidated damages. The Client is entitled to concurrently demand liquidated damages specified in section 1 item a), b), and c). Termination of the agreement by any of the Parties shall not deprive the Client of the right to charge the Contractor with liquidated damages on the grounds stated above.

4. Reservation and charging the liquidated damages does not exclude the possibility of terminating the agreement by the Client due to the untimely performance thereof on terms and conditions provided for in the agreement and the Civil Code.

The Company announced the conclusion of this Agreement in Current Report no. 26/2009 of 21 September 2009.

3.3 Change of term of the working capital loan agreement incurred at PKO BP S.A.

The non-revolving working capital loan agreement concluded with Powszechna Kasa Oszczędności Bank Polski S.A. with registered office in Warsaw on 27 May 2008 was described in section 8.6.7.1 of the Issue Prospectus and in section 4.11.1 of this Report.

On 29 December 2009 the Company and PKO BP S.A. signed an Annex to the Agreement referred to above. As a result of the concluded Annex, the final maturity date of the working capital loan has been established for 31 December 2014. Other terms of the loan remain unchanged.

The value of the loan amounts to PLN 250,000,000.

The Company announced the conclusion of this Annex in Current Report no. 32/2009 of 29 December 2009.

3.4 Transactions with related entities

In 2009 the Company and its subsidiaries concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on terms other than market terms.

In 2009 the following agreements concluded by LW Bogdanka and Łęczyńska Energetyka were in effect:

- for heat energy supplies,
- for water supplies and disposal of sewage, maintenance services and others,
- for sale of power coal and electrical power,
- agreements of lease, rental and lending for use,
- heating of inlet air on shaft 2.2.

Information on transactions concluded by LW BOGDANKA with related entities of the State Treasury is provided in section 32 of the Annual Separate Financial Statements of LW BOGDANKA S.A. for 2009.

4. FINANCIAL STANDING OF LW BOGDANKA S.A.

All financial data and indicators have been presented in this Report on the basis of the Financial Statements of LW BOGDANKA S.A. for the financial year from 1 January to 31 December 2009 (the "Annual Separate Financial Statements"), drawn up according to the International Financial Reporting Standards approved by the European Union.

4.1 Basis of preparation of the Annual Separate Financial Statements

The Company draws up its financial statements on the basis of the International Financial Reporting Standards approved by the European Union. Those standards, referred to jointly as the International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The separate 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.

4.2 Selected financial information

Table 3 Selected financial information of LW BOGDANKA (in PLN '000 unless indicated otherwise)

Item	2009	2008	Change (%)
Revenue on sales	1,110,851	1,026,217	8.25%
Gross profit	355,650	302,587	17.54%
EBITDA	369,069	340,773	8.30%
EBIT (Operating profit)	230,801	208,051	10.93%
Profit before taxation	239,736	204,484	17.24%
Net profit for the financial year	192,053	158,076	21.49%

Table 4 Cash flow

Item	2009	2008	Change (%)
Net operating cash flow	360,565	332,197	8.54%
Net investing cash flow	-359,854	-327,685	9.82%
Inflows	15,369	4,801	220.12%
Outflows	-375,223	-332,486	12.85%
Net financing cash flow	582,219	44,362	1212.43%
Inflows	701,051	70,000	901.50%
Outflows	-118,832	-25,638	363.50%

Table 5 Selected balance-sheet items

Item	31.12.2009	31.12.2008	Change (%)
Total assets	2,459,519	1,645,672	49.45%
Tangible fixed assets	1,521,808	1,297,098	17.32%
Current assets, including:	806,128	223,239	261.11%
Stocks	49,223	33,515	46.87%
Trade debtors and other receivables	113,719	131,537	-13.55%
Overpaid income tax	2,754	685	302.04%
Cash and cash equivalents	640,432	57,502	1013.76%
Total liabilities	729,002	539,427	35.14%
Provisions for liabilities	126,675	106,238	19.24%
Long-term liabilities (excluding provisions)	415,713	168,911	146.11%
including credit facilities and long-term loans	250,000		-
Short-term liabilities (excluding provisions)	186,614	264,278	-29.39%
including credit facilities and short-term loans		100,000	-100.00%
Shareholders' equity	1,730,517	1,106,245	56.43%
Share capital	301,158	246,158	22.34%
Weighted average number of ordinary shares ('000)	28,830*	23,014	25.27%
Net earnings attributable to shareholders of the Company (PLN per share)	6.66*	6.87	-3.66%

* considering the new issue of shares in 2009, the calculations took into account the weighted average number of shares. Number of shares as at 31 December 2009 with the dividend right: 34,013,590.

4.3 Current and forecast economic and financial situation of LW BOGDANKA S.A. with the assessment of financial resources management

Current financial and economic situation of LW BOGDANKA S.A. is very good which is shown in the Company's financial results for 2009. The recorded productivity and profitability ratios of operations and of the invested capitals indicate a very high efficiency of resources management at the Company.

The recorded liquidity and debt ratios, as well as the analysis of actual payments of the Company show that there are no problems with the payment of the Company's liabilities.

Currently there are no liquidity or limited solvency threats for LW BOGDANKA S.A.

A detailed analysis of the Company's financial situation along with the assessment of its financial resources management is presented in the sections to follow.

4.3.1 Revenue on sales, information on basic products and sales markets

During four quarters of 2009, LW BOGDANKA's revenue on sales was higher by 8.25% than revenue on sales achieved in 2008. The recorded growth in the revenue on sales was attributable to increase in revenue on coal sales (by 8.27%), ceramics sales (by 240.98%) and goods and materials (by 1.99%). Revenue on other activities dropped by 20.91% on a year-on-year basis.

The increase in revenue on coal sales is a result of higher unit prices of coal at the beginning of 2009. The growth in sales of ceramics was the strongest as compared to the analogous period of the previous year. It was a consequence of a low comparability base of 2008, as no production and sales were effected in that period, which resulted from fire of the Construction Ceramics Plant in September 2007.

The main source of revenue on sales of LW BOGDANKA in the three quarters of 2009 (and four quarters of 2008) was the production and sale of power coal. From 1 January 2009 and 31 December 2009, those activities generated 97.10% of the revenue on sales generated by LW BOGDANKA (compared to 97.08% in the same period of 2008). Most (approx. 85%) coal sales in the above-mentioned period (as well as in the same period of the previous year) were carried out on the basis of long-term commercial contracts with regular key customers of the Company (primarily Elektrownia Kozienice S.A., GDF Suez Energia S.A. [former Elektrownia Połaniec S.A.], Zakłady Azotowe Puławy S.A. and Elektrownia Ostrołęka S.A.).

The customers for the Company's coal, whose share in sales exceeded 10% of the total revenue on sales in 2009, were:

- Elektrownia Kozienice S.A. – approx. 51 % of share in the revenue on coal sales;
- Elektrownia Połaniec S.A. – GDF Suez Energia Polska Group - approx. 18 % of share in the revenue on coal sales;
- Elektrownia Ostrołęka S.A. – approx. 10 % of share in the revenue on coal sales.

The share of other fields of the Company's activity, including the activity of the Construction Ceramics Plant, in LW BOGDANKA's revenue on sales was 2.90% during the four quarters of 2009 and 2.92% during the four quarters of 2008.

Table 6 Dynamics of changes in product range with respect to revenue on sales of LW BOGDANKA (PLN '000)

Item	2009	2008	Change (%)
Sales of coal	1,078,681	996,249	8.27%
Sales of ceramics	8,528	2,501	240.98%
Other activities	15,095	19,087	-20.91%

Sales of goods and materials	8,547	8,380	1.99%
Total revenue on sales	**1,110,851**	**1,026,217**	**8.25%**

Table 7 Structure by type of revenue on sales of LW BOGDANKA (in PLN '000)

Item	2009	% share	2008	% share
Sales of coal	1,078,681	97.10%	996,249	97.08%
Sales of ceramics	8,528	0.77%	2,501	0.24%
Other activities	15,095	1.36%	19,087	1.86%
Sales of goods and materials	8,547	0.77%	8,380	0.82%
Total revenue on sales	**1,110,851**	**100.00%**	**1,026,217**	**100.00%**

The activities of LW BOGDANKA are primarily concentrated in Poland. During four quarters of 2009, export sales constituted a fraction of revenues generated – their share in total revenue on sales remained unchanged and amounted to 0.06% comparing with 0.03% at the end of Q4.

Table 8 Geographical structure of revenue on sales of LW BOGDANKA (in PLN '000)

Item	2009	% share	2008	% share
Domestic sales	1,110,146	99.94%	1,025,960	99.97%
Foreign sales	705	0.06%	257	0.03%
Total revenue on sales	**1,110,851**	**100.00%**	**1,026,217**	**100.00%**

4.3.2 Production capacity

During four quarters of 2009 (as in the previous years), the revenue on sales generated by LW BOGDANKA were primarily determined by the Company's production (extraction) capacity, as presented in the table below.

Table 9 Production (extraction) capacity of LW BOGDANKA for 4 quarters 2009 and 4 quarters 2008 ('000 tonnes)

2009	2008	2009/2008
5,236.73	5,576.56	93.91%

In 2009, as compared to 2008, the extraction of commercial coal was lower by approx. 6%, which resulted from extraction of coal from deposit's parts of lower quality and the Company's performance of larger extent of preparatory and adjustment works in seam 385/2, which led to a greater stone content in raw excavated material and a decrease in commercial coal extraction despite the capacity of the hoisting gear remaining constant and being used to optimum effect.

Table 10 Production capacity of the mine in 2009

No.	Item	Code	Unit	Day
1	Working time of the shaft*	T_p	hours/day	21h 5min
2	Max. lifts per hour	L_w	number	35
3	Number of skips (average in year)	L_s	skip	751.8
4	Weight of the excavated material in 1 skip	q_j	t/skip	35.0
5	Max. excavating capacity of a shaft	W_b	t/d	26,313
6	Use of production capacity ratio	W_p		1.0
7	Gross excavation	W_b	t/d	**26,313**
8	Net excavation	W_n	t/d	**17,340.2**
9	Coal extraction (line 8/7)	u		0.6589

* Monday to Friday – 6:20 – 3:25
- Saturdays – 6:20 – 3:25

Deposit reserves

The mining area exploited by Lubelski Węgiel BOGDANKA S.A. is divided into three fields: the Bogdanka, Nadrybie and Stefanów Fields. The main shafts of the mine (including the lifting shaft) are located in the Bogdanka Field, while peripheral shafts are located in the Nadrybie and Stefanów Fields.

On 6 April 2009, LW BOGDANKA S.A. obtained a concession to mine hard coal from the Bogdanka deposits being part of the Puchaczów V mining area (seams 382, 385/2, 389 and 391), with an area of 73.3 km^2, located in the districts of Cyców, Ludwin and Puchaczów in the Lublin Province. Up to that date, the Company had conducted mining operations on the basis of a concession in the Puchaczów IV area, with an area of 57 km2 (seams: 382, 385/2).

Table 11 Mine resources covered by the concession to mine hard coal, updated as at 31 December 2009

Reserves [mln tonnes]	Puchaczów V
Balance	456.4
Industrial	330.9
Recoverable	251.3

4.3.3 Stocks

The balance of stock of coal held by the Company as at 31 December 2009 was 64,784.64 tonnes (which represents an increase by 60,773.43 tonnes with respect to the level as at 31 December 2008). It should be noted that this is a standard stock level, allowing the current sales to be secured and is an operational technological stock with the current daily extraction of approx. 17,500 tonnes/day.

Table 12 Stock of coal [tonnes]

Item	31.12.2009	31.12.2008	2009 - 2008
Stock of coal	64,784.64	4,011.21	60,773.43

4.3.4 Suppliers

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. At LW BOGDANKA S.A. all procurement orders above the EU thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the Act. Other orders are made based on procedures applied at the Company.

In 2009, the supplies for the Company from any of the Company's suppliers, did not achieve the level exceeding 10% of the total revenue on sales.

Main supplier of the material for basic production in 2009 was HUTA ŁABĘDY S.A. – whose supplies included gallery casings, and construction elements for gallery casings (crossings, shackles, special gates).

4.4 Statement of comprehensive income

4.4.1 Statement of comprehensive income for 2009

Table 13 Selected items of the separate statement of comprehensive income of LW BOGDANKA

Item	2009	2008	Change (%)
Revenue on sales	1,110,851	1,026,217	8.25%
Cost of products, goods and materials sold, cost of sales, administrative expenses	861,338	813,809	5.84%
Gross profit on sales	**249,513**	**212,408**	**17.47%**
Other income	6,030	1,655	264.35%
Other expenses	-2,140	-3,707	-42.27%
Net operating profit/loss	253,403	210,356	20.46%
Other net profit/loss	-22,602	-2,305	880.56%
Profit on operating activities	**230,801**	**208,051**	**10.93%**
Financial income	16,002	5,487	191.63%
Financial expenses	-7,067	-9,054	-21.95%
Profit before taxation	**239,736**	**204,484**	**17.24%**
Income tax	47,683	46,408	2.75%
Net profit for the financial year	**192,053**	**158,076**	**21.49%**

During the 12 months of 2009, revenue on sales of LW BOGDANKA increased by 8.25% compared to the same period of the previous year.
Operating result of the Company was primarily affected by the higher gross profit on sales, which is related to a higher dynamics of changes in revenue on core business with respect to the dynamics of changes in operating expenses. During the period under analysis, the cost of products, goods and materials sold amounted to PLN 861,338,000 compared to PLN 813,809,000 for 12 months of 2008.

<u>Other income</u>

For 12 months of 2009, other operating revenues amounted to PLN 6,030,000 compared to PLN 1,655,000 for the same period of the previous year – this means a decrease in their value by 264.35%. Such a high value resulted from damages received (PLN 1,657,000 in 2009 compared with PLN 741,000 a year before), and released provision for liabilities (PLN 4,373,000 in 2009 compared with PLN 914,000 in 2008).

<u>Other expenses</u>

For 12 months of 2009, other operating expenses amounted to PLN 2,140,000 compared to PLN 3,707,000 incurred in the same period of the previous year – this means a decrease in their value by 42.27%. In the expenses of 2008, higher donations, among other items, were posted in books.

These values of other operating income generated and expenses incurred led to operating profit for 12 months of 2009 reaching PLN 230,801,000, compared to PLN 208,051,000 for the previous year. Operating profit increased by 10.93% on a year-on-year basis.

Financial income

In 2009, the Company obtained financial income of PLN 16,002,000, compared to PLN 5,487,000 in the previous year (an increase of 191,63%). The increase in financial income resulted from the higher amount of cash available at LW BOGDANKA, kept in bank deposits.

Financial expenses

For 12 months of 2009, financial expenses of PLN 7,067,000 were incurred, compared to PLN 9,054,000 in the same period of previous year. The decrease in financial expenses by 21.95% resulted from a change in the structure of the interest bearing debt of the Company – the share of a relatively more cost-effective debt was higher.

These values of financial income generated and expenses incurred led to pre-tax profits for 12 months of 2009 reaching PLN 239,736,000, compared to PLN 204,484,000 in the previous year. Profit before taxation increased by 17.24% on a year-on-year basis.

4.4.2 Assessment of factors an untypical events affecting the operating profit for the financial year

In 2009, no untypical factors or events occurred to affect the Company's operations. Such events affecting the Company's operations and financial results in the financial year 2010 or which may affect them in the years to come, are described in other sections of the Report.

4.4.3 Differences between financial results disclosed in the annual report and the published forecasts of results for 2009

LW BOGDANKA S.A. did not publish forecasts for Company's separate financial results. The description of differences between the consolidated financial results presented in the consolidated annual report for 2009 and the previously published forecasts of the Group's results for 2009 is presented in the Directors' Report on Operations of the LW BOGDANKA Group for the period from 1 January 2009 to 31 December 2009.

4.5 Operating result – EBIT

During 12 months of 2009, LW BOGDANKA recorded a 10.93% increase in operating profits compared to the same period of the previous year. The Company's operating profit increased from PLN 208.05 million to PLN 230.80 million. This was primarily due to an 8.25% increase in the Group's revenue on sales.

4.6 Profitability

The profitability ratios of LW BOGDANKA S.A. are presented below.

Table 14 Profitability ratios of LW BOGDANKA

Item	2009	2008
Gross margin on sales	32.02%	29.49%
EBITDA	33.22%	33.21%
EBIT	20.78%	20.27%
Gross margin	21.58%	19.93%
Net margin	17.29%	15.40%
Return on Assets	9.36%	10.43%
Return on Equity	13.54%	15.35%

Principles for calculating the ratios:

- Gross margin on sales = gross profit for the period/revenue on sales for the period
- EBITDA = EBITDA for the period/revenue on sales for the period
- EBIT = EBIT (operating profit) for the period/revenue on sales for the period
- Gross margin = pre-tax profit/revenue on sales for the period
- Net margin = net profit for the financial year/revenue on sales for the period
- Return on assets = net profit for the financial year/average assets based on the value from the beginning and end of the period
- Return on equity = net profit for the financial year/average shareholders' equity based on the value from the beginning and end of the period

During the analysed four quarters of 2009, the profitability ratios regarding the Company's operations achieved higher values than in the same period of the previous year. The LW BOGDANKA's gross margin achieved the level of 32.02% and was higher than the analogous period of 2008 by more than 2 p.p. The growth of the abovementioned profitability ratio was attributable to the increase in sales by 8.25% with a simultaneous increase in costs of products sold by 4.36%. EBIT was 20.78%, which means an increase by approx. 0.5 p.p. in comparison of the same period of 2008. Gross margin amounted to 21.58%, while net margin amounted to 17.29%.

The net profit of LW BOGDANKA for 12 months of 2009 was PLN 192.05 million and was higher by 21.49% than the net profit for 12 months of 2008.

4.7 Cash flows in LW BOGDANKA

Table 15 Structure of cash flows in LW BOGDANKA (PLN '000)

Item	2009	2008
Net operating cash flow	360,565	332,197
Pre-tax profit (loss)	239,736	204,484
Total adjustments	120,829	127,713
Including amortisation/depreciation	*138,268*	*132,722*
Net investing cash flow	-359,854	-327,685
Inflows	15,369	4,801
Outflows	-375,223	-332,486
Net financing cash flow	582,219	44,362
Inflows	701,051	70,000
Outflows	-118,832	-25,638
Including paid dividends	-88,832	-5,638
Total net cash flow	**582,930**	**48,874**
Cash and cash equivalents (beginning of period)	57,502	8,628
Cash and cash equivalents (end of period)	**640,432**	**57,502**

LW BOGDANKA's policy relating to financing and managing funds primarily involves financing operating activities from profits and bank loans.

In 2009, LW BOGDANKA financed its business activities with operating cash flows, the main source of which were pre-tax earnings. LW BOGDANKA also achieved a positive balance of cash flows from financing activities due to a capital increase and short-term bank loan (in a total amount of PLN 250 million). The investment activities of LW BOGDANKA generated a negative balance of cash flows primarily due to investments made in tangible fixed assets in a total amount of PLN 365.89 million, primarily in connection with the pursued development strategy assuming the extension of the Stefanów Field.

The release in the first half of 2009 of the second tranche of a working capital loan in the amount of PLN 180 mln and the issue of shares and their introduction to public trading were primarily responsible for the increase in financial resources from cash flows presented in the separate financial statements.

4.8 Balance - sheet

Table 16 Selected items of LW BOGDANKA's balance - sheet

Item	31.12.2009	31.12.2008	Change (%)
Assets			
Fixed assets	**1,653,391**	**1,422,433**	**16.24%**
Tangible fixed assets	1,521,808	1,297,098	17.32%
Intangible fixed assets	12,084	10,083	19.85%
Investments in affiliated undertakings	73,341	73,761	-0.57%
Trade debtors and other receivables		418	-100.00%
Cash and cash equivalents	46,158	41,073	12.38%
Current assets	**806,128**	**223,239**	**261.11%**
Stocks	49,223	33,515	46.87%
Trade debtors and other receivables	113,719	131,537	-13.55%
Overpaid income tax	2,754	685	302.04%
Cash and cash equivalents	640,432	57,502	1013.76%
TOTAL ASSETS	**2,459,519**	**1,645,672**	**49.45%**
Shareholders' equity			
Shareholders' equity attributable to Company's shareholders	**1,730,517**	**1,106,245**	**56.43%**
Ordinary shares	301,158	246,158	22.34%
Other capitals	894,535	404,094	121.37%
Retained profits	534,824	455,993	17.29%
Total shareholders' equity	**1,730,517**	**1,106,245**	**56.43%**
Liabilities			
Long-term liabilities	**478,792**	**223,248**	**114.47%**
Loans and borrowings	250,000		-
Deferred income tax liabilities	59,903	58,318	2.72%
Employee benefits liabilities	97,976	100,971	-2.97%
Provisions for other liabilities and charges	63,079	54,337	16.09%
Trade creditors and other liabilities	7,834	9,622	-18.58%

Short-term liabilities	**250,210**	**316,179**	**-20.86%**
Loans and borrowings		100,000	-100.00%
Employee benefits liabilities	26,338	18,877	39.52%
Provisions for other liabilities and charges	63,596	51,901	22.53%
Trade creditors and other liabilities	160,276	145,401	10.23%
Total liabilities	**729,002**	**539,427**	**35.14%**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**2,459,519**	**1,645,672**	**49.45%**

The balance-sheet total as at 31 December 2009, as disclosed in the Annual Separate Financial Statements increased by PLN 813,847,000 as compared to the balance sheet presented as at the end of 2008, which resulted both from an increase in fixed and current assets on the assets side, and increase in own and third-party capitals, on the shareholders' equity and liabilities side.

During the period being analysed, the value of fixed assets increased by 16.24% (from PLN 1,422,433,000 to PLN 1,653,391,000). The increase is primarily due to the performance of LW BOGDANKA's investment programme and this trend should be expected to continue in the following years. At the same time, current assets increased by 261.11%, primarily due to an increase in cash of PLN 582,930,000, as well as an increase in stocks of materials and products of PLN 15,708,000. At the same time, trade debtors were reduced by PLN 17,818,000 to PLN 113,719,000. In total, the sum total of assets as at 31 December 2009 relative to the Opening Balance increased by 49.45%.

The increase in the items disclosed in the balance sheet on the shareholders' equity and liabilities side was caused by an increase in the following values:

- shareholders' equity by PLN 624,272,000 (including the issue of 11 million of shares),
- long-term loans and borrowings by PLN 250,000,000 (which resulted from a change in balance-sheet presentation – in relation with the signing of the annex to the loan agreement, whereby a final repayment date was extended, and the short-term loan was transformed into a long-term loan.

4.9 Information on the structure of assets and liabilities

Table 17 Structure of the balance sheet of LW BOGDANKA

Item	31.12.2009	Structure	31.12.2008	Structure
Assets				
Fixed assets	**1,653,391**	**67.22%**	**1,422,433**	**86.43%**
Tangible fixed assets	1,521,808	**61.87%**	1,297,098	**78.82%**
Intangible fixed assets	12,084	0.49%	10,083	0.61%
Investments in affiliated undertakings	73,341	2.98%	73,761	4.48%
Trade debtors and other receivables			418	0.03%
Cash and cash equivalents	46,158	1.88%	41,073	2.50%
Current assets	**806,128**	**32.78%**	**223,239**	**13.57%**
Stocks	49,223	2.00%	33,515	2.04%
Trade debtors and other receivables	113,719	4.62%	131,537	7.99%
Overpaid income tax	2,754	0.11%	685	0.04%
Cash and cash equivalents	640,432	26.04%	57,502	3.49%
TOTAL ASSETS	**2,459,519**	**100.00%**	**1,645,672**	**100.00%**

Shareholders' equity				
Shareholders' equity attributable to Company's shareholders	**1,730,517**	**70.36%**	**1,106,245**	**67.22%**
Ordinary shares	301,158	12.24%	246,158	14.96%
Other capitals	894,535	36.37%	404,094	24.55%
Retained profits	534,824	21.75%	455,993	27.71%
Total shareholders' equity	**1,730,517**	**70.36%**	**1,106,245**	**67.22%**
Liabilities				
Long-term liabilities	**478,792**	**19.47%**	**223,248**	**13.57%**
Deferred income tax liabilities	59,903	2.44%	58,318	3.54%
Employee benefits liabilities	97,976	3.98%	100,971	6.14%
Provisions for other liabilities and charges	63,079	2.56%	54,337	3.30%
Trade creditors and other liabilities	7,834	0.32%	9,622	0.58%
Short-term liabilities	**250,210**	**10.17%**	**316,179**	**19.21%**
Loans and borrowings	,		100,000	6.08%
Employee benefits liabilities	26,338	1.07%	18,877	1.15%
Provisions for other liabilities and charges	63,596	2.59%	51,901	3.15%
Trade creditors and other liabilities	160,276	6.52%	145,401	8.84%
Total liabilities	**729,002**	**29.64%**	**539,427**	**32.78%**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**2,459,519**	**100.00%**	**1,645,672**	**100.00%**

The asset item with the largest share in the balance-sheet total is fixed assets (their share amounted to 67.22% and 86.43% as at 31 December 2009 and 31 December 2008 respectively). Tangible fixed assets accounted for 61.87% and 78.82% of the balance-sheet total respectively. The share of current assets increased in the period under analysis from 13.57% (as at 31 December 2008) to 32.78% (as at 31 December 2009), accompanied by an increase in the share of cash and cash equivalents from 3.49% to 26.04%.

The share of shareholders' equity in the total value of shareholders' equity and liabilities increased from 67.22% (as at 31 December 2008) to 70.36% (as at 31 December 2009). In this group, the largest share is taken by other capitals increasing from 24.55% to 36.37% of the balance-sheet total.

The total share of liabilities in the balance-sheet total decreased from 32.78% (as at 31 December 2008) to 29.64% (as at 31 December 2009), with the share of short-term liabilities decreasing to 10.17% and the share of long-term liabilities increasing to 19.47%. Short-term trade liabilities decreased during the period under analysis from 8.84% (as at 31 December 2008) to 6.52% (as at 31 December 2009) of the balance-sheet total.

4.10 Capitals, funds and sources of capital of LW BOGDANKA S.A.

As at 31 December 2009, the Company's shareholders' equity amounted to PLN 1,730,517,092.99.

The shareholders' equity is comprised of:

- Ordinary shares PLN 301,158,074.25
- Other capitals PLN 894,535,473.02
  including:
  - Supplementary capital PLN 548,654,950.29
  - Reserve capitals PLN 345,880,522.73

- Retained profits 534.823.545.72
  including:
  - revaluation capital reserve, PLN 66,023,407.80
  - Other capitals - retained profits brought forward PLN 276,747,261.09
  - Net profit PLN 192,052,876.83.

Basic capital at the beginning of period, i.e. as at 1 January 2009, amounted to PLN 246,158,074.25, including share capital PLN 115,067,950.00. In compliance with the requirements of IAS 29, the basic capital was revalued, as it was created in the hyperinflation. The revaluation difference amounts to PLN 131,090,124.25. During 2009, a change occurred to the share capital by PLN 55,000,000.00 as a result of an issue of 11,000,000.00 share at a nominal price of PLN 5. The value of the basic capital as at the end of 2009 amounted to PLN 301,158,074.25.

Supplementary capital:

In the course of transformation of the state-stock company, the supplementary capital was calculated at a level representing a difference between the sum of: founding and corporate funds and the share capital.
As at 31 December 2009, the Company's supplementary capital amounted to PLN 548,654,950.29. In reference to 2008, the capital increased by PLN 466,051,000. It represents share premium charged to the supplementary capital. As at 31 December 2009, the supplementary capital represented 31.70% of the share capital.

Revaluation capital reserve:

As at 31 December 2009, the revaluation capital reserve amounted to PLN 66,023,407.80. In relation to 2008 the revaluation capital reserve did not change.

Other capital reserves:

As at 31 December 2009, the Company's other capitals amounted to PLN 345,880,522.73. In 2009 they increased by 9.3%.

Social Benefits Fund:

Company Social Benefits Fund is made annually from the basic write-off increasing the Company's operating expenses. In 2009, the social fund was increased by PLN 5,000,000.00 in connection with the incentive scheme signed, as well as with other income for a partial payments to the employees for conducting social activity and interests on funds on a bank account for loans granted from the Social Benefit Fund for housing purposes. This is a special purpose account, used in accordance with the Act on the Company Social Benefits Fund of 4 March 1994 (Dz.U. No. 70, item 335 of 1996, as amended) And the rules adopted by the Management Board. In relation to 2008, the funds decreased by PLN 382,544.02 and as at 31 December 2009 they amounted to 4,772,242.09.

Mine Closure Fund:

In compliance with Article 26c of the Geological and Mining Law of 4 February 1994 (uniform text Dz.U. of 2005 No. 228, item 1947, as amended), and the Ordinance of the Minister of Economy of 24 June 2002 on detailed rules of creating and functioning the mine closure fund (Dz. U. No. 108 item 951), Lubelski Węgiel BOGDANKA S.A. gathers funds for covering the costs of a liquidation of a mining plant, in a separate bank account. As at 31 December 2009 the value of those funds amounted to PLN 46,158,309.78. Increase in funds at the bank account results from a payment made from mandatory annual write-offs of PLN – 2,496,073.55 and bank interest on funds deposited in the account of PLN – 2,555,060.21.
Future deposits related to the liquidation of a mining plant are covered with a provision disclosed in the statement of comprehensive income. Amounts of provisions are presented in a current value of expenditure which are expected to be necessary for meeting the liability referred to above.

Table 18 Sources of capital of LW BOGDANKA (PLN '000)

Item	2009	2008
Total long-term financing	**771,051**	**0**
Increase in shareholders' equity	521,051	0
Contracted long-term bank loans	250,000	0
Total short-term financing	**375,294**	**436,794**
Operating cash flow	360,565	332,197
Cash inflow from investment activities	15,369	4,801
Contracted short-term bank loans	0	100,000
Total sources of capital	**1,146,345**	**436,794**
Cash and cash equivalents (beginning of period)	57,502	8,628
Cash and cash equivalents (end of period)	640,432	57,502

In 2009, LW BOGDANKA recorded a significant increase in shareholders' equity which resulted from the issue of new shares in June 2009. It should be noted that the disclosed contraction of a long-term bank loan of PLN 250 million is not an actual inflow, but only a change in presentation of the existing debt (in relation with the signing of the annex to the loan agreement, whereby a final repayment date was extended, and the short-term loan was transformed into a long-term loan).

Table 19 Shareholders' equity and third-party capital of LW BOGDANKA (PLN '000)

Item	31.12.2009	31.12.2008
Shareholders' equity	**1,730,517**	**1,106,245**
Third-party capital	**729,002**	**539,427**
Long-term third party capital	478,792	223,248
Provisions for other liabilities and charges	63,079	54,337
Trade creditors and other liabilities	7,834	9,622
Loans and borrowings	250,000	0
Deferred income tax liabilities	59,903	58,318
Employee benefits liabilities	97,976	100,971
Long-term third-party capital	250,210	316,179
Provisions for other liabilities and charges	63,596	51,901
Loans and borrowings	0	100,000
Trade creditors and other liabilities	160,276	145,401
Employee benefits liabilities	26,338	18,877

In 2009, LW BOGDANKA financed its operations from shareholders' equity (70.36% as compared with 67.22% as at the end of 2008) and using third-party capital in the form of a bank loan and a commercial loan granted by the Group's suppliers (29.64% as at 31 December 2009 compared with 32.78% as at 31 December 2008).

4.11 Debt and financing structure of LW BOGDANKA

Table 20 Debt ratios of LW BOGDANKA

Item	31.12.2009	31.12.2008
Overall debt ratio	0.30	0.33
Debt to equity ratio	0.42	0.49
Fixed capital to fixed assets ratio	1.30	0.90
Short-term debt ratio	0.10	0.19
Long-term debt ratio	0.19	0.14

Principles for calculating the ratios:

- overall debt ratio = total liabilities / total shareholders' equity and liabilities
- debt to equity ratio = total liabilities / shareholders' equity
- fixed capital to fixed assets ratio = (shareholders' equity + long-term liabilities excluding provisions) / fixed assets
- short-term debt ratio = short-term liabilities / total liabilities
- long-term debt ratio = long-term liabilities / total liabilities

In the analysed period of four quarters of 2009, the share of liabilities in the financing of the operations of LW BOGDANKA, measured by the overall debt ratio, amounted to 30% as at 31 December 2009 (compared to 33% as at 31 December 2008). LW BOGDANKA's debts did not constitute a threat, in the period covered by the Annual Separate Financial Statements, to its operations or ability to punctually fulfil its obligations. In the period under analysis, the debt to supplementary capital ratio also decreased.
Fixed capital to fixed assets ratio increased, which is a positive sign.

Table 21 Liquidity ratios of LW BOGDANKA

Item	31.12.2009	31.12.2008
Current liquidity ratio	4.32	0.84
Quick liquidity ratio	4.06	0.72

Principles for calculating the ratios:

- current liquidity ratio = current assets/short-term liabilities excluding provisions
- quick liquidity ratio = (current assets – stocks)/short-term liabilities excluding provisions

During the period covered with the Annual Separate Financial Statements, the LW BOGDANKA's liquidity ratios stood at a safe, very high level. Such a significant increase in the analysed liquidity ratios results from the value of cash injected to the Company as a result of the share capital increase (debut on the Warsaw Stock Exchange). Given the pursued investment programme, a drop of these ratios should be expected to the levels treated as optimum in relevant literature.

Table 22 Turnover rates of LW BOGDANKA (in days)

Item	2009	2008
Stock turnover	20.0	18.7
Trade debtors collection rate	40.3	41.2
Trade creditors payment rate	73.9	76.3
Operating cycle (1+2)	60.3	59.9
Cash conversion cycle (4-3)	-13.6	-16.4

Principles for calculating the ratios:

- stock turnover = (average stocks based on the level at the beginning and end of the financial year/cost of products, goods and materials sold) x the number of days in the period
- trade debtors collection rate = (average trade debtors based on the level at the beginning and end of the financial year/revenue on sales) x the number of days in the period
- trade creditors payment rate = (average trade creditors based on the level at the beginning and end of the financial year/cost of products, goods and materials sold) x the number of days in the period

As at 31 December 2009, the value of the stock turnover ratio showed a growth trend compared to 31 December 2008 (an increase from 18.7 days to 20.0 days), which indirectly is a result of an increase in the stock of coal.
In the period under analysis, the trade debtors collection rate, which derives from the realised higher sales revenue and better collection of receivables, dropped from 41.2 (as at 31 December 2008) to 40.3 (as at 31 December 2009).
The trade creditors payment rate decreased in the period covered by financial information from 76.3 days (as at 31 December 2008) to 73.9 days (as at 31 December 2009).
As a result of the trends described above, a cash conversion cycle of 13.6 days as at 31 December 2009 was achieved.

Banks providing services to LW BOGDANKA S.A. in 2009:

The Company's main current account is maintained in Bank PEKAO S.A. Grupa PEKAO S.A. III O/ Lublin, No. 88 1240 2382 1111 0000 3893 3280.

Auxiliary accounts and deposit accounts are maintained by:
- BRE Bank S.A. Lublin Branch,
- Powszechna Kasa Oszczędności Bank Polski S.A. Regional Corporate Branch, Corporate Centre in Lublin,
- Kredyt Bank SA in Lublin,
- Bank Ochrony Środowiska S.A. Lublin Branch,
- Bank Millennium S.A. Lublin Corporate Centre in Lublin.

4.11.1 Loan agreements

In 2009 the Company had five signed loan agreements.

1. Agreement with Bank Millennium S.A. with registered office in Warsaw concluded on 21 May 2007 on current account loan facility in the amount of PLN 25,000,000 for the period from 21 May 2007 to 20 May 2008, subsequently amended with Annexes No. 1/2007, No. 2/2007, No. 3/2008 and No. A4/60176614/08/400/04, changing the loan amount (from 14 September 2007 to 31 December 2007 PLN 45,000,000, from 1 January 2008 to 13 October 2009 PLN 40,000,000) and extending the loan agreement term to 13 October 2009. In the period from 1 January 2009 to 13 October 2009 that amount was PLN 40,000,000. Applicable interest is: 1M WIBOR + margin 0.25 pp, change since 14 October 2008 1M WIBOR + margin 0.5 pp, interest on past due debt was 17.25%. Front-end fee of 0%, and since 14 September 2007 front-end fee of 0.012% (including for increasing the amount); since 14 October 2008 commitment fee of 0.12% annually.
   Collaterals for the loan comprise:
   - statement on submission to execution by the Borrower,
   - powers of attorney to an account maintained in Bank Millennium S.A.

   Since 14 October 2008, under Annex No. A4/60176614/08/400/04 the Company has assumed an obligation to direct to the account in Bank Millennium S.A. inflows in the minimum amount of PLN 20,000,000 each month (condition accounted for in quarterly periods) and to establish a property collateral for transactions (excluding stock) in the amount not smaller than 200% of the transaction amount, if the economic and financial standing deteriorates and exposure value is lost, resulting in necessity to set up provisions and write-offs.
   On account of the said loan in 2009 the Company paid commissions and fees in the amount of PLN 37,742.
   As at 31 December 2009 the Company did not have liabilities under the above loan.
2. Agreement concluded with BRE Bank S.A. on 12 February 2008, valid until 9 February 2009, on current account loan facility in the amount not exceeding PLN 10,000,000 for financing current activity. The interest on the loan is O/N WIBOR + 0.2 pp, interest on past due debt in the amount of four times the lombard loan rate of the National Bank of Poland per year, front-end fee in the amount of 0.1%. Collateral for the loan is a blank promissory note issued by the borrower along with a promissory note declaration. In 2009 the Company did not incur any costs under the loan.
   As at 31 December 2009 the Company did not have liabilities under the loan agreement concluded with BRE Bank S.A.

3. Agreement concluded with Kredyt Bank S.A., valid from 5 October 2007 to 7 August 2009, on long-term working capital loan in the Polish zlotys in the amount of PLN 50,000,000. Interest on the loan was 1M WIBOR + margin 0.19 pp, interest on past due debt 25% (in compliance with the Ordinance of the President of the Bank's Management Board), and front-end fee of 0%. Purpose of that loan is to finance current activities of the Company. Collateral for the loan is a blank promissory note along with a promissory note declaration.
   In 2009 the Company incurred interest costs under the above mentioned loan in the amount of PLN 635,000. The Company fully repaid a remaining part of the loan in two identical instalments, PLN 15,000,000 each, on: 30 April 2009 and 5 August 2009, with the zero balance as at the end of 2009.

4. Agreement concluded with Bank Ochrony Środowiska S.A. on 19 February 2008 until 15 February 2009, whose object is a current account loan facility for PLN 10,000,000 for financing current needs connected with conducting business activities of the Company. Interest on the loan amounted to 1M WIBOR + margin 0.3 pp, interest on past due amounts was 19.55%, and front-end fee of 0%. Collateral for the granted loan is a blank promissory note along with a promissory note declaration and power of attorney to the borrower's current account in BOŚ S.A.
   In 2009 the Company did not incur any costs under the loan.
   As at the end of 2009 the Company did not have liabilities under the said loan agreement, its term expired on 15 February 2009.

5. Agreement on working capital non-revolving loan in the Polish currency, concluded with Powszechna Kasa Oszczędności Bank Polski S.A. on 27 May 2008 until 31 December 2009, extended with the Annex of 29 December 2009 until 31 December 2014 for the amount of PLN 250,000,000. In 2009 the tranches were paid on the following dates: 31 March 2009 in the amount of PLN 50,000,000 and 30 June 2009 in the amount of PLN 130,000,000. As at the end of 2009 liabilities under the loan in PKO BP S.A. amounted to PLN 250,000,000.
   The interest is: 3M WIBOR + 0.60 pp, the interest on past due debt is 29%, commission for granting the loan 0.40% of the loan amount, payable on used tranches, commission for changing loan maturity date introduced with Annex No. 3 of 29 December 2009, commission 0.40% of the loan amount. The loan is used for financing current business activities of the Company specified in the Articles of Association, and namely partial financing of investment tasks carried out in 2008-2009, and potential repayment of existing debt; the borrower stipulated that it had the right to change the factual purpose of the loan during the agreement term.
   Collateral for the granted loan is:
   - a blank promissory note along with a promissory note declaration,
   - clause on deduction from an account in PKO BP S.A.,
   - transfer of receivables under agreements on coal sale in the amount of PLN 250,000,000, to which the Company is entitled from Elektrownia Kozienice S.A. with registered office in Świerże Górne.

   Annex No. 3 of 29 December 2009 introduces the Company's obligation to additionally secure the loan if, in the PKO BP S.A. assessment, financial standing of the Borrower and/or capital group deteriorates, resulting in a necessity of making write-downs (according to the IAS) and specific provisions by PKO BP S.A., in a form and value agreed with PKO BP S.A., allowing for not creating the above mentioned write-downs and provisions.

Repayment of the loan changed with Annex No. 3 of 29 December 2009 shall be carried out on the following dates and in the following amounts:

1. 2011 – PLN 50,000,000;
2. 2012 – PLN 65,000,000;
3. 2013 – PLN 70,000,000;
4. 2014 - PLN 65,000,000.

The total liabilities of the Company under the incurred loans as at 31 December 2009 amounted to PLN 250,000,000 and referred exclusively to the loan in PKO BP S.A.

The loans were not contracted:

a) against pledge, mortgage or assignment of tangible fixed assets as collateral of a credit line with equivalent exceeding EUR 50,000,
b) against pledge, mortgage or assignment of the organised part of enterprise as collateral of a credit line.

In 2009, Lubelski Węgiel BOGDANKA S.A. did not contract or grant any loans.

In 2009, Lubelski Węgiel BOGDANKA S.A. made no releases from debt.

4.12 Costs by type and function

The recording of prime costs by type covers all expenditure related to the factors and means of production used by the Company in its operating activities. The costs thus incurred, in accordance with the formula presented, reflect the use of a given means or factor of production (e.g. materials, energy or labour costs) regardless of whether these will be charged to the costs of a given period as related to the product excavated and sold (trade coal) or whether they have been used by the Company to finance the construction of a given facility with its own funds and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as fixed assets, constituting depreciation costs of the period in question.

These costs, according to the Annual Separate Financial Statements, are as follows:

Table 1 Costs by type of LW BOGDANKA S.A.

Item	2009	2008	Change (%)	Change (PLN '000)
Depreciation	138,268	132,722	4.18%	5,546
Materials and energy consumption	325,026	215,882	50.56%	109,144
Third party services	201,215	166,247	21.03%	34,968
Employee benefits	398,189	332,361	19.81%	65,828
Entertainment and advertising costs	9,110	8,407	8.36%	703
Taxes and charges	19,784	20,563	*-3.79%*	-779
Other costs	30,646	14,664	*108.99%*	15,982
TOTAL COSTS BY TYPE	**1,122,238**	**890,846**	**25.97%**	**231,392**
Change in inventories	-9,962	9,763	-202.04%	-19,725
Value of work performed for own purposes, including:	**259,057**	**94,610**	**173.81%**	**164,447**
Cost of goods and materials sold	8,119	7,810	3.96%	309
Cost of sales	**861,338**	**813,809**	**5.84%**	**47,529**

As shown by the above breakdown, over the four quarters of 2009 the Company incurred prime costs to the value of PLN 1,122,238,000, as compared to PLN 890,846,000 in 2008 (a nearly 26% increase).

The rise in the above costs can be attributed mainly to an over 50% surge in the cost of materials and energy (PLN 109,144,000). This group of costs was significantly affected by the extensive scope of works and investments related to the expansion of the coal mine (extension of the Stefanów Field), and is the effect of greater energy consumption and a substantial rise in energy prices observed by the Company as compared to 2008.

The increase in costs of third party services as well as costs of materials and energy used is attributable to the greater scope of investment works related to the expansion of the Stefanów Field. As far as employee benefits are concerned, the increase in their value has been caused, on the one hand, by the extended scope of works in the Stefanów Field, as in the case of the costs outlined above, and by the one-off incentive bonus paid out in Q3 of 2009 to the amount of PLN 36,000,000, on the other.

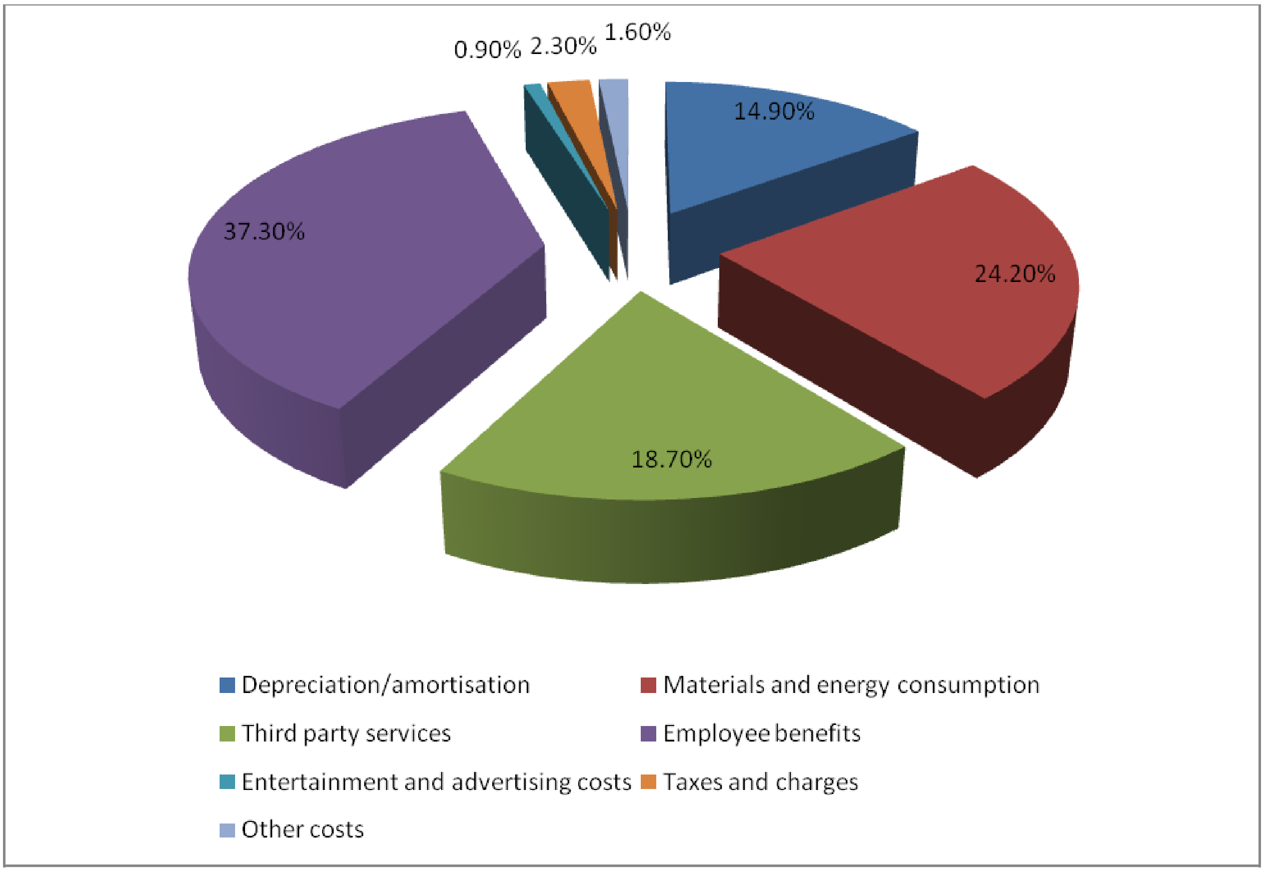
As all costs mentioned above are closely related to the increase in the number and value of mining facilities constructed by the Company with its own resources, in line with the Company's development strategy based on the extension of the Stefanów Field, as adopted by the Management Board. The said facilities include infrastructure both on the ground, as well as underground, where mining works connected with cutting the deposit and preparing new walls for coal extraction are carried out.

Table 2 Structure of costs by type of LW BOGDANKA S.A.

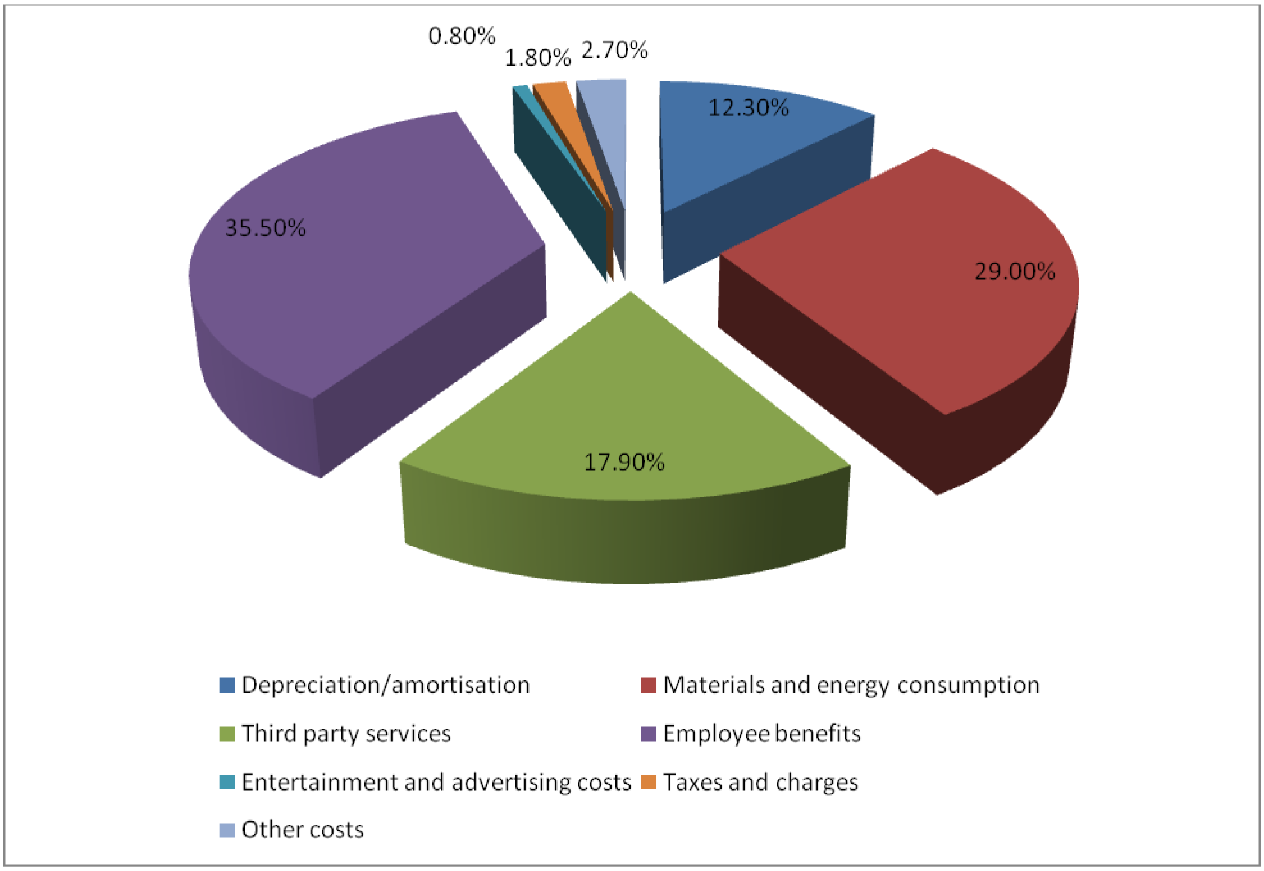
Item	4 quarters 2009	4 quarters 2008
Depreciation/amortisation	12.3%	14.9%
Materials and energy consumption	29.0%	24.2%
Third party services	17.9%	18.7%
Employee benefits	35.5%	37.3%
Entertainment and advertising costs	0.8%	0.9%
Taxes and charges	1.8%	2.3%
Other costs	2.7%	1.6%
TOTAL	**100.00%**	**100.00%**

As show in the break down above, a major cost item are labour costs with the share in total costs at a level of 35-37%. The cost of materials and energy consumption is also significant and growing on the period under analysis. The observed increase of this group in total costs for 2009 is related primarily to an increased scope of preparatory works for the cut into the deposit in the Stefanów Field. The share of other groups in the total costs, such as depreciation or third party services, is stable.

Costs by type 2008



Costs by type 2009



Adjusting the costs by type by the cost of own work capitalised, the change in inventories, and other adjustments, yields the value of costs as classified by function.

Table 25

Item	4 quarters 2009	4 quarters 2008	Change (%)	Change (PLN '000)
Cost of products, goods and materials sold	755,201	723,630	4.36%	31,571
Selling costs	41,652	40,336	3.26%	1,316
Administrative costs	64,485	49,843	29.38%	14,642
Cost of sales	**861,338**	**813,809**	**5.84%**	**47,529**

The rise in the costs of core activity over the period analysed amounted to 5.84%, with the biggest increase affecting the administrative costs. This is due, among other factors, to the costs of property taxes and the one-off incentive bonus paid out in Q3 of 2009.

4.13 Information on sureties and guarantees provided and received in a given financial year, in particular sureties and guarantees provided to LW BOGDANKA S.A.'s affiliated entities

In 2009 Lubelski Węgiel BOGDANKA S.A. did not provide any guarantees or sureties.

4.14 Information on financial instruments

In 2009 the Company did not use any financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions and loss of solvency. Financial instruments held by the Company are disclosed and described in the Annual Separate Financial Statements.

4.15 Real properties owned by the Company

4.15.1 Real properties in the possession of the Company

Status as at 1 January 2009 (area in sq.m.):

- own land	**1,850,864.00**
- including "Szczecin" reservoir	**1,666,090.00**
- land in perpetual usufruct	**3,298,038.00**
- land in usufruct	**539,500.00**
- total area	**5,688,402.00**

Restructuring activities in 2009 (area in sq.m.):

- purchase of the ownership title	**212,227.00**
-including "Szczecin" reservoir	**55,500.00**
- purchase of the right of perpetual usufruct	**0.0**
- sale of the ownership title	**0.0**
- sale of the right of perpetual usufruct	**2,802.00**
- waiving the usufruct	**539,500.00**

Status of land as at 31 December 2009 (area in sq.m.):

- own land	**- 2,063,091.00, increasing the area by 212,227.00**
- including "Szczecin" reservoir	**- 1,721,590.00**
- land in the perpetual usufruct	- **3,295,236.00, decreasing the area by 2,802.00**
- total area	- **5,358,327.00, decreasing the area by 330,075.00**

1. Buildings

As at 31 December 2009, 155 items were classified into group "1" of tangible fixed assets, including pithead building, baths, administrative building of the Management Board, multifunctional building, power generator set building, Bogdanka and Nadrybie transformer stations, dump station for washers, waste loading unit, locomotive depot, underground reservoirs, warehouses, pavilions, outpatient clinic building, training and holiday centres, halls, utility building with garage, buildings in the Stefanów Field.

2. Structures

The following are included in group "2":

- mining building structures (towers for coal pits, shafts, extensive mining excavations),
- underground building structures apart from mining ones (cable ducts of shafts, of reservoirs for materials),
- pipelines and ducts, network of pipelines of main drainage, fire protection, compressed air in shaft S 1.5, rainwater sewer system, technological pipelines, transfer and outlet pipelines, heavy liquid pipelines, water pipelines),
- communication building structures (internal roads and squares, paved squares for storing coal dust, construction ceramics, square at reservoir of stone placement with access road, mining railway stations, railway connection, sidings, Zawadów railway ramp, railway bridges over Świnka, Wieprz, Mogielnica rivers, frame culverts under railway system),
- engineering building structures (sewage treatment plants, surrounding ditches on mining waste dump, along siding, rainwater clarifier Zawadów, culverts),
- power lines and grids, networks of communication and signalisation of railway transport – Zawadów,
- telecommunication lines, optical fibre telephone lines,
- sports structures,
- other building structures (lightening of the area, fencing).

4.15.2 Lease and rental agreements in 2009

Total revenue of LW BOGDANKA S.A. under lease and rental agreements for land, premises, machines and devices amounted in 2009 to PLN 8,430,000 net.

5. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR LW BOGDANKA S.A.'S OPERATIONS IN 2010

5.1 SWOT analysis

5.1.1 External factors

External development opportunities for the Company:

- Growing global demand for fuel and energy;
- Changes to the state policy with regard to the restructuring of the mining sector – recognition of the significance of coal as a dominant fuel in Poland's energy balance, governmental plans to maintain the production capacity of the coal mining sector and efforts to boost its efficiency;
- Favourable geographical location and the resulting transport allowance for coal buyers;
- Proximity to Poland's eastern border and exports opportunities to the East (Ukraine and Belarus);
- Good relations with stakeholders, no conflicts, close co-operation with local governments;
- Increased scope of independent coal shipments under the license obtained, opportunity to limit the costs of coal transport to the buyers;
- Long-term contracts with key coal buyers;
- Development of clean coal technologies, introduction of zero emission coal production and gasification technologies;
- A state aid scheme for initial investments in the mining industry announced by the government, as a result of which the Company may obtain additional funds for its investments;
- Listing of the Company shares on the Warsaw Stock Exchange, enhancing the transparency of LW BOGDANKA S.A., increasing its credibility in the eyes of business partners and creditors, as well as providing an opportunity to raise additional funds for investments through a public offering.

External threats:

- Consolidation in the mining industry – the emergence of strong business entities stimulating the power coal market;
- Risk of losing business independence due to the consolidation of the fuel and power sector on terms and conditions unfavourable for the Company;
- Government aid for Silesian coal mines undergoing the restructuring process, involving financial support, writing off debt and producer subsidies;
- Imports of cheaper coal from the East (Russia) by industrial business partners
- EU policy on the reduction of CO2 emissions;
- Strong financial position of coal buyers (commercial power plants), pressure to reduce the Company's sales margin and profit;
- Growing use of alternative energy sources;
- Work efficiency curbed by safety considerations and technology, failing to correspond to the forecast rise in the cost of production means and materials, as well as labour costs;
- Risk related to the scope of property tax on production infrastructure;
- High investment costs of cutting-edge technologies used by the Company – worldwide monopoly of machine and equipment manufacturers.

5.1.2 Internal factors

Internal strengths:

- Mining operations conducted under farmland – limited charges related to mining damage;
- No geological disturbance, straight cut into the deposit, enabling the planning of walls with panel length of 2-5 km;
- Nearly horizontal location of coal seams, possibility of fully mechanised mining;
- Low production cost per 1 ton of coal and the highest underground and general productivity in the sector;
- Continually rising share in the sales of coal to commercial power plants in Poland;
- State-of-the-art machinery and its ongoing modernisation;
- Experienced and well-educated managerial and executive staff and highly-qualified and experienced workforce;
- Positive and stable relations with major coal buyers, reinforced by long-term contracts;
- Good liquidity ratios;
- Opportunities for further restructuring and diversification of business activity.

Internal weaknesses:

- Unfavourable fundamental position (coal depth, temperature hazards, thickness of seams);
- High ash content in coal and the need to enrich coal dust;
- Relatively high content of organic sulphur in the coal deposit (1.0-2.0%);
- Unforeseeable local difficulties with maintaining drifts and mining headings due to high formation pressures and low resistance of the surrounding rock;
- Relatively low share of the hard coal market (7%) as compared to competitive coal companies.

5.2 Development strategy

A strategic goal for the development of LW BOGDANKA S.A. is to build and enhance the value for the shareholders by means of:

a) gaining access to new reserves and increasing the level of coal extraction based on the enlargement of the Stefanów Field;
b) maintaining a stable position as the main supplier of coal in eastern Poland, particularly for the commercial power industry;
c) strengthening its competitive position by cutting the units costs of extractions and production.

The main strategic objectives of development defined by the Company:

a) doubling the level of extraction of raw materials and thereby doubling the share in the market for hard coal producers in Poland;
b) improving the efficiency of hard coal extraction and production;
c) ensuring that LW BOGDANKA S.A. is self-sufficient regarding the supply of electricity by developing electricity production activities;
d) environmental protection measures.

Strategic objectives of development defined by the Company along with activities planned for 2010-2015:

1) Doubling the level of extraction of hard coal

a) <u>increasing production capacity of the Company by enlarging the Stefanów Field</u>

The major component of the development strategy of the Company is enlarging the Stefanów Field, which will enable the production capacity of LW BOGDANKA S.A. to be doubled, and thus to increase the annual quantity of hard coal extraction, starting from 2011 (from the present 5.4 million tonnes to reach the target level of 11.1 million tonnes per annum in 2014).

The main investments related to the enlargement of the Stefanów Field include:

- extension of the mining area
  - Extension of the "Puchaczów IV" mining area by a part of the "K-3" area of approx. 17 km² will enable further mining operations of seam 385/2 and will make new, lower seams 389 and 391 available and ready for mining operations. Total recoverable coal reserves after the extension will amount to approx. 260 million tonnes,
  - Coal extraction from the above mentioned seams in the Stefanów Field will be carried out through the 2.1 lifting and ventilation shaft, the start-up of which is planned for 2011,

- Extension of the Mechanical Coal Processing Plant
  - The aim of the planned extension of the Mechanical Coal Processing Plant is to double the capacity of the Plant from the current level of 1,200 t/h to 2,400 t/h, which will make it possible to increase hard coal production, assuming that the extraction level will double,
  - Implementation of the above mentioned tasks will make it possible to meet market requirements through adjustment of production capacity of the Company and the structure of the coal sold,

b) <u>Increase in employment and human resource management</u>

The strategy of the Company concerning human resources is consistent with the production and investment strategy carried out by LW BOGDANKA. Its priority is to ensure an appropriate (in relation to its production capacity) level of human resources for the Company in the context of the mine enlargement (Stefanów Field) and extension of the Mechanical Coal Processing Plant, as well as the process of acquiring pension rights by the present employees. As a result of pension regulations applicable at the end of 2009, by 2015 about 30% of the Company staff (including mainly employees directly engaged in coal extraction) will have acquired pension rights. Additionally, mining regulations require that employees involved in mining plant operations should possess certain qualifications, the acquisition of which requires, among others, a few years of experience. Consequently, since 2007 the Company has been systematically recruiting new employees in order to acquire the necessary human resources in the context of expected increase in the level of extraction. As a result of these activities, by 2010, the Company intends to reach the level of employees holding special qualifications to conduct mining works that would be adequate to the planned level of production capacities resulting from the enlargement of the Stefanów Field.
In order to implement the strategy of human resource management, the Company also intends to establish and continue cooperation with schools educating persons with particular qualifications in mining, mechanical and electrical industries.

Additionally, the human resource strategy of the Company provides for undertaking activities aimed at improvement of the occupational health and safety level, through:

- improvement of the occupational health and safety management system,
- providing the employees with training and professional development,
- introducing new solutions as regards monitoring of risks in technological processes and work environment parameters,
- introducing new solutions as regards comprehensive development of work environment,
- introducing new technologies, machines and equipment in production processes.

c) Marketing operations

An increase in the value of LW BOGDANKA will be also favoured by implementation of the Company marketing strategy, aiming at promotion of LW BOGDANKA and its products: hard coal (BOGDANKA brand) and ceramics (EkoKLINKIER brand), leading to the expected sales results.
The Company plans to conduct systematic marketing operations related to search for new consumers for hard coal in order to diversify the structure of contracting parties, and thus to decrease the level of the Company dependency on consumers.

2) Improving the efficiency of hard coal extraction

a) Implementing a plough technique of coal getting in mining longwalls (gaining access to new industrial reserves)

In the first half of 2008, the Company undertook works related to implementation of a plough technique of coal getting in mining longwalls, in thin seams – of less than 1.6 m. Implementation of the above mentioned technique under mining and geological conditions of LW BOGDANKA's mine will enable mining operations of seams of lower thickness than at present (from 1.2 m), and thus, it will increase industrial resources of coal at the disposal of the Company. A coal getting technique applied so far (shearer technique) allowed the Company to reach the extraction of coal at a level of approx. 70% (ratio of commercial coal extraction from total excavated material). Implementing of a plough technique of coal excavation will enable an increase in the above mentioned ratio to approx. 75%. The Company is planning to start exploitation of the first longwall in a plough technique in 2010.

b) Improving the efficiency of hard coal production

Increase in the production capacities in the Company related to the investment in the Stefanów Field and utilisation of the existing mine infrastructure, including shafts in Stefanów, will enable the Company to improve economic efficiency of hard coal production. Additionally, implementation of the project:

- due to the start-up of a second mining shaft 2.1 in the region of the occurrence of deposit reserves in seams 385/2, 389 and 391 will eliminate the need to construct and maintain dog headings for transporting excavated material from the Stefanów area to the Mechanical Coal Processing Plant in Bogdanka,
- will improve safety of mine operations, since in case of malfunctioning or stopping one of the shafts, the extraction could be carried out through another one.

c) Restructuring and management of non-productive assets

Development strategy of the LW BOGDANKA Group provides for continuation of restructuring operations, the aim of which is to improve organisational efficiency of managing resources held, including assets and human resources. Implementation of restructuring activities should also contribute to improvement of financial liquidity of the Company and reduction of non-production activity costs.

d) Management of by-products

Development strategy of the Company, assuming the growth of production capacities of the mining plant, will lead to the increase in the amount of mining waste and other industrial waste produced by the Company.
According to the estimates of the Company, about 20% (up to 650 000 tonnes) of mining waste will be stored on the storage yard in Bogdanka, where reclamation works will be conducted on an ongoing basis. Other mining waste will be utilised, e.g. to:

- reclaim post-exploitation excavations, wastelands and other post-industrial land,
- modernise local roads, construct road foundation, harden the ground
- construct of watertight structures, including flood banks,
- construct sport and recreation facilities, such as playgrounds, motocross tracks, sledge hills,
- manufacture construction materials in the EkoKLINKIER Construction Ceramics Plant,
- Strategy of the Company as regards by-product management assumes transferring of post-industrial waste suitable for reuse or for recycling to specialised companies or natural persons, and other waste - to specialist companies for neutralisation.

3) Developing electricity production activities

e) Conversion of a heat-generating plant of Łęczyńska Energetyka into a heat and power station

One of the strategic aims of LW BOGDANKA is to ensure self-sufficiency of the mine as regards heat energy supply as a result of constructing a fluidised bed combustion boiler with a turbine-generator unit in the subsidiary Łęczyńska Energetyka. Implementation of the investment programme of Łęczyńska Energetyka "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production" has been planned for 2008-2014, in two stages.
The first stage (2008-2010) included preparation investments (conversion of water heaters, construction of sulphur removal system, equipping the heat-generating plant with high-performance dust collectors, construction of water treatment station).
The second stage, planned for 2011-2014, will consists in construction of a fluidised bed combustion boiler and a pass-out and condensing turbine-generator unit, which are key elements of machinery stock of the heat and power station.
Coal slime (which today is waste) created during the coal cleaning process in the coal processing plant of the Company and sludge from in biological sewage treatment plant will be used as fuel in the heat and power station. This project also provides for ensuring agricultural-type biomass for the heat and power station in Bogdanka, in the amount necessary to obtain "green energy" certificates through implementation of the programme as regards organisation of procurement contracts for agricultural biomass.

4) Environmental protection measures

In the hard coal mining industry, in which the Company conducts its operating activities, environmental protection measures are particularly important. LW BOGDANKA S.A. holds all necessary permits as regards air protection and water/wastewater management.
In the context of doubling the level of coal extraction starting from 2014, planned by LW BOGDANKA, a systematic growth in mining damage will occur, both in construction objects and in the area of agricultural lands (occurrences of local ground inundation as a result of mining area settlement accompanying the progress of underground works). The Company is planning to conduct complex activities to eliminate the effect of mining operations on the surface area through:

- performing preventive measures to protect buildings against mining damage,
- performing repair works in buildings during and after completing operations,
- reimbursing investors for the costs of adapting new buildings constructed in the mining area to the mining area conditions,
- performing ground drainage works.

One of the main investment tasks in this area will be construction of multifunctional "Szczecin" reservoir. This investment will eliminate effects of ground settlement and will restore a degraded area for use, thus in a significant manner reducing a negative environmental impact of operations conducted by the Company.

5.3 The Company's investments in fixed assets

5.3.1 Investments in 2008-2009

Table 26 Tangible and intangible fixed assets placed in service in 2008 and 2009

Group of fixed assets	2008		2009	
	PLN '000	%	PLN '000	%
Buildings and structures	243,081	73.91%	248,924	74.34%
Plant and equipment	76,779	23.35%	70,713	21.12%
Vehicles	6,797	2.07%	8,834	2.64%
Intangible fixed assets	654	0.20%	4,263	1.27%
Other fixed assets	1,463	0.44%	1,117	0.33%
Land	104	0.03%	1,004	0.30%
TOTAL	**328,878**	**100.00%**	**334,855**	**100.00%**

In 2008, the Company's investments were exclusively financed with its own resources. In 2009, it financed part of its investments in the amount of PLN 55 million using third-party's capital in the form of a bank loan.

<u>The Company's investments in 2009</u>

In 2009, the balance of tangible fixed assets increased by PLN 330,592,000, and the balance of intangible fixed assets increased by PLN 263,000.

The most important facilities that were completed in 2009 were:

<u>Building the excavation and ventilation shaft 2.1 in the Stefanów Field</u>

1. Shaft 2.1: shaft reinforcement – this task has been completed, the closing platform was built at a level of -15.40 m.
2. Shaft 2.1 – the lifting facility – this facility is under construction.
3. Shaft 2.1 – complete lifting tower including a lift machinery room – tender for execution has been resolved, working designs are being compiled.
4. Storage reservoirs in the Stefanów Field – these facilities are under construction.

<u>Extension of the Mechanical Coal Processing Plant [ZPMW]</u>

1. ZPMW extension up to its processing capacity of 2400 MT/h – in 2009, a tendering procedure was commenced, which was not completed till the day the Report was handed over. In 2010, the building process will be commenced.
2. Excavated material transport from shaft 2.1 in Stefanów – in 2009, tendering procedure has been conducted and the contractor has been selected. In 2010, the building process will be conducted by Polimex – Mostostal S.A. in line with the building works contract.
3. Coal storage area extension – procedures are going on connected with compiling the Site Improvement Plan.

<u>Other investments in the Stefanów Field's technical infrastructure</u>

1. Building facilities of the Stefanów Field (the lifting machine and switch room building, workshop and storage hall, main fans station at shaft 2.1, roads and yards) in Stefanów – the workshop and storage hall have been

completed, other facilities are still under construction. No works have been commenced yet to build the lifting machine supply switch room due to prolonged tendering procedures.

2. Central air-conditioning system of the Stefanów Field – (air-conditioning system at the bottom of the mine) – this facility is under construction.

Extension of the Bogdanka station's track system

1. Building and working documentation has been compiled, and the Building Permit has been obtained.

Making coal deposits available

1. Workings at a level of 990 in the Stefanów Field – these facilities are under construction.
2. Ventilation and transport workings at deposit 385/2 in the Stefanów Field – these facilities are under construction.
3. Workings in deposit 385/2 to start up the first panel 7/VII in the Stefanów Field – these facilities are under construction.
4. Workings to make coal available at deposit 385/2 field VII Stefanów – these facilities are under construction.
5. Main gate workings in the Bogdanka and Nadrybie fields – these facilities are under construction.

Purchases of finished goods

1. Reinforcement of panel 1/VI at deposit 385 – providing it with a coal-ploughing complex that covers: powered lining sections, panel scraper conveyor, mining plough, 3.3 kV supply and control facilities, bottom road scraper conveyor. In 2009, advance payment costs were incurred in the amount of 10% of the value of the ploughing complex and assembly of the scraper conveyor and partial assembly of the panel lining. The reinforcement of panel will be continued in Q1 2010.

2. The main purchase items are:

   - Belt conveyors
   - Transformer stations and switch-off facilities
   - Hydraulic pumps and power packs
   - Establishment of the perpetual use of land
   - Coal cars
   - Suspended locomotives
   - Roadheading machines
   - Powered lining

The total amount for the above-mentioned items is PLN 22,392,560.

Replacement investments

1. Erection of building facilities of the Bogdanka and Nadrybie fields (blasting means issuing point in Bogdanka, tower crane in Nadrybie) – these facilities have already been commissioned.
2. Modernisation of the existing building facilities (mining bath in Bogdanka, pithead building in Nadrybie, roads in the MW storage area in Albertów) – these facilities have already been commissioned.
3. Switch room facilities for lifting machines and other power systems (lifting machine supply system in shaft 1.2 and the station of fans in shaft 1.3) – these facilities have already been commissioned.
4. Modernisations of mining machines, the main items being:
   - Transformer stations
   - Heading coal-cutting machine AM-75
   - Panel lining Glinik 10/23
   - Suspended internal combustion locomotives

The total amount for the above-mentioned items is PLN 7,359,700.

5. Repair of machines and facilities, the main items being:
   - Longwall coal-cutting machine JOY 4LS
   - Heading coal-cutting machine AM-75
   - Internal-combustion locomotive S-200
   - Repairs of coal cars

   Total amount for the above-mentioned items is PLN 6,460,200.

6. Power and telecommunication cable networks – these facilities are under construction.
7. ZPMW stone / coal delivery system from shaft 1.2 – building works have been completed and the facility has been commissioned.
8. Switch room 6kV 67 RW at ZPMW – modernisation works have been completed and the facility has already been commissioned.
9. Brick production process line (reconstruction after its fire and modernisation) – this facility has already been commissioned.

Environmental protection

1. Extension of the mining waste dump – works are going on connected with compiling building and working designs.
2. "Szczecin" reservoir – works are going on connected with compiling the designs.

Building and modernisation of workings in the Bogdanka field and Nadrybie

1. Other workings (sprayed concrete in water heading 5 and delivery heading 1/VI) – drilling works have been completed.
2. Modernisation and rebuilding works of mining workings – the planned scope of works has been completed.

5.3.2 Investments of 2009 and 2010 – completion of investment goals

The purpose of the issue of series C shares was for the Company to obtain funds to finance the completion of selected key investment tasks being implemented as part of an investment programme commenced in previous years (starting from 1999) associated with increasing the production capacities of LW BOGDANKA S.A. with regard to the production of power coal by extension the Stefanów Field, which was previously financed from the Company's own funds.

In connection with the issue of series C shares, the Company in 2009 obtained proceeds of PLN 528,000,000 (after deducting the costs of issue, LW BOGDANKA S.A.'s proceeds amounted to PLN 521,051,000). The proceeds from the issue of the Company shares will allow it to finance, except for investment tasks specified in the Issue Prospectus (objectives of the issue), additional projects, i.e. performance of mining excavations in the Stefanów Field, construction of storage silos in the Stefanów Field as well as the purchase of a coal mine face complex.

In the near future, measures aimed at implementing the planned development strategy of LW BOGDANKA will primarily focus on preparatory work associated with settling tender procedures relating to selecting contractors for the performance and implementation of investment tasks of the Company, including (as at 10 March 2010):

- Building the excavation and ventilation shaft 2.1 – investment under execution;
- Extension Mechanical Coal Processing Plant, including:
  a. Extension of the Coal processing to the processing capacity of 2 400 MT/h;
     from the current 1 200 MT/h – undergoing protest procedure;

b. Construction of the excavated material haulage system from the Stefanów Field do ZPMW – investment under execution;

- Construction of building facilities of the Stefanów Field – investment commenced;
- Air-conditioning system of the mine's underground part – investment under execution;
- Extension of Bogdanka station's track system – during a tender procedure.

In 2009, the Company purchased tangible fixed assets for the amount of PLN 365,894,000 and in tangible fixed assets for the amount of PLN 4,244,000 which was reflected in the Cash flow statement. A breakdown of expenditure for individual investment tasks is presented below:

Table 27 Investment expenditure in 2009 and planned for 2010, broken up by individual tasks

	Investment task	Prospects 2009	Completion 2009	Prospects 2010	Plan 2010	Prospects 2009-2010	Total 2009-2010
		[PLN]	[PLN]	[PLN]	[PLN]	[PLN]	[PLN]
1	**Developmental investments, including:**	**331,027,000**	**205,293,776**	**446,200,000**	**550,335,000**	**777,227,000**	**755,628,776**
a	Technical infrastructure at the surface of the Stefanów Field, shaft 2.1, extension ZPMW, other items including:	189,500,000	57,832,451	255,200,000	332,272,000	444,700,000	390,104,451
	- Building the excavation and ventilation shaft 2.1 in the Stefanów Field	*20,500,000*	*30,792,949*	*32,800,000*	*81,870,000*	*53,300,000*	*112,662,949*
	- Extension of the Mechanical Coal Processing Plant	*140,200,000*	*1,934,677*	*179,500,000*	*158,730,000*	*319,700,000*	*160,664,677*
	- Other investments in the Stefanów Field's technical infrastructure, including:	*27,800,000*	*24,641,682*	*33,800,000*	*81,656,000*	*61,600,000*	*106,297,682*
	- Extension of the Bogdanka station's track system	*1,000,000*	*463,143*	*9,100,000*	*10,016,000*	*10,100,000*	*10,479,143*
b	Making coal deposits available	141,527,000	*147,461,325*	191,000,000	218,063,000	332,527,000	365,524,325
2	**Purchases of finished products investment, including:**	**145,162,000**	**54,712,655**	**20,000,000**	**262,612,243**	**165,162,000**	**317,324,898**
a	Coal-ploughing complex - 1 (panel 1/VI/385)	140,000,000	16,587,500	0	135,329,723	140,000,000	151,917,223
b	Purchases of finished products – other assets, and non-material and legal assets	5,162,000	38,125,155	20,000,000	127,282,520	25,162,000	165,407,675
3	**Replacement investments**	**50,578,000**	**54,274,305**	**38,070,000**	**61,259,657**	**88,648,000**	**115,533,962**
4	**Environmental protection**	**3,198,000**	**857,829**	**2,600,000**	**4,912,000**	**5,798,000**	**5,769,829**
5	**Building and modernisation of workings in fields Bogdanka and Nadrybie**	**0**	**54,999,435**	**0**	**55,203,200**	**0**	**110,202,635**
	TOTAL:	**529,965,000**	**370,138,000**	**506,870,000**	**934,322,100**	**1,036,835,000**	**1,304,460,100**

<u>Clarification of differenced between investments completed in 2009 and the plan for 2010, and values as presented in the Company's issue prospectus</u>

Completion of investment tasks in 2009 deviates from plans as presented in the Company's issue prospectus.

One of the reasons for this situation are differences between the investment plan compiling and presentation rules and the accounting rules used.

These differences are related in particular to the Company's following investment plan items:

1. *Making coal deposits available*
2. *Replacement investments*
3. *Building and modernisation of workings in the Bogdanka and Nadrybie fields*

Furthermore, as a result of continuous monitoring of technological solutions that are available on the market, for certain investment tasks, the Company decided to buy more advanced and more expensive solutions than it had previously assumed in its plans. These decisions followed from an analysis of impact of selection of new technologies upon the later increase in its production efficiency, and resulted from performance of its strategic objectives assuming continuous enhancement of the mining efficiency and using state-of-the-art technologies, as well as from the fact that more funds were acquired from the issue of its shares at the Stock Exchange than it had been originally expected.

Below please find some of the main reasons that affected differences between the Company's investment expenses that it incurred in 2009 and its expenses as planned for 2010, and plans that had been published earlier in its Issue Prospectus within the frameworks of its particular investment tasks:

1. Building the excavation and ventilation shaft 2.1 in the Stefanów Field

Increase in expenses results from:

- Changes in the lifting tower support construction (traffic route with a goods lift was proposed to be built),
- Building storage reservoirs in the Stefanów Field in reinforced technology (partially tubing lining),
- Introducing full automation solutions and solutions that provide for remote supervision and monitoring while designing and building shaft facilities.

2. Extension of the Mechanical Coal Processing Plant

Decrease in expenses results from:

- Contractor bid for "Building the excavated material transport system from the Stefanów Field to ZPMW", which was lower than previously assumed in cost estimates,
- Potential contractors' bids for "Extension of the ZPMW processing capacity from its current level of 1200 up to 2400 MT/h", which were lower than previously assumed in cost estimates, and project completion deadline having been extended due to prolonged tendering procedures,
- Coal storage area completion deadline having been extended due to prolonged Site Improvement Plan approval procedures.

3. Other investments in the Stefanów Field's technical infrastructure

Increase in expenses results from:

- Introducing state-of-the-art solutions that make it possible to smoothly adjust the efficiency of fans while designing and building facilities of the main station of fans at shaft 2.1. Furthermore, due to the necessity to provide for the stable operation of the facilities, a decision was taken to purchase a full stock of the necessary spare parts and facilities,

- Building the central air-conditioning system of the Stefanów Field in its full scale (initially, it had been planned to extend the system step by step in the following years). Additionally, the increase in investment costs was affected by including purchase and assembly costs of the system of pipelines into the task (which was in line with UKS [Treasury Control Office's] recommendations).

4. Extension of the Bogdanka station's track system

   - This task is being performed in line with its assumptions.

5. Purchases of finished goods

Increase in expenses results from:

- Decision having been made to purchase a complete coal-ploughing complex to excavate low deposits from a single manufacturer (including its panel lining). This decision was dictated by the necessity to obtain from the manufacturer of the facilities a guarantee that would provide for appropriate output from the panel. Due to a long cycle of building workings and starting up mining works, most expenses have been moved from 2009 to 2010,
- Increase in expenses for purchases of finished goods primarily results from purchases of new heavy-duty lay-by and transport facilities that are necessary to start up mining works in the Stefanów Field in place of the facilities that are currently owned by the Company, and purchase of a heavy-duty mine face complex.

6. Environmental protection

   - These tasks are being performed in line with their assumptions. Some slight adjustments are related to some expenses being moved from 2009 into 2010.

5.3.3 Investments planned for years 2010-2011

The Company enforces its long-term investments resulting from the development strategy of Lubelski Węgiel BOGDANKA S.A., as adopted by its Management and Supervisory Boards, based upon extension of the Stefanów Field.

The Mine's development strategy assumes:

- to increase the Mining Plant's production capacity,
- to make coal deposits type 34 available,
- to increase the efficiency of mining activities by cutting excavation unit costs,
- to limit the risk connected with running mining activities by starting up the second excavation shaft.

The main objective of this strategy is to double the output, which will be achieved by starting up excavation works using shaft 2.1 in the Stefanów Field in 2011.

The main elements of this strategy in terms of investments are:

1. To start up the crew and material carrying down shaft 2.2.
2. To start up excavating and skipping shaft 2.1.
3. To build a belt conveyor trestle bridge for the excavated material transport system from shaft 2.1 to ZPMW in Bogdanka.
4. To extend the ZPMW to its processing capacity of 2400 Mg/h and to modernise its railway infrastructure.

The crew and material carrying down Shaft 2.2 was commissioned in 2008. Also, surface infrastructure facilities of the Stefanów Field connected with its functioning were commissioned, i.e. the lamp room, the pithead building and the bath. This made it possible to intensify works connected with building level 990 by making the material transport paths shorter and making the crew's working hours longer.

In 2010 – 2011, it is planned to erect the building facilities connected with starting up shaft 2.1, i.e.:

- the lifting machine building,
- energy supply facilities,
- building facilities in the station of fans with its ventilation channel,
- lifting tower,
- building lift machinery room,
- completion of building facilities will make it possible to start the lifting facility and the station of fans in shaft 2.1.

The lifting facility will be equipped with the chip lifting machine type 4L-5000/2x3600 and skips with carrying capacity up to 40 Mg each.

In 2010-2011, excavated material haulage facilities from shaft 2.1 will be built, i.e. the excavated material preparation station, the equalising tank and the conveyance trestle bridge, and works aimed at extension of the Mechanical Coal Processing Plant will be conducted.
Currently, excavated material haulage facilities from shaft 2.1 are being built in the Stefanów Field into the Mechanical Coal Processing Plant in the Bogdanka field, in line with the building works contract.

Tendering proceedings are going on concerning extension of the Mechanical Coal Processing Plant in Bogdanka.

As far as investment construction works in 2010-2011 are concerned, the main expenses will be allocated towards: continuation to build level 990 in the Stefanów Field, to build main workings in deposit 385/2 in the pillar of shafts 2.1 and 2.2 and heading workings to start up the first panel in deposit 385/2, to build facilities shaft S 2.1 in the Stefanów Field, to build surface facilities of the Stefanów Field, and works to build the central air-conditioning system in underground workings of the Stefanów Field will be continued.
In 2010-2011, ZPMW extension works will be continued to achieve its processing capacity of 2400 MT/h, excavated material transport system from shaft 2.1 will be built in Stefanów and extension works of the Bogdanka station's track system will be performed.
It will be very important to reinforce panel 1/VI/385 with a longwall complex to excavate low deposits that includes powered lining sections, longwall scraper conveyor, mining plough, 3.3 kV supply and control facilities, bottom road scraper conveyor.
The most important purchases of finished products are: a mine face complex to drill mine face corridor mine faces with high panel lengths (approximately 5 km) in the Stefanów Field, underground material and output transport system (internal-combustion locomotives, carriages, timber carriers, containers, belt and scraper conveyors), hydraulic pumps and power packs, roadheading machines, powered ventilation dams.

In 2010, the Company will finance its planned investments both from its own resources (currently owned financial resources and those generated from its operations) and other party capital (in the form of debt).

FIXED ASSETS BUILDING PLAN FOR 2010

The plan for 2010 includes: to continue to build excavation and ventilation shaft 2.1 in the Stefanów Field including its associating facilities, to extend the Mechanical Coal Processing Plant including building a belt conveyor trestle bridge for the excavated material transport system from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka field, to build horizontal workings, as well as: environmental protection investments, modernisation of the existing building facilities, and purchases of finished products.

Building the excavation and ventilation shaft 2.1 in the Stefanów Field

In 2009, the installation of the final shaft reinforcement was completed, and the temporary shaft tower and lifting machines were dismantled. A contractor was selected for works connected with fabrication and assembly of the shaft tower and the lift machinery room building.

In 2010, it is planned to:
- carry out works connected with building the shaft tower and the lift machinery room building,
- select the contractor and perform the works connected with building shaft facilities,

- continue the works connected with building the lifting machine, (in their mechanical and electrical part).

In 2009, works were commenced to build one of the storage reservoirs, which will be continued in 2010-2011. A single tank's capacity is approx. 2300 m^3. Technological holes were built and works were commenced to build the loading and unloading chamber for tank 2fS, haulage facilities were built to drill tanks 1fS and 2fS – tank 2fS completion is planned for January 2011 and tank 1fS completion is planned for November 2011.

Extension of the Mechanical Coal Processing Plant

ZPMW Extension – the Company holds its Building Permit to extend the Plant. In 2010, it is planned to select a contractor in the way of a public tender and to commence coal processing plant extension works to achieve its production capacity of 2400 Mg/h.

Excavated material transport system from shaft 2.1 to ZPMW in Bogdanka - In 2010, excavated material haulage facilities from shaft 2.1 will be built in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka field.

Extension of the coal storage area – procedures are going on connected with compiling the Site Improvement Plan.

Other investments in the Stefanów Field's technical infrastructure

Building facilities at the surface of the Stefanów Field – it is planned to complete the S 2.1 lifting machine building, including switch room, and to build the supply system for lifting machine in shaft 2.1, including extension of the 110 kV station, and to install a new 110/6 kV 25 MVA transformer.

Central air-conditioning system of the Stefanów Field – the contractor for works has been selected and documentation was compiled to build its central air-conditioning station. The air-conditioning station building has been erected, and it is currently being equipped with its facilities. In shaft 2.2, the pipeline that supplies cold water downstairs was assembled in approx. 50%. Cooling facilities are being installed at a level of 990 m.

Extension of the Bogdanka station's track system

In connection with the planned increase the Mine's output from 2011 onwards, and the resulting increase in the volume of coal transported to customers by railway, it is necessary to extend the Bogdanka railway station. In 2010, it is planned to conduct tendering proceedings and to commence the station extension works.

Making coal deposits available

Main workings at level 990 – in 2010, detour E will be extended, 220 m of detour W will be rebuilt, and one crossing will be built. Works will be continued to build the floor railway track system and creeper routes in cutting N that is being drilled.

Workings in the pillar of shafts 2.1 and 2.2 – inclined drift 1/VI and cutting E – approximately 500 m – are in the process of drilling.

Workings to start up the first panel 7/VII in deposit 385/2 – in the process of drilling; approximately 5500 m remains to be done. Ventilation headings and main gate workings for panel 5/VII and 6/VII – scope in 2010: approximately 4220 m – are in the process of drilling.

Purchases of finished goods

1. Reinforcement of panel 1/VI at deposit 385 – providing it with a coal-ploughing complex that covers powered lining sections, longwall scraper conveyor, mining plough, 3.3 kV supply and control facilities, bottom road scraper conveyor. In 2009, advance payment costs were incurred in the amount of 10% for the coal-ploughing complex and assembly of scraper conveyor and partial assembly of the panel lining. Panel

reinforcement works will be continued in the first quarter of 2010.

2. The main item in purchases of finished products is purchase of a mine face complex to drill corridor mine faces with high panel lengths (approximately 5 km) in the Stefanów Field.
3. Other significant purchases planned for 2010 are:
    a. underground excavated material transport facilities (scraper conveyor and belt conveyors),
    b. underground material transport facilities (trolleys, timber carriers, transport sets),
    c. electrical facilities (transformer stations, switch-off facilities, inverters),
    d. underground suspended locomotives,
    e. panel cooling facilities,
    f. hydraulic pumps and power packs,
    g. anchoring trolley type SWKB,
    h. roadheading machines,
    i. other purchases resulting from the necessity to secure continuous operation of the Mining Plant.

Replacement investments

Lifting machine control and braking driving system in shaft 1.2.

It is planned to carry out modernising works aimed at adjusting it to state-of-the-art solutions used in shaft 2.2 in the Stefanów Field.

Shaft umbrella roof building – higher number of active shafts requires modernisation of rooms used to rewind shaft ropes and regenerate suspension gears. In 2010, it is planned to compile the documentation and to commence the building works.

Mining machines and facilities - within the frameworks of this task, works will be continued to modernise transformer stations and shunter units.

Investments in the Building Ceramics Plant

It is planned to build the ceramic tile cutting line in order to make use of second grade bricks.

Environmental protection

Waste dump – works are carried out connected with compiling the extension works documentation and buying back areas to extend the waste dump. Its extension is necessary in the light of much higher volumes of waste which are expected when Mine's output is increased in 2011.

Small "Szczecin" reservoir – works are carried out connected with preparing the building site's documentation and buying back the areas where the tank will be erected.

Drainage facilities for mining damage areas – this is a continuation of works that were commenced in 2007 connected with liquidating water accumulation damages in the villages of Bogdanka and Nadrybie that arose in consequence of soil settlement in mining areas.

Building and modernisation of workings in Bogdanka and Nadrybie fields

Heading R-27 – 30 m long working for the battery charging room in the Bogdanka field at level 960.
Southern Heading 2 – it is planned to rebuild this heading at the length of 70 m.
Working rebuilding works – it is planned to build approximately 2,500 m of workings.

5.3.4 Assessment of the Company's possibilities to enforce its investment plans

The Company plans that the structure of financing its property investment expenses will remain unaltered, i.e. they will mainly be financed using its own funds, in particular the funds that it acquired by issuing shares, which took place in 2009. Furthermore, the Management Board does not preclude the possibility to increase the value of its interest-covered debt, which will be dependent upon the scope and the pace of completion of the property investments planned. The Company sees no threat as to the possibility to acquire its additional financing in the form of debt. The Company's current long-term loan in the amount of PLN 250 million constitutes approx. 15% of the value of the shareholders' equity (PLN 1.731 million) and approx. 10% of its balance-sheet total.

LW BOGDANKA S.A. does not plan for 2010 any capital expenditure. The value of the planned tangible investment expenditure may reach record-breaking values.

5.4 Capital expenditure

On 16 November 2009, the Company's Management Board adopted its resolution to submit a sales offer for 420 shares in Górnik Łęczna S.A. in Łęczna, in connection with the Ordinance by the Minister of the State Treasury No. 5 of 13 February 2009 upon rules of running sponsoring activities by Companies that are partially owned by the State Treasury.

On 27 November 2009, the Management Board of LW BOGDANKA S.A. placed an order to conduct valuation of its shares in Górnik Łęczna S.A. The sales offer of 420 Górnik's shares, which were held by Lubelski Węgiel BOGDANKA S.A., was submitted to all shareholders of Company Górnik Łęczna S.A.

The Company sold its 420 shares in Górnik Łęczna S.A. to the GKS Górnik Association on 14 December 2009.

5.5 Research and development and implementation works

In 2009, the following research and development works were conducted in the Company:

1. R&D and implementation works were continued connected with introducing a new coal ploughing method in excavation panels in thin deposits that are 1.2 – 1.7 m thick. In March 2010, it is planned to start up the first test panel using the coal ploughing method, for which the powered complex was purchased in the accounting year, and preparatory mining works were continued for test panel commenced in 2008, as well as the second coal ploughing panel situated in the Stefanów Field.

2. Works were commenced for the special purpose research project No. 6 ZR8 2007 C/06998 entitled "Designing a comprehensive model and information software to conduct continuous measurements of GNSS, locations of points at the surface of Lubelski Węgiel BOGDANKA's mining areas and excavating facilities in order to determine deformation changes caused by both current and prospective underground mining exploitation processes". A tripartite agreement to execute the project has been concluded with the Ministry of Science and Higher Education in Warsaw and the University of Science and Technology in Kraków in June 2009, which covers the period of 3 years.

3. R&D and implementation works were commenced with the aim to create grounds to change the exploitation system being used today, in which both main gates are being liquidated along with the progress of panels, and to prepare an attempt to maintain the panel heading downstream the front of the panel. Based upon the agreement concluded with the University of Science and Technology in Kraków, an research and development study was written entitled "Technical and economic analysis and developing an optimum method to maintain under-panel headings downstream the front of the panel in the BOGDANKA Mine conditions", which was aimed at determining its support parameters and compiling a protective belt design for the under-panel heading of panel 1/VI at deposit no. 385/2. In 2010, attempts will be conducted to maintain the heading that has been left over behind the panel.

4. A team of scientists and mine employees, which had been appointed specially to this aim, continued their works to find some new solutions for heading lining sets, optimised in the area of the cross-section's shape and

arrangement, quantities and lengths of sets elements in terms of the need to run a crossing of the heading with the panel. As a result of the Team's work, when implementation of elliptical cross-section turned out to be unsuccessful, a new series of types of ŁPSC sets was designed for the main gates of coal-cutting and coal ploughing panels, with changeable deposit thicknesses. It has been proved that the 7-element sets are appropriate for deposit thicknesses of 1.2 – 1.6 m, whereas the 6-element sets are proper for deposit thicknesses above 1.6 m.

5. In the accounting year 2009, analytical and concept works were commenced to develop a technology to mine the residue coal deposits using short front systems, coupled with waste rock and external waste (asbestos) storage in post-excavation voids.

5.6 Description of risks, threats and factors which, in the assessment of LW BOGDANKA S.A., will affect the results achieved by the Company within at least the following year

5.6.1 Risk associated with the Company's market environment

5.6.1.1 Risk associated with the social and economic situation in Poland and the world

LW BOGDANKA S.A.'s financial standing depends on the economic situation in Poland and the world. The financial results generated by the Company are affected by the rate of increase in domestic and global GDP, particularly the rate of increase in industrial production, changes in exchange rates, the level of inflation, the rate of unemployment, national fiscal policy, and the demand for electricity and heat energy, etc.

In the event of a significant deterioration of the economic situation of the customers for the power coal, the Company's financial results may decline.

As at the day of submitting the Report, the global markets are suffering an economic crisis which started in 2007 on the American market of mortgage loans, adversely affecting the global economic situation. There is a risk that the crisis may also adversely affect the economic and financial situation of LW BOGDANKA S.A. and the entities operating on the markets where the Company sells its products, and therefore may have a detrimental impact on the future financial results of LW BOGDANKA.

Regardless of the macroeconomic situation in Poland and the world, since 1994 LW BOGDANKA S.A. has regularly achieved positive financial results. The Company believes that its exposure to negative influence of the macroeconomic situation on its operations is small.

5.6.1.2 Risk associated with the economic policy of the State in relation to the hard coal mining sector

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA market position. Those plans are set forth in particular in two documents:

- "Strategy for hard coal mining sector in Poland for 2007-2015" adopted by the Council of Ministers in July 2007,
- "Poland's energy policy until 2025" adopted by the Council of Ministers in December 2004, which includes the consolidation plans for the fuel-energy sector, updated by the "Poland's energy policy until 2030" adopted by the Council of Ministers on 10 November 2009.
- "The privatisation plan for 2008-2011" adopted by the Council of Ministers on 22 April 2008, updated on 10 February 2009.

Implementation or amendment of the adopted assumptions may have a significant impact on the future competitive position and financial results of LW BOGDANKA. The Company's competitiveness may be threatened by government aid for restructured Silesian mines involving subsidies, debt redemption and entity-specific grants.

Budget subsidies to co-finance initial investments in the mining sector:

Under the Act on the operation of the hard coal mining sector in the period 2008-2015 of 7 September 2007 (Dz.U. of 19 October 2007), a mine may receive a budget subsidy to co-finance an initial investment on terms and conditions set forth in the Regulation of the Council (EC) no. 1407/2002 of 23 July 2002 on state aid to the coal industry (Official Journal L 205 of 02/08/2002, EU Official Journal, special Polish edition, chapter 8, vol. 2, p.170). The aid for financing an initial investment may be classified as compliant with the common market only if, inter alia, the following conditions are met jointly: (i) the amount of aid per tonne coal equivalent may not cause delivered prices for Community coal to be lower than those for coal of a similar quality from third countries; (ii) the aid must not lead to any distortion of competition between coal buyers and users in the Community; (iii) the notified and actually paid aid must not exceed 30% of total costs of a relevant investment project which will allow the production entities to achieve competitiveness in relation to the prices of coal of similar quality from third countries.

As of the date of submitting the Report, the amount stipulated for co-financing initial investments in the hard coal mining sector in Poland in the State budget for 2010 was PLN 411 million. What is more, the Ministry of Economy has commenced works on executive laws to the act on operation of the hard coal mining sector in the period 2008-2015 in this respect.

In connection with implementation of the investment plans which involve doubling the production potential, the Company intends to apply for funds to finance the investments connected with implementation of LW BOGDANKA S.A. strategic goals.

5.6.1.3 Risk associated with the levels of prices for raw materials for power production in Poland and the world

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by LW BOGDANKA S.A.

The Company mitigates the risk associated with prices of raw materials for energy production by signing long-term commercial contracts with key customers for power coal. Information on the material trade agreements signed by the Company in 2009 and after the balance-sheet date is presented in section 3.1 of the Report.

5.6.1.4 Risk associated with the introduction of the excise tax in relation to coal

In accordance with the regulations of the European law, Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, and Council Directive 2004/74/EC of 29 April 2004 amending directive 2003/96/EC as regards the possibility for certain Member States to apply, in respect of energy products and electricity, temporary exemptions and reductions in the levels of taxation, an obligation to cover coal, natural gas and electricity with the excise tax was imposed on the Member States. Council Directive 2003/96/EC introduced minimum levels of excise tax rates, which apply, among other things, to coal and coke. In compliance with the latter directive, the Republic of Poland may apply a transitional period until 1 January 2012 in order to adjust the national tax levels applicable to coal and coke to the relevant minimum tax level. During the transitional period, the excise tax applicable to coal and coke will not be charged. The regulations which will become effective after the lapse of the transitional period referred to above may result in higher prices of coal for end users, which in turn may have an adverse effect on future financial results of all entities operating in the hard coal mining industry in Poland, including LW BOGDANKA S.A.

5.6.1.5 Interest rate risk

LW BOGDANKA S.A. is a party to financial agreements based on variable interest rates, therefore it is exposed to a risk of fluctuations in interest rates with respect to loans incurred, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in financial expenses of the Company and hence have an adverse effect on the Company's financial results (or, alternatively, a possible decrease in interest rates may cause a decrease in financial expenses of the Company bringing a positive effect on its financial results).

In the Company's assessment the interest rate risk has a limited bearing on the financial standing of LW BOGDANKA S.A. given a relatively low degree of financing the Company's assets with third party capital.

The Company does not use any hedging instruments against the risk of fluctuations in interest rates.

5.6.1.6 Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events

The operating activities of LW BOGDANKA S.A. are exposed to risks and dangers beyond its control resulting from the specific nature of conducting activities in the mining industry. These include events associated with the environment (e.g. industrial and technological malfunctions) and extraordinary events (e.g. geotechnical phenomena, mining disasters, fires or flooding of excavations with mine waters). Such events or phenomena could cause a temporary suspension of LW BOGDANKA S.A.'s operating activities or losses relating to property, financial assets and employees or could result in LW BOGDANKA S.A. being held legally liable.

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, e.g. the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Company.

The safety level of the operating conditions in LW BOGDANKA S.A.'s mine is relatively high, which is reflected in the low accident indicators compared to other companies in the industry. This is due to, in particular, the Company's strict compliance with the principles of health and safety in the workplace, ongoing monitoring of threats at individual workstations, appropriate preventative measures, the absence of the risk of mine collapses, gas breakouts and rock outbursts and the low risk of a methane explosion (category 1 methane threat on a four-grade scale).

Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on LW BOGDANKA S.A.'s operations include:

- the Company's use of advanced mining machines and equipment, which reduces the risk of industrial malfunctions occurring;
- no geological disruptions occurring and the fact that the mining deposits are relatively regularly laid out;
- the relatively low costs of repairing mining damage resulting from the low urbanisation of the area in which LW BOGDANKA S.A. extracts hard coal.

5.6.1.7 Risk associated with the impact of current macroeconomic situation on debt financing availability

Currently the Company implements a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds (proceedings for the issued C shares, income on current operating activity) and debt financing, currently totalling PLN 250 million. At present, the Company has a significant level of cash (PLN 640 million as of 31 December 2009), but it does not exclude the possibility of increasing the value of interest-bearing debt in the next several months, which will be dependent on the scope and speed of planned investments in tangible assets. The Company sees no threat concerning the possibility of obtaining additional debt financing. The current long-term loan in the amount of PLN 250 million accounts for approx. 15% of shareholders' equity (PLN 1,731 million) and approx. 10% of the carrying value.

There is a risk that the macroeconomic situation in 2009 will have some impact on the credit policy of the banks resulting in stricter process of extending debt financing to the Company, which will be manifested by the increased financing costs or/and the increased costs of obtaining the financing. Nonetheless, in the opinion of the Company, in the case of LW BOGDANKA this risk is limited as the Company has good standing in terms of capital, low debt and good creditworthiness.

5.6.1.8 Risk associated with changes in exchange rates

The Company has agreements with contracting partners which will be paid in EUR. The Company's financial result may be adversely affected by a change in the EUR exchange rate.

The Company does not use any instruments that provide protection against the exchange rate risk.

5.6.2 Risk directly associated with the Company's operations

5.6.2.1 Risk associated with estimating the size of deposits

Data on quantity and quality of hard coal which is available to LW BOGDANKA or which may be available in future is obtained from geological documentation and based on projects of deposits development. The data is further updated on an annual basis in the resources records which contain changes that may be caused by:

- a more detailed examination of the deposit,
- mining and losses,
- changed boundaries of the deposit, including a change to the depth in which the resources are documented,
- reclassification of the resources.

Therefore there is a risk that the quantity and quality of the estimated resources will be reviewed (in plus or in minus) as a result of gaining better knowledge about the deposit parameters. Any significant negative adjustment of the deposit size may result in shortening of the assumed mining period, and in consequence have an adverse effect on the life of the mine as well as on the future financial results of LW BOGDANKA S.A.

The Company wants to emphasise that specific geological conditions of the deposit exploited by LW BOGDANKA (the fact that the mining deposits are relatively regularly laid out, the geological structure of the deposit is regular – without major disruptions and faults) allow the size of a given deposit to be precisely estimated. Furthermore, the size of the deposit which serves as a basis for the Company to plan the development of its mining capacities has been reviewed many times, and the exploitation works carried out so far confirmed the accuracy of deposit size estimates.

5.6.2.2 Risk associated with the launch of extraction of new deposits

A material aspect of the operations conducted by LW BOGDANKA S.A. is the necessity to secure future extraction possibilities by providing access to new coal resources. Currently LW BOGDANKA is preparing to enlarging the mining area and launching the extraction of the Stefanów Field.

If the activities leading to obtaining and extraction of new deposits are restricted or discontinued, or if unforeseen formal, legal or technical difficulties occur during the period of preparing the deposit for the extraction, the mining capacity of LW BOGDANKA may be limited, which in consequence may shorten the life of the mining plant and/or reduce the assumed level of extraction of hard coal thus decreasing future financial results of LW BOGDANKA. Considering how the works related to enlarging the mining area are advanced, the risk described in this section is insignificant in relation to the Company.

On 6 April 2009, the Company obtained a licence for extracting a hard coal deposit in a new enlarged mining area, which will enable the Company to increase the extraction level in pursuance of the investment programme regarding the Stefanów Field. Moreover, in the Company's assessment, the cost of obtaining a new deposit with the possibility of extraction with the use of two mining shafts as part of the Stefanów Field development programme is relatively low, as the investment is based on, among other things, the development of the existing historical infrastructure.

5.6.2.3 Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various kinds of stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). There is a potential risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and sales and the possibility of punctually making deliveries to the customers of LW BOGDANKA S.A., and therefore on the financial results achieved by the Company.

The Company stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA S.A. extracts coal by the longwall system and its target production capacity is obtained from two mining faces, while due to technical and technological mining conditions the planned level of extraction can be maintained if a stoppage occurs at one of the faces by intensifying work on the other. The enlargement of the Stefanów Field planned by the Company and the associated start-up of a second mining shaft will further reduce the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down.

The Company would also like to point out that it uses advanced mining equipment and machines in its mining operations and conducts intensive research and development work aimed at increasing the productivity of its operations, introducing solutions with a high degree of technical and technological reliability (underground coal storage silos with a capacity of 11,500 tonnes) and increasing the safety of the work environment. These measures will significantly reduce the Company's technical and technological risk.

5.6.2.4 Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of the Company's computer systems could adversely affect its ongoing operations and therefore affect its future financial results.

However, the Company stresses that LW BOGDANKA is systematically taking action aimed at minimising the risk associated with the possibility of IT systems malfunctioning.

The Company implemented a "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." regulating organisational and technical measures for data protection and maintaining the continuity of systems' operation. This refers to the organisation of access to data, making safety copies and their storage, using firewalls, anti-virus systems on servers and employees' PCs. The servers supporting the systems are a high-class equipment with double power and data storage systems. In order to increase safety levels, works on such subjects as server cluster system or central data backup are continuously carried out.

IT systems used at LW BOGDANKA have no effect on operating activities associated with extracting hard coal and therefore if they malfunction the continuity of hard coal extraction would not be threatened.

5.6.2.5 Risk associated with retaining and attracting human resources

In the next years, the Company intends to increase significantly the employment level. The Company's demand for human resources results from its development strategy which involves increasing the extraction capacity in connection with the extension of the Stefanów Field, as well as the age structure of the Company's staff and the effective retirement laws under which until 2015 approx. 30% of the Company's employees, including mostly the employees working underground, will acquire pension rights. The employment increase in consecutive years will take place gradually, in line with the Company's demand for human resources in connection with the extension of the mine and the Coal Mechanic Processing Plant, as well as the increasing production capacity; new employees will be recruited mostly from mining schools graduates.

The mining law requires that the persons employed in the mine operation had certain qualifications awarded to persons which have, inter alia, several years of work experience.

There is a risk that potential difficulties in obtaining appropriate employees may have an adverse effect on the operating activity of LW BOGDANKA, including the extraction volume and production costs, and thereby also on the Company's financial result.

The Company runs active human resources policy which aims to limit the human resources related risks. Since 2007, the Company has been gradually hiring young employees who will have gained the necessary mining experience and the required qualifications by 2011 (the planned completion of the Stefanów Field extension). To eliminate the potential generation and competence gap with respect to staff, the Company is cooperating with specialist universities, secondary and vocational schools educating persons with special qualifications for the mining, mechanic and electric sectors.

5.6.2.6 Key customer risk

Vast majority of the power coal produced by the Company is sold to a relatively small group of large contracting parties operating on the domestic market. There is therefore a risk that the reduction or termination of cooperation with a key customer or the deterioration of the financial/economic situation of any of the main customers of the Company could have an adverse effect on the financial results achieved by the Company.

As at the date of submitting the Report, the Company has agreements signed with key customers ensuring sales of the coal and stable financial and technical planning until the end of 2010. Information on the material trade agreements signed by the Company in 2009 and after the balance-sheet date is presented in section 3.1 of the Report.

5.6.2.7 Key supplier risk

The specific nature of the Company's operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under agreements concluded with the Company.

LW BOGDANKA S.A., when signing agreements with suppliers, assesses possible threats for the contract performance and options for establishing cooperation with other suppliers. Furthermore, in order to secure the performance of "higher risk" contracts, the Company requires that a performance bond is made.

5.6.2.8 Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by the Company

On both the Polish market and export markets, LW BOGDANKA S.A. is exposed to price competition from other producers of power coal in Poland (e.g. the mine companies Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.), as well as from eastern markets (including Russia, Ukraine and Kazachstan).

In the case of domestic coal companies, significant risk factors associated with competition are:

- consolidation processes in the mining industry (vertical and horizontal consolidation within large energy groups) leading to the creation of powerful entities in terms of capital which determine how the domestic power coal market will develop;
- government assistance for hard coal mines in the Silesia region covered by a restructuring programme, which includes providing additional funding, cancelling debts and company subsidies,

In the case of coal suppliers from eastern markets, LW BOGDANKA has a significant logistics advantage.

In comparison to Polish producers of hard coal, the Company's competitive strengths minimise the risk associated with price competition.

Another significant risk factor associated with competition are the less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content), which limits the range of applications of the coal extracted in LW BOGDANKA S.A. to industry and power production and forces the Company's customers to invest in fume desulphurisation installations. However, because customers for power coal have technologies which are prepared for burning coal with a particular calorific value and because, as at the date of submitting this Report, all the key customers of the Company have fume desulphurisation installations, the risk associated with the less favourable quality parameters of the coal produced by LW BOGDANKA S.A. is limited.

5.6.2.9 Risk associated with the strong position of the trade unions in the Company

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, four trade union organisations operate at the Company associating the total of 63% of the Company's employees.

The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities conducted by LW BOGDANKA.

In the Company's opinion, cooperation of the Management Board of LW BOGDANKA with the trade unions operating in the Company has so far been successful. The Company's objectives include continuation of the cooperation between its Management Board and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving the Company's objectives and strategy.

5.6.2.10 Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW BOGDANKA payable by its customers and the surplus of Company's receivables in comparison to liabilities. As of the end of 2009, trade debtors and other short-term receivables of the Company accounted for 4.62% of the carrying value and 10.24% of the Company's income on sales. The share of trade debtors in trade debtors and other total short-term receivables accounted for 87.02%.
In order to protect against the risk of potential insolvency of its customers, the Company strictly monitors the payment of trade debtors. Additionally, the customer insolvency risk is mitigated by the fact that main recipients of hard coal produced by the Company are large entities with high capital operating in the power sector and the risk of their potential insolvency is low.

5.6.2.11 Risk associated with related party transactions

The Company concludes transactions related parties which may be subject to inspection by tax authorities. The man subject of examining the transactions is whether they have been concluded on an arm's length basis or not.

In the Company's opinion, all transactions concluded with related parties ware and continue to be concluded solely on an arm's length basis. It cannot be ruled out however that the tax authorities will decide to the contrary in assessing the transactions conducted by the Company and its related parties, which could result in a difference in calculating the taxable income and the necessity of paying additional tax along with default interest.

5.6.2.12 Risk associated with high costs of technologies applied by the Company

The technology of power coal extraction applied by the Company involves the use of highly specialised machines and equipment produced only by several producers in the world. As a result of the Company's investment plans described in section 8.4 of the Prospectus and referring to the Stefanów Field extension, it will be necessary to make investments in new specialised mining machines. Due to global concentration of producers of the aforementioned machines and equipment, there is a risk of unexpected increase in prices of specialised machines and equipment, which could have impact on the increase of investment expenditures which must be borne in connection with implementation of the Company's development strategy.

5.6.2.13 Risk associated with the mine closure

The Company establishes the mine closure fund in compliance with the Geological and Mining Law. The fund value may, but does not have to, turn sufficient to cover the future costs of mine liquidation. If the mine closure fund turns to be insufficient, the Company will be obliged to pay the missing portion of funds. What is more, there is a risk that additional costs of mine closure will increase in the future. This may have an adverse effect on the Company's financial results.

5.6.2.14 Risk associated with reclamation and mining damage

The Company is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be more strict. Any possible tightening of the standards in this respect may result in higher costs for the Company.

As the mining area of the Company will be enlarged, the damage resulting from mining, both in buildings and agricultural land, will increase proportionately. Simultaneously with the coal extraction, the land settlement will enlarge within the mining area, which will result in a higher level of ground waters and local land undercuts. The growing damage resulting from mining will translate into higher outlays on the removal of the mining damage. Therefore, in addition to the existing recovery work, the Company will continue to protect buildings against the results of mining damage and to reimburse the costs incurred by investors on adjusting the new buildings under construction on the mining land to the current conditions. This may adversely affect the financial results of the Company.

5.6.2.15 Risk of restrictive EU climate policy also with respect to the CO2 emissions

The EU climate policy resulting from the Framework Convention of the United Nation on Climate Changes (Kyoto Protocol) stipulates limiting the emission of greenhouse gases to the atmosphere. The regulations adopted in Poland are compliant with the EU laws.
The European Commission declares limiting the CO2 emissions by 20% until 2020. Moreover, it suggests introducing a system of auctions for emission permits from 2013.The system will mean that instead of receiving free emission rights (as in the period 2008-2012), the companies will be forced to purchase emission permits in open tenders. In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. Limitation of the CO2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties in the scope of competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the Company, and in consequence may have a negative impact on its financial results. This risk is difficult to assess and it is hard to take any activities to mitigate it due to the fact that despite the suggested restrictive EU climate policy the works on the final form of the obligations to decrease to CO2 emissions for particular sectors of the economy are still pending and no binding decisions have been made. Consequently, the level of actual future limitations applicable to CO2 emissions is not known yet. At the same time, new technologies have already appeared; those are enhanced technologies which, when applied, will decrease the problem of CO2 emissions.

5.6.2.16 Risk of delays in planned investments due to the obligation to apply the Public Procurement Act

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. The way the Public Procurements Act has been applied in the past shows that, because of protests and cancellations and also the frequent invalidation of tenders, granting a contract can significantly delay the commencement of an investment. A delay in an investment can result in an increase in costs or a decrease in revenues for LW BOGDANKA and therefore adversely affect its financial results. The Company exercises due diligence to ensure that issues associated with granting public contracts do not cause delays in carrying out investments.

5.6.2.17 Insurance risk

The Company insures its business, however, as is also the case of other mining entities worldwide, certain risks related to mining activity, such as quake of formation, are not covered with insurance. Furthermore, it cannot be guaranteed that insuring the risks taken out by the Company will prove sufficient for covering all possible losses or liabilities. An occurrence of an adverse event which is not covered in whole or in part by an insurance, may have a direct effect on the Company's financial standing, results of its operations and the generated cash flow.

5.6.2.18 Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment

The operations of LW BOGDANKA have a significant impact on the environment. Given the nature of that impact, the Company must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment(including BAT requirements), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. Accordingly, the environmental protection standards are also applicable to Łęczyńska Energetyka.

As at the date of submitting the Report, the Company's operations are conducted in compliance with law and BAT requirements. The Company holds all permits required in connection with its operations, including, in particular, integrated permit for the installations covered with IPPS requirements (EkoKLINKIER Construction Ceramics Plant, mining waste dump). Both the Company and Łęczyńska Energetyka were granted the CO2 emission allowance for the settlement period 2008-2012.

However, there is a risk that, given the new Mining Waste Act, the Company will have to introduce changes in the manner it manages its mining waste. The Mining Waste Act introduces new rules governing the management of such waste, and stipulates an obligation to approve a mining waste management programme and to obtain a permit for operating facilities for their utilisation. The Company's operations will have to be adjusted to the new requirements as from 1 May 2012.

Furthermore, it must be stressed that since the environmental law regulations are subject to continuous changes, and the prevailing last years' trends in the EC environmental laws lead to tightening the standards of environmental protection, it cannot be ruled out that in future further legislative changes will introduce even stricter standards of the use of environment, which may also apply to the sector of operations of the Company or Łęczyńska Energetyka. The changes may lead to the necessity of adjusting the Company's operations or the operations of Łęczyńska Energetyka to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to the Company or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays and hence adversely affect the Company's financial results.

5.6.2.19 Risk associated with management of waste generated after extension of the mining area

In connection with the extension of the mining area and increased extraction of coal, the Company will significantly increase the amount of generated extraction waste (in 2009 at a level of 3.8 t per year; the forecast for the period after 2010 in connection with the launch of the shaft in Stefanów – increase from 3.9 million in 2011 to approx. 4.7 million in 2014). As of 1 January 2010, approx. 40% of extraction waste is recycled, whereas the remaining part is kept or stored at the waste yard on the Company's premises (the waste is recycled by the Company or passed on to the entities authorised to deal with waste management for the purpose of recycling). Since – according to the Company's estimates – the storage capacity of the waste yard is sufficient for the next 3-5 years of storing, the Company plans to extend the existing storage yard by the adjacent areas (increasing the area by approx. 144 ha to approx. 230 ha). The investment requires amendment of the local spatial development plan of the commune (conversion of farmland and forest area into land for waste storage purposes), while the investment process itself will require endorsements (especially with respect to environmental impact), as well as decisions and permits for construction and exploitation of the environment. What is more, as approx. 90% of land is owned by individual farmers, the Company will be forced to purchase those plots. The Company has submitted applications for relevant amendments to the local spatial development plan and the works in this respect are quite advanced. Following the social consultations, the Company obtained the local community's approval for the investment. Moreover, the Company has already carried out talks with the plot owners and obtained preliminary consent for the purchase of plots. Nevertheless, taking into account the factors connected with the investment process referred to above, one cannot exclude the risk that the planned investment would not be implemented. Failure to implement this investment will mean the risk of disrupting the stability of the Company's extraction process and the necessity to search for alternative ways to manage the extraction waste.

There is a risk that other solutions (in particular passing the waste to another entities for management, other waste yard location) may turn to be less cost effective which may affect the Company's financial result.

5.6.2.20 Investment risks associated with protected areas

The Company's plant is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Natura 2000 network regulations located partially on the area of the Company's mining land and three others in close vicinity of the Company's mining land). Those environmental conditions do not pose an obstacle for the Company's activity in its present scope. Nevertheless, all the planned investment activities of the Company must be analysed from the perspective of their potential negative impact on protected areas.

According to the law, business activity which has negative impact on the environment of the protected areas (and in their vicinity) may be significantly limited. During the proceedings aiming to issue investment decisions, a competent administrative authority examines the environmental impact of the investment by analysing the description, characteristics, technical and project data of a given investment. Should the authority find it necessary, it may impose certain obligations on the investor in order to eliminate the negative impact. Therefore, if a planned investment is located in the zone of impact on protected areas, the investor must take into account the possibility that it may be encumbered with certain obligations, which in practice usually means the necessity of additional investment expenditures.

There is a risk that in connection with its investment activity, certain obligations may be imposed on the Company or the requirements concerning the limitation of the negative environmental impact will be stricter (e.g. the obligation to introduce certain technological solutions with respect to water and sewage management in connection with the impact on the ground water environment and the risk of negative changes in the ground water levels). Those investment restrictions may require higher investment costs and therefore may affect the Company's financial result.

5.6.2.21 Risk of the employees of the Company being additionally employed in Korporacja Gwarecka S.A.

In 2002, former and present employees of LW BOGDANKA S.A. founded Korporacja Gwarecka S.A., which, as at the date of submitting the Report, cooperates with the Company. That cooperation involves Korporacja Gwarecka S.A. providing outsourcing services to the Company, whereby it provides workers to perform mining and maintenance/refurbishment work on Saturdays, Sundays and holidays. Because that work requires that people with appropriate qualifications and experience be employed, the people employed by Korporacja Gwarecka S.A. are mainly employees who work at the Company from Monday to Friday on the basis of an employment contract concluded directly with the Company.

If the performance of work by employees of LW BOGDANKA S.A. contracted from Korporacja Gwarecka S.A. or a different external entity for LW BOGDANKA S.A. could not be continued, the Company would be forced to employ additional employees or limit its production, which could adversely affect the financial results achieved by LW BOGDANKA.

5.6.3 Risk factors associated with proceedings and legal environment

5.6.3.1 Risk of change to tax laws

The laws on the tax on goods on services, the corporate income tax, personal income tax, real property tax and social insurance contributions are frequently changed, which results in certain inconsistency and unpredictability in the conduct of tax authorities in relation to taxpayers. The regulations currently in force also include discrepancies and unclear issues which result in differences of opinions as to the legal interpretation of the tax laws both between state authorities and between state authorities and companies. Tax settlements may be the subject of control of tax authorities which, if irregularities are found, have the right to calculate the tax arrears with interest. Tax statements submitted by companies may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions with affiliates, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

5.6.3.2 Risk of real estate tax on mining excavations

In line with its strategy, when the Company draws up its real estate tax returns, it does not take into account the value of building structures and equipment located in its pits for the purposes of calculating the tax. There is a risk of the tax authorities and courts taking a position in this matter according to which for the purpose of charging real estate tax, a mining excavation should be treated not as a unified structure but as a building structure consisting of individual structures (or devices) which are functionally connected to each other, i.e. shafts, side drifts, power lines etc. used to extract minerals. In this sense, the structures and devices in question would constitute a constituent part of a pit used for conducting business activities and real estate tax should be levied on those structures (devices). Such a risk is indicated by certain court judgements issued in the context of factual statuses which occurred after 1 January 2003, i.e. after the amendment of the Act on Local Taxes and Charges (consolidated text in Dz.U. of 2006, No. 121, item 844, as amended), by virtue of which a definition of building structures was introduced into the Act on Local Taxes and Charges by reference to the provisions of construction law (e.g. the judgements of the Provincial Administrative Court in Wrocław of 14 April 2008 and of 16 May 2007). The issue of charging real estate tax on mining excavations and the building structures and equipment located in them is controversial in the light of applicable tax laws.

For the purposes of calculating real estate tax on mining excavations, the value of fixed assets recorded in the fixed asset account in group 2 (land and water engineering structures), subgroup 20 (complex building structures in industrial areas), type 200 (building structures for mining) is taken into account, with the exception of selected fixed assets.

Please also note that in December 2008 a government draft amendment to the Mining and Geological Law was put before the *Sejm* (the lower chamber of Polish parliament). The draft provides that "underground mining excavations and the installations and equipment that they contain are not building structures or construction devices in the meaning of the provisions of construction law". If an amendment to the act is adopted in this form, it will settle the issue of whether mining excavations should be subject to real estate tax, though this would only be effective in the future. The ministerial justification for the amended provisions states that the proposed change results from the inconsistency of past judgements and practice relating to charging real estate tax on mining excavations and the building structures and devices located in them. However, it does not refer to the issue of taxation or its absence until the moment when the amended laws are introduced. As at the date when this Report was submitted, the draft is being considered by the extraordinary subcommittee for considering the government draft of the Mining and Geological Law.

5.6.3.3 Risk associated with expenses for creating certain mining pits and their classification for the purposes of corporate income tax

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. The created pits are recorded in the accounting books as fixed assets or directly as operating costs and the point when such costs are incurred. The pits comprising a fixed underground mine infrastructure are classified by the Company as fixed assets. The exploitation and movement pits are classified as operating costs at the time when such costs are incurred – cost pits. They include the following pits.

(a) preparatory pits for liquidation – when the excavation from the exploitation field the preparatory pits are associated with ends, those pits are liquidated as useless for the remaining parts of the mine. Some of those pits which perform the function of near-wall pits are liquidated gradually along the progress of the exploited wall. The classification of this group of pits for liquidation is determined at the stage of planning the method of preparing the deposits for exploitation;

(b) special pits of auxiliary nature - created from pits localised on exploitation fields (blasting niches, drill niches, section chambers). They are liquidated with other movement pits for which the operation has already been performed;

(c) selector pits – they are used for deposit extraction (walls and cross-cuts). Those pits are liquidated when the extraction in the field of the wall is completed and when they are no longer necessary for operation of the remaining parts of the mine;

(d) pits and examination holes – corridor pits and openings performed from the surface and mining pits for the purposes of examination of the deposit. The purpose of those pits is to examine the deposit structure and collect information on its exploitation.

Some of the cost pits referred to above were performed earlier than 1 year ago. In the light of the current tax laws, one cannot exclude a possibility of other qualification of this type of costs for the purposes of corporate persons income tax than the one performed by the Company, which could potentially mean decreasing the cost base for tax purposes in past and current settlements of the income tax and a potential payment of additional amounts of the tax. The mining companies have made an attempt to clarify this issue – they suggest changes and clarification of the classification rules concerning this aspect of Fixed Assets Classification.

5.6.3.4 Risk of a change in the law and its interpretation and application

The provisions of law in Poland are frequently changed. Interpretations of the law and the way in which it is applied are also changed. Laws can be changed to companies' advantage, but changes can also have adverse consequences. Changing laws and varying interpretations, particularly with regard to tax law, geological and mining law, the law governing business activity, labour and social security law and the law relating to securities, could have adverse consequences for the Company. Particularly frequent are interpretational changes in tax laws. There is no consistency in the practice of tax authorities or in case law relating to taxation. If tax authorities adopt an interpretation of tax law which differs from that adopted by the Company or if the Mining Law introduces new requirements to be imposed on the Company, it could lead to a deterioration of its financial situation and as a result negatively affect its results and development prospects.

5.6.3.5 Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. is listed on the Warsaw Stock Exchange, it is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Company's activity to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (Dz. U. of 2005, No. 184, item 1539 as amended). For a failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the Company's activity from the perspective of disclosure requirements.

6. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN 2009

6.1 Public offering of series C shares and introduction of series C shares to trading on the WSE

The subject of the first public offer carried out by the Company in June 2009 was 11,000,000 series C shares, which were offered to investors, with the exclusion of a pre-emptive right, in the following tranches:

- Individual Investors: 1,670,000 series C shares;
- Institutional Investors: 9,000,000 series C shares;
- Employee Investors: 330,000 series C shares.

Subscriptions for series C shares of the Company were carried out from 1 June – 18 June 2009.

Table 28 Key dates when the process of the first public offer of shares of LW BOGDANKA S.A. was carried out

28 November 2008	Submission of the Issue Prospectus to the Polish Financial Supervision Authority (FSA);
14 May 2009	Approval of the Issue Prospectus by the FSA;
28 May 2009	Setting the price range;
1 June 2009	Opening subscriptions for series C shares;
1-5 June 2009	Accepting subscriptions for series C shares from the Individual Investors and the Employee Investors;
5 June 2009	Setting the final issue price and the final number of series C shares offered in the individual tranches;
8-10 June 2009	Accepting subscriptions from the Institutional Investors;
18 June 2009	Final deadline for closing subscriptions for series C shares;
19 June 2009	Allocation of series C shares;
22 June 2009	Admission of series A and C shares and rights to series C shares of the Company to trading on the main market of the Warsaw Stock Exchange;
25 June 2009	The Company's debut on the WSE - introduction of rights to series C shares to trading on the main market of the WSE (first quotation).

As a result of subscriptions submitted by investors, all the series C shares of the Company offered in the public offer (11,000,000 shares) were acquired and paid up.

A total of 9,985 investors submitted valid subscriptions for the shares being the subject of the public offer. As a result of the allocation, the following numbers of buyers acquired series C shares of the Company in the individual investment tranches of the public offer:

- the Individual Investors: 7.828 investors;
- the Institutional Investors: 417 investors;
- the Employee Investors: 1,740 investors.

The number of shares for which subscriptions were submitted in individual investment tranches amounted to:

- the Individual Investors: 14,849,746 series C shares (1,670,000 series C shares were acquired by the Individual Investors - the rate of reduction of submitted subscriptions amounted to 88.75%); 88,75%);
- the Institutional Investors: 9,000,000 series C shares (9,000,000 series C shares were acquired by the Institutional Investors);
- the Employee Investors: 335,480 series C shares (330,000 series C shares were acquired by the Employee Investors - the rate of reduction of submitted subscriptions amounted to 2.99%). 2,99%).

The issue price of shares in the public offering was set at PLN 48 per share (the par value of a share amounts to PLN 5). In connection with the issue of series C shares, the Company obtained proceeds of PLN 528,000,000 (after deducting the costs of issue, LW BOGDANKA S.A.'s proceeds amounted to PLN 521,051,000). As a result of carrying out the first public offer, the Company's share capital was increased from PLN 115,067,950 to PLN 170,067,950 (i.e. by PLN 55,000,000).

The first quotation of rights to shares of the Company on the Warsaw Stock Exchange (the "WSE") took place on 25 June 2009.

On 17 July 2009, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) adopted a resolution designating 21 July 2009 as the date of the last quotation of 11,000,000 rights to series C ordinary bearer shares of LW BOGDANKA S.A.

The Management Board of the WSE also adopted a resolution on introducing to trading on the main market of the stock exchange, by the normal procedure, the following ordinary bearer shares of LW BOGDANKA S.A.:

- 19,770,590 series A shares, marked with the code "PLLWBGD00016" by the National Depository of Securities (the "NDS");
- 11,000,000 series C shares, on the condition that on 22 July 2009 the NDS would register the series C shares and mark them with the code "PLLWBGD00016".

The registration of 11,000,000 series C shares of the Company in the National Depository of Securities took place on 22 July 2009.
The first quotation of the series C shares on the WSE was carried out on 22 July 2009.

6.2 Share capital

In pursuance of the strategy adopted by LW BOGDANKA S.A. assuming an increase in its share capital and an issue of new shares on the WSE, in 2008 the Company's governing bodies took measures to prepare the Company to a stock exchange debut, as a result of which the LW BOGDANKA S.A.'s share capital as at 31 December 2008 amounted to PLN 115,067,950.00 (one hundred fifteen million sixty-seven thousand nine hundred and fifty zlotys) and was divided into 23,013,590 (twenty-three million thirteen thousand five hundred and ninety) shares with a total value of PLN 5 (five zlotys) each, including:

a) 19,770,590 (nineteen million, seven hundred and seventy thousand, five hundred and ninety) series A bearer shares;
b) 3,243,000 (three million, two hundred and forty-three thousand) series B registered shares, allocated for sale to eligible employees, in accordance with the Act on Commercialisation and Privatisation;

As at 31 December 2008, 96.81% of the Company Shares were held by the State Treasury.

On 14 November 2008, the Extraordinary General Shareholders Meeting adopted a resolution on an increase of the Company's share capital by way of a public issue of series C shares. The resolution became effective on the same day it was adopted, but the share capital increase was effected on the moment of registering, by the court, the increase of the share capital by way of the issue of 11,000,000 series C shares and amending the Company's Articles of Association, i.e. on 10 July 2009. In accordance with the abovementioned resolution of the Extraordinary General Shareholders Meeting and upon the registration of the increase by the Court, the share capital of LW BOGDANKA S.A. as at the day of submitting this Report for 2009, amounted to PLN 170,067,950 (one hundred seventy million sixty-seven thousand nine hundred and fifty zlotys) and was divided into 34,013,590 (thirty-four million thirteen thousand five hundred and ninety) shares with a total value of PLN 5 (five zlotys) each, including:

a) 19,770,590 (nineteen million, seven hundred and seventy thousand, five hundred and ninety) series A bearer shares;
b) 3,243,000 (three million, two hundred and forty-three thousand) series B registered shares;
c) 11,000,000 (eleven million) series C bearer shares.

Information about shareholders holding significant blocks of Company shares is presented in section 13.3 of the Report.

6.3 Holdings of shares in LW BOGDANKA S.A. as well as shares in related undertakings of the Company by the management and supervision personnel of LW BOGDANKA S.A.

The table below presents the total number and par value of shares of LW BOGDANKA S.A. as well as shares in related undertakings of LW BOGDANKA S.A. held by the management and supervision personnel of LW BOGDANKA S.A., as of the date of submitting the Report and as of the date of publishing the previous interim report.

Table 29 The number of the Company shares and shares in a subsidiary of the Company held by the members of the Management the Supervisory Boards of LW BOGDANKA S.A.

Name and surname	The number of the Company shares as of 22 March 2010	Par value of the shares (PLN)	The number of the Company shares as of 10 November 2009	Par value of the shares (PLN)	The number of shares in Łęczyńska Energetyka Sp. z o.o. as of 22 March 2010
Management Board					
Mirosław Taras	1,713	8,565	1,713	8,565	0
Krystyna Borkowska	1,299	6,495	1,299	6,495	0
Zbigniew Stopa	2,810	14,050	2,810	14,050	0
Waldemar Bernaciak	2,162	10,810	2,162	10,810	0
Janusz Chmielewski	5,129	25,645	6,000	30,000	0
Supervisory Board					
Krzysztof Maślankowski	0	0	0	0	0
Grażyna Dec	0	0	0	0	0
Henryk Czapla	0	0	0	0	0
Wiesław Różycki	0	0	0	0	0
Bogdan Kowal	2,025	10,125	2,025	10,125	0
Adam Partyka	0	0	270	1,350	0
Total	**15,138**	**75,690**	**16,279**	**81,395**	**0**

6.4 Information on agreements known to LW BOGDANKA S.A. (including those concluded after the balance-sheet date), as a result of which changes may occur in the future in the proportion of shares held by the previous shareholders.

As of the date of submitting this Report, the Company has no information on agreements, as a result of which changes may occur in the future in the proportion of shares held by the existing shareholders.

6.5 Free of charge shares for eligible employees

Due to the fact that LW BOGDANKA S.A. was created as a result of the restructuring of a state enterprise into a joint stock company, it is subject to the provisions of the Act on Commercialisation and Privatisation. In accordance with Article 36 of the Act on Commercialisation and Privatisation as well as on the basis of Article 17 of the Company's Articles of Association, eligible employees shall have the right to acquire, free of charge, up to 15% of shares held by the State Treasury as at the date of the Company's registration, i.e. 3,243,000 (three million two hundred and forty-three thousand) the Company's Series B registered Shares.

Eligible employees may exercise the aforementioned right, provided that within 6 months from the date of the Company's registration, they submit a written statement on the intention to acquire the shares. Failure to submit the statement within the aforementioned time limit led to the loss of the right to acquire the shares free of charge. In case of the Company, the aforementioned six-month time limit commenced on the date when the Act became effective. Therefore, in compliance with Article 77 of the Act on Commercialisation and Privatisation, the six-month period lapsed on 8 October 1997.

Lists of the eligible employees were created at the Company, enumerating those who submitted the statements on the intention to acquire the shares. Written complaints issued by the employees were also considered. The list was created on 22 October 1997.

The transaction of disposal of 1,689,939 shares of LW BOGDANKA S.A. effected by the State Treasury on 8 December 2009 pursuant to general rules, became a gateway for the commencement of the process of making the shares of LW BOGDANKA S.A. available free of charge to eligible employees pursuant to the aforementioned Act on Commercialisation and Privatisation as well as the Regulation of the Minister of the State Treasury of 29 January 2003 on detailed rules of dividing eligible employees into groups, determining the number of shares available for each of these groups as well as acquiring the shares by the eligible employees (Dz.U.03.35.303).

The list of the eligible employees, including their period of employment in the state-owned company under commercialisation, its predecessor and the Company as well as the total period of employment in these entities, was presented in the Company's registered office on 29 December 2009.

Furthermore, LW BOGDANKA S.A. enables the persons eligible to acquire the shares free of charge to check via the Internet their period of employment in LW BOGDANKA S.A. (and its predecessor) and the total period of employment, as well as the number of allocated shares by means of logging on to the Corporate service at the Company's website www.lw.com.pl, and entering the "Akcje pracownicze" tab. Up-to-date information about the process of issue of LW BOGDANKA S.A.'s shares to the eligible employees is also available through the service.

On 3 February 2010 the Management Board of LW BOGDANKA S.A. as well as the representatives of the trade unions operating at the Company signed an agreement on specifying the number of shares of LW BOGDANKA S.A. available to each of the eligible groups, divided according to the total period of employment in the state enterprise KWK Bogdanka, its predecessor as well as the Company.

On 8 February 2010 the Management Board created a final list of the eligible employees, supplemented by the data on the number of shares to which the eligible employees are entitled.

The next stage of the process of the free of charge disposal of the Company shares by the State Treasury to the eligible employees will be the announcement in a newspaper of nationwide coverage and in a local newspaper, stating that the State Treasury has commenced to dispose of the shares to the eligible employees.

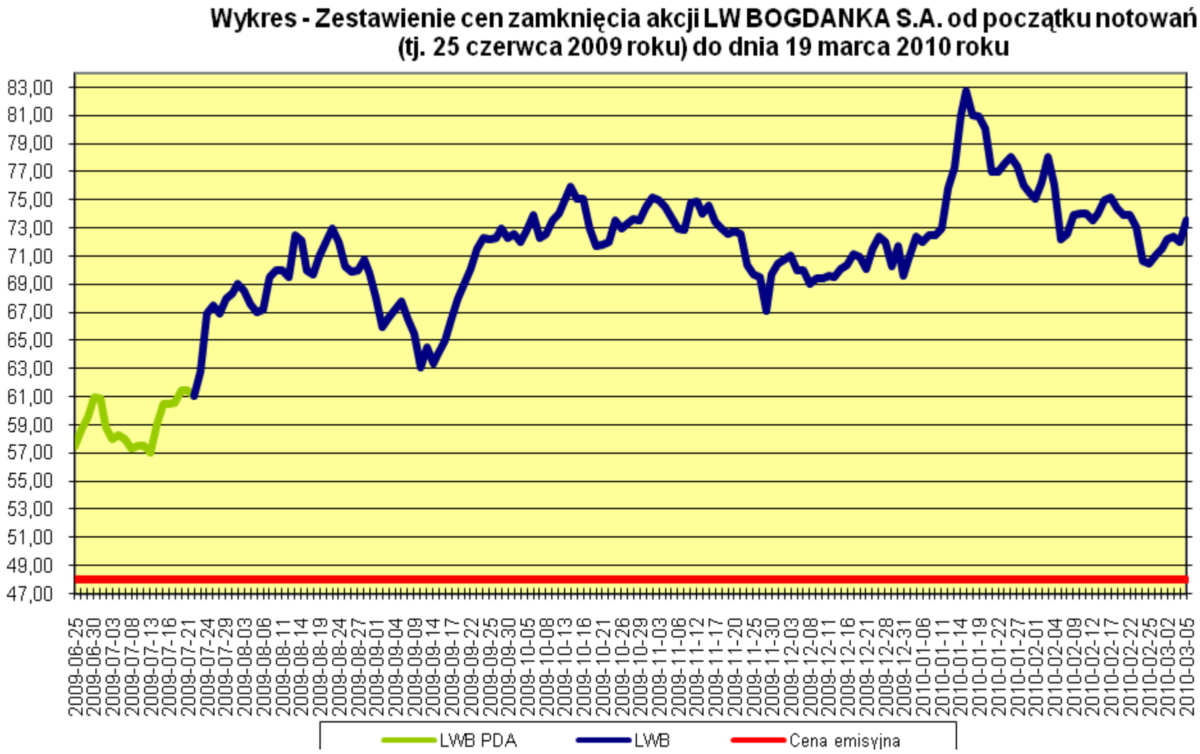
The right to acquire the Company shares free of charge becomes effective upon the lapse of 3 months from the disposal by the State Treasury of the first shares pursuant to general rules, i.e. on 9 March 2010 and it may be exercised by the eligible employees until 9 March 2012. The right to acquire the shares free of charge is subject to inheritance, subject to the provisions of Article 38c)2-4 of the Act on Commercialisation and Privatisation.

The shares acquired free of charge by the eligible employees may not be traded until the lapse of two years, or – in the case of employees being members of the Company's Management Board - three years, from the disposal by the State Treasury of the first shares on general terms.

6.6 Acquisition of the Company's own shares

In 2009 the Company did not acquire any of its own shares.

6.7 Price of Rights to Shares/ Shares of the Company since its debut on the Warsaw Stock Exchange.



[Chart: Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 19 March 2010], [Rights to shares in LWB, LWB, Issue price]

7. PERSONNEL INFORMATION

7.1 Employment structure

Table 30 Employment status of the Company as at 31 December 2007, 2008 and 2009

Employment	*2007*	*2008*	*2009*	*Dynamics 2009/2008 [%]*
Total staff	**3,545**	**3,667**	**3,885**	**105.94**
Underground workers	2,298	2,389	2,554	106.91
Surface workers	757	767	782	101.96
Full-time employees underground	242	254	284	111.81
Full-time employees on the surface	248	257	265	103.11
Total underground	2,540	2,643	2,838	107.38
Total workers	3,055	3,156	3,336	105.70

Employment in 2009 increased by 218 persons, i.e. by 5.94 % in relation to the employment at the end of 2008. The table below presents staff turnover in a three-year period:

Table 31 Staff fluctuations

Item	*2007*	*2008*	*2009*
Beginning of year	**3,323**	**3,545**	**3,667**
Recruitments	411	339	354
Employees dismissed	189	217	136
End of year	**3,545**	**3,667**	**3,885**
Recruitment rate	12.37%	9.56%	9.65%
Dismissal rate	5.69%	6.12%	3.71%

In 2009, 354 employees were hired, including 4 secondary school graduates, 8 university graduates, 337 persons from outside of the mining industry, 2 persons – returning after completing their military service, 1 persons returning from unpaid leave, and 2 persons from other Coal Companies.
At the same time 136 employees left the mine:

- 98 - on pension or disability benefits,
- 10 - died,
- 28 - other dismissals (including termination by mutual consent of the parties, disciplinary dismissals, expiration of temporary employment contracts, termination by an employee giving notice, termination by an employee giving notice, unpaid leave, military service).

The employment structure of Lubelski Węgiel BOGDANKA S.A. by age, as at 31 December 2009, was as follows:

Table 32 Employment structure by age

Age	*Number of employees*			
	Women	*Men*	*Total*	*%*
Total staff	**227**	**3,658**	**3,885**	**100.00**
Below 30	24	957	981	25.25
Between 31 and 40	27	885	912	23.47
Between 41 and 50	106	1,409	1,515	39.00
Over 50	70	407	477	12.28

The employment structure by length of service of persons employed on the basis of employment contract at the end of 2009 was as follows:

Table 33 employment structure by length of service at the end of 2009

Years of service	*Number of employees in the year of service groups*			
	Women	*Men*	*Total*	*%*
Total staff	**227**	**3,658**	**3,885**	**100**
Below 10	30	1,210	1,240	31.92
Between 11 and 15	12	216	228	5.87
Between 16 and 20	24	349	373	9.6
Between 21 and 25	32	663	695	17.89
Over 25	129	1,220	1349	34.72

2,417 employees (62.21%) working in the Company have over 15 years of service, which stands for a lot of experience and high qualifications.

7.1.1 Professional background of employees

The largest group of workers is made of persons with basic special and secondary education. Their share in total employment at the end of December 2009 was 78.82 %. The table below presents employment structure by education:

Table 34 Employment structure by education

Education	**Number of employees**			
	Women	**Men**	**Total**	**%**
Total staff	**227**	**3,658**	**3,885**	**100.00**
Higher	69	520	589	15.16
Secondary	125	1,511	1,636	42.11
Basic	28	1,398	1,426	36.71
Primary	5	229	234	6.02

7.1.2 Forms of performing work

The basic form of employment in the Company is an employment contract. Other forms of employment, such as a mandate contract or a performance contract, are used occasionally.
Employees are hired on the basis of an employment contract for an indefinite term. In case of newly hired employees, this contract is preceded by a contract for a probationary period or for a definite term. The number of persons employed for an indefinite term as at 31 December 2009 was 735 persons.

7.2 Work productivity

In 2009, total productivity declined (to the level of 7.587 kg/man-day against 8.112 kg/man-day in the previous year), accompanied by an increase in mine productivity from 18.415 kg/man-day to 18.687 kg/man-day. This discrepancy in productivity dynamics results from greater stone content in raw excavated material and a decrease in the extraction of commercial coal despite the capacity of the hoisting gear remaining constant and being used to optimum effect. In the period under analysis, the number of working days worked remained at a very similar level.

Table 35 Total and underground productivity in LW BOGDANKA S.A. in 2007-2008

Productivity	2007	2008	2009	Dynamics 2009/2008
Total [kg/man-day]	7.060	8.112	7.587	93.53%
Underground [kg/man-day]	16.028	18.415	18.687	101.48%

7.3 Average monthly remuneration

Principles of remuneration in the Company in 2009 were regulated by the Collective Bargaining Agreement of 31 October 2001, concluded between the Management Board of the Company and trade organisations operating within the Company: Independent and Self-Governing Trade Union "Solidarność", Trade Union of Miners in Poland, Trade Union "Kadra".

On 25 November 2009, a new trade union organisation was entered under No. 122/112/5232/09 of the Collective Bargaining Agreement - Trade Union of Employees of Mechanical Coal Processing Plants "Przeróbka", which entered into rights of a party to a collective bargaining agreement.

Over a year, changes to applicable provisions were introduced on the basis of additional protocols.

By protocol No. 31 dated 1 March 2009, changes were introduced concerning the amount of allowances for work performed according to provisions of Annex 10 to the Collective Bargaining Agreement, in particular: allowances for work in harmful, dangerous and onerous conditions, allowances for rescuers and others, and the amount of equivalent for coal allowance, a free coupon for supportive meals.

On 1 July 2009, by additional protocol No. 32, incentive package provisions were introduced to the Collective Bargaining Agreement, concerning: guarantee of employment (5 years), additional leave (3 days) for employees employed in production facilities of the Mechanical Coal Processing Plant and transfer of PLN 5,000,000 for an additional write-off to the Company Social Benefits Fund, allocated for financing individual summer actions of employees (as in the previous years).

Also, additional protocol No. 33 introduced Annex 19, covering principles for obtaining rights to the bonus from the Incentive Programme. Since 01 October 2009, provisions of additional protocol No. 34 established principles for obtaining employees' rights to sick leave and principles for granting an allowance for work in harmful and dangerous conditions. The latter was changed once again, by provisions of additional protocol No. 35 introducing an extra payment for days worked in place of previously applied allowances for work under harmful and dangerous conditions. Additionally, this protocol introduced rises of base salary rates in all employee groups by

7%, starting from 1 November 2009. Also, protocol No. 36 unified provisions of § 50 concerning additional holiday leave for entitled employees.

After registering this document in the Register of Collective Bargaining Agreements at the Regional Labour Inspector in Lublin on 30 November 2009, a new consolidated text of the Collective Bargaining Agreement including changes introduced by 31 December 2009 was prepared for the Company purposes.

The Collective Bargaining Agreement specifies a package of benefits due within the employment relationships and principles for granting individual components of remuneration, including bonuses for effective work hours, e.g. for working overtime, bonuses for rescuers and others.

The table below illustrates the level of effected average monthly remuneration for work, with payment of the bonus from the Incentive Programme for individual employee groups:

Table 36 Level of effected average monthly remuneration for work, with payment of the bonus from the Incentive Programme for individual employee groups

Item	*2008 [PLN]*	*2009 [PLN]*	*Dynamics % 2009/2008*
Total staff	**6,093.73**	**6,880.00**	**112.90**
Manual labourer	5,839.21	6,587.39	112.81
Underground workers	6,330.14	6,953.46	109.85
Surface workers	4,787.47	5,449.23	113.82
Full-time employees	7,650.62	8,621.42	112.69
Full-time employees underground	9,101.07	9,866.50	108.41
Full-time employees on the surface	6,184.01	7,343.09	118.74

The level of payment from the personal fund in the Company, as compared to the same period of the previous years, was affected by regulations introduced in 2009 (referred to above) and the bonus paid from the Incentive Programme in connection to the debut of the Company on the Warsaw Stock Exchange (information concerning the Incentive Programme is provided in section 7.5 of the Report).

Individual components of average monthly remuneration changed as follows:

- base salary rates grew by 6.22% in relation to the previous year;
- incentive bonus was paid at a level higher by 13.04% (in the structure of average monthly remuneration in a year the share of this component remained at a similar level of 10.64% - previous year: 10.59%). The bonus from the Incentive Programme in the structure of monthly remuneration was 9.78%;
- general remuneration for work time paid in the period under analysis increased by 7.25%, which resulted from the policy of remuneration payment carried out and the situation in the labour market in Poland, in the hard coal mining industry and in the region,
- the component that increased the most - by 29.2% - is the value of equivalent for coal allowance. This component accounts for 4.89% of average salary.

It should be emphasised that the structure of average monthly remuneration in the previous year was significantly affected by the change in working time organisation - the Company performed work on Saturdays and Sundays only in one month of the year, in other months of the year, work on free days was commissioned to other external entities. Consequently, overtime work in the structure of average monthly remuneration accounted only for 2.22%, i.e. 53.25% of the share from the previous year,

- the level of payment of non-periodical components – in relation to the amount paid in 2008 – was as follows:
    - years of service awards - 101.31%,
    - pension and disability packages - 65.49% - a large difference due to a lower number of employees who left employment on a pension or disability benefit - 143 persons in 2008 and 98 persons in 2009;
    - annual bonuses: bonus on the occasion of the Miner's Day - 106.36%, additional annual bonus, the so-called "fourteenth salary" - 98.93%.

The time actually worked in 2009 grew by 4.48% with the growth of average annualised employment by 5.94%, in which overtime work decreased by 51.5%. Time not worked by employees was at a similar level as in the previous year – 99.02%, in which time paid with the employer's means was 100.14%, including: non-worked time due to leaves and other paid absences 102.49% (introduction of a 3-day additional leave for a new group of employees of approx. 270 persons) and due to sickness absence 93.07% (change of wording of Art. 92 of the Labour Code with reference to employees over 50 years of age – reduction of the time of paid sickness absence from 33 to 14 days in a calendar year).

7.4 Rules governing remuneration of the management and supervising personnel of the Company's and the value of such remuneration, awards or benefits payable to managing and supervising personnel in 2009

The Management Board and proxies:

Members of the Management Board are employed on the basis of employment agreements, concluded between the Supervisory Board, represented by the authorised Members, and individual persons appointed to the Company's Management Board. The rules governing remuneration of the Management Board Members were stipulated by the General Shareholders Meeting, which has established on the basis of the provisions of the Act on Paying Remuneration to the Managers of Certain Legal Entities of 3 March 2000 (Dz.U. 2000 No. 26, item 306 of 10 April 2000) that Members of the Management Board are entitled to a monthly remuneration in the amount of a multiple of an average monthly remuneration in the enterprise sector, without the payment of profit bonuses for the fourth quarter of the previous year, as announced by the President of the Central Statistics Office (GUS).
Depending on financial results and the performance of other tasks, the Management Board Members may be given an annual award in the amount of up to 3 times their average monthly remuneration for the year preceding the year in which the award was granted.

The total gross remuneration paid to the Members of the Management Board in 2009 amounted to PLN 1,616,422.71. Within their duties at the Company, Members of the Management Board were given remuneration only in respect of employment agreements.

- Mirosław Taras PLN 250,563.54
- Zbigniew Stopa PLN 373,696.30
- Krystyna Borkowska PLN 333,274.67
- Waldemar Bernaciak PLN 333,839.34
- Janusz Chmielewski PLN 325,048.86

The total gross remuneration paid to the Company's proxy in 2009 amounted to PLN 233,827,710. Within the duties at the Company, the proxy was given remuneration only in respect of an employment agreement.

Supervisory Board

Members of the Supervisory Board shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. The Company shall cover the costs incurred by the members of the Supervisory Board in connection with their performance of duties, and in particular the cost of travel to take part in the Supervisory Board's meeting, accommodation and subsistence, as well as costs incurred in connection with exercising individual supervision.

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution and shall not exceed the amount of the remuneration of a Management Board member determined in accordance with the rules of remuneration for Management Board members adopted by the General Shareholders Meeting. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

A total gross remuneration paid to the Supervisory Board Members in 2009 amounted to PLN 237,632.00.

- Jadwiga Kalinowska PLN 14,885.48
- Adam Partyka PLN 39,837.36
- Wiesław Różycki PLN 38,338.10
- Krzysztof Maślankowski PLN 39,837.36
- Grażyna Dec PLN 39,837.36
- Henryk Czapla PLN 39,837.36
- Bogdan Kowal PLN 25,058.98

Costs related to the performance of duties by the Supervisory Board in 2009 amounted to PLN 7,280.87. Members of the Supervisory Board do not receive benefits in-kind in relation to their duties.

Moreover, three Members of the Company's Management Board received remuneration in respect of performing duties in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o.:

- Zbigniew Stopa PLN 39,840.00
- Janusz Chmielewski PLN 37,848.00
- Mirosław Taras PLN 37,848.00

In 2009 there were no incentive or bonus programmes based on the equity of LW BOGDANKA S.A.

7.5 Incentive Programme

On 27 November 2008, an understanding was signed between Lubelski Węgiel BOGDANKA S.A. and all the trade union organisations operating in the Company - the so-called Incentive Programme, which came into force after the Company shares were introduced to trading on the WSE (i.e. from 26 June 2009).

Under the Incentive Programme, within three months from the first quotation of rights to series C shares on the regulated market conducted by the WSE, entitled persons are entitled to a one-off award in the total amount of PLN 36,000,000.

Under the signed Incentive Programme, Lubelski Węgiel BOGDANKA S.A. undertook to annually analyse the possibility of carrying out an additional write-off to the Company Social Benefits Fund in an amount not lower than in 2008 and agreed to contribute PLN 5,000,000 to that fund in 2009.

On 30 July 2009, the Trade Unions adopted the final text of "Rules for Distributing the Bonus Under the Incentive Programme", which defines the principles for distributing the bonus among individual groups of eligible persons and the payment deadline, i.e. 25 September 2009.

In the abridged consolidated financial statements of the LW BOGDANKA Group for the first half of 2009, a provision was created in the amount of PLN 36,000,000 for paying a one-off bonus, as well as a provision in the amount of PLN 2,500,000 to increase the Company Social Benefits Fund. The provisions were charged to the costs of producing goods sold, administrative costs and sales costs.

The aforementioned provisions were released in the third quarter of 2009 due to the payment of a one-off bonus on 25 September 2009 as well as payments of social benefits to employees in the total amount provided for in the Incentive Programme, i.e. PLN 5,000,000.

7.6 All agreements concluded by and between LW BOGDANKA S.A. and the management personnel which provide for compensation in case of resignation or dismissal from their position for no cause or in case they are dismissed as a result of acquisition of LW BOGDANKA S.A.

Pursuant to the provisions of employment contracts concluded by and between LW BOGDANKA S.A. and the individual Members of the Management Board, in case they are dismissed or their employment contract is terminated before the expiry of their term for reasons other than violation of basic obligations arising from the employment relationship, a Member of the Management Board is entitled to a severance pay in the amount of three months' remuneration.

7.7 Employee social and welfare benefits

In the course of restructuring, the Company has disposed of the majority of its employee facilities, including the entire stock of company flats.

At the moment, the Company owns the following facilities: the Rogóźno holiday centre (which is rented by Związek Zawodowy Górników w Polsce – Trade Union of Miners in Poland), canteen at Bogdanka, which is rented by Przedsiębiorstwo Handlowo-Usługowe "Górnik" Sp. z o.o. at Bogdanka, the "Stary Tartak" facility, which functions as a training centre for employees, and a summer holiday centre in Łazy in the West Pomerania province (land property of an area of 120 ares, including four pavilions with 111 bed places and campsite with hygiene facilities).

Employee social and welfare benefits are provided as part of the Company Social Benefits Fund, which is earmarked for subsidising the following purposes:

- group holidays for children and teenagers (summer camps, etc.),
- company-organised holidays,
- organised Sunday and holiday leisure activities and tourism,
- cultural and educational activities (art and culture events),
- material and financial support for employees and pensioners with welfare and health difficulties,
- housing support in the form of loans to subsidise charges associated with the exchange of cooperative apartments, construction of a residential house, cash contribution to a housing cooperative towards the construction of residential facilities, purchase of a residential building or apartment, vertical enlargement and extension of a building for residential purposes, and rehabilitation and upgrading of an apartment,
- subsidising company employee facilities.

Table 37 Inflows and outflows from the Company Social Benefits Fund in the years 2008 – 2009 in PLN '000

Type of benefit	*2008*		*2009*	
	inflows	*outflows*	*inflows*	*outflows*
Housing loans	2,557	2,737	2,386	1,329
Holidays for adults	46	1,241	58	1,336
Holidays for children	20	760	-	670
One-time benefits	-	119	-	80
TOTAL:	**2,623**	**4,857**	**2,444**	**3,415**

7.8 Occupational health and safety

7.8.1 Working conditions

The nature of the Company's operations entails that the staff employed at the mine, especially underground, are exposed to a number of risks, including but not limited to natural and technical risks. Work in underground conditions also exposes the staff to harmful and nuisance work environment factors at work stations.

7.8.2 Natural risks

Lubelski Węgiel BOGDANKA is classified as a mine with relatively difficult natural conditions due to the significant depth of the mined beds of coal. Strict compliance with occupational health and safety regulations, monitoring, and preventive measures ensure that those threats are entirely under control.
The following natural threats occur in the mine:

- Methane risk – category I;
- Fire risk – the mine extracts beds which are classified as category four in terms of coal spontaneous ignition risk (on a five-grade scale). In 2009, there were no fires in the mine; also, there are no active fire areas. Fire prevention measures are in place;
- Coal dust explosion risk – the beds where mining is taking place have been classified as category B in terms of coal dust explosion risk, and the long wall workings have been classified as no-risk, and category A and B in terms of coal dust explosion risk. At workings classified as category A and B in terms of coal dust explosion risk, zones inhibiting explosion propagation are maintained by stone dusting. At workings classified as category B in terms of coal dust explosion risk, anti-explosion dust and water barriers are used. Accumulation of the dangerous coal dust is limited by using dust volatility-inhibiting agents at sites where the dust originates (sprinkler systems in mechanical miners and heading machines and in dumping machines at output dump locations).
- Water risk – in 2009 all preliminary works and mining took place at grade I risk.

7.8.3 Technical risks

In 2009, on average 128 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present. Particularly dangerous machinery includes but is not limited to the machinery listed in Annex IV to Directive 98/37/EC implemented by virtue of the Regulation of the Minister of Economy, Labour and Social Policy of 10 April 2003 on the essential requirements relating to machinery and safety components (Dz. U. [Official Journal] No. 91, item 858). Particularly dangerous machinery includes but is not limited to locomotives, hydraulic-powered roof supports, presses, saws, etc. Reduction of technical risks and their impact on employees is effected gradually to reflect technological progress. New technological solutions in direct production, such as coal ploughing system, continue to be implemented. Moreover, at work stations indirectly associated with coal production, innovative technical solutions and small mechanisation equipment with improved safety norms are implemented. The Company monitors the market in terms of new safe machines and equipment. The staff are trained on a regular basis, they gradually improve their qualifications and obtain new machinery maintenance licences.

7.8.4 Harmful and nuisance factors

Measurements of harmful factors occurring at work stations at the Company are conducted in accordance with the Regulation of the Minister of Health of 20 April 2005 on testing and measuring harmful factors at work environment (Dz. U. [Official Journal] 28 April 2005) and an internal procedure developed in that respect:

- measurements of hard coal dust, including the content of free crystalline silica, audible noise, and general and local vibrations are conducted by the accredited Work Environment Laboratory of Lubelski Węgiel BOGDANKA S.A.
- measurements of ionising radiation, harmfulness of welding gases and UV radiation, and energy expenditure are contracted to other external laboratories, such as GIG (Central Mining Institute).

<u>Dustiness</u>

In 2009, the number of staff working at work stations where health risk associated with the harmful factor of dust containing free crystalline silica in concentrations exceeding the maximum permissible concentration is present amounted to 1445 persons. Those employees were employed at workings classified as category A and B in terms of harmful dust risk.
In 2009, there was a small increase in the number of persons employed at sites where maximum permissible concentration was exceeded. That was primarily related to an increase in employment in production departments.

Preventive measures taken against the impact of harmful dust are contained in the preventive measures program in the Safety Document. The program involves the following:

1. Using efficient collective protection measures, including:
   a) at face workings:
   - internal and external sprinklers on mechanical miner organs,
   - chemical agents to soften water,

   b) at drift workings:
   - combined ventilation,
   - dry dust collectors,
   - internal and external sprinklers,
   - chemical agents to soften water,

   c) other measures at sites other than mine face:
   - sprinklers at dumping locations,
   - dust hoods at conveyors near air stopping,
   - washing and removal of accumulated dust.
2. Providing all staff exposed to harmful dust with appropriate personal protection equipment (dust masks), depending on the category of dust risk. Each employee is trained in using such personal protection equipment.

<u>Audible noise</u>

In 2009, the number of staff working at work stations where health risk associated with the harmful factor of noise exceeding the maximum permissible levels is present amounted to 1137 persons.
In 2009, there was a small increase in the number of persons employed at sites where the maximum permissible level of noise was exceeded. That is primarily related to the continuous increase in the mechanisation of the production process. Machinery and equipment used in the production of coal emit noise which frequently exceeds the maximum permissible level.
Preventive measures involve consistent implementation of a plan of action intended to limit the harmful impact of noise on the employee. Such actions are conducted at four different levels:

- taking into account employee protection against noise at the stage of designing and creating a work station,
- monitoring the risk – noise – at work stations,
- limiting the employee's exposure to harmful noise during work at a work station,
- medical care.

<u>Mechanic vibration</u>

The machinery, equipment and hand-held tools used in the production process generate mechanical vibration.
Depending on the site where vibrations penetrate the human body, they can be divided into two categories:

- localised vibrations which affect the human body through upper extremities (rotational and percussive tools such as drills, pneumatic hammers, roof bolting machines or tightening machines)
- general vibrations which penetrate the human body through body parts other than upper extremities (machinery and equipment such as heading machines, locomotives, road-heading machines, underground means of transport, etc.).

The current preventive measures to reduce the impact of vibrations (localised vibrations) involves primarily gradual introduction of new tools and equipment with lower vibration emissions. The time of using hand-held tools which generate vibrations is controlled so that it does not exceed the permissible time of using a given type of tool. Moreover, personal protection equipment – anti-vibration gloves – is used. As for general vibrations, preventive measures involve using anti-vibration materials on machinery and equipment components which emit general vibrations, so that they do not propagate along structural components to which the employee may be exposed. Due to such preventive policy, for a number of years there have not been any work stations where maximum permissible levels of mechanic vibrations are exceeded.

Table 38 Number of employees working at work stations where maximum permissible levels and maximum permissible concentrations are exceeded:

year	underground				
	dustiness	**noise**	**vibrations**	**chemical agents**	**other**
2007	1459	1024	-	170	198
2008	1336	1036	-	-	-
2009	**1445**	**1173**	**-**	**-**	**-**

Nuisance factors

Nuisance factors in work environment are such factors the impact of which may cause an employee to feel unwell or excessive fatigue but does not lead to permanent health deterioration. Such factors may, however, lead to prolonged absence due to illness and decreased efficiency.
The main nuisance factors present at the Company, and specifically associated with underground mining operations, include:

- microclimate,
- lighting,
- excessive physical effort.

Measurements of microclimate components (temperature, humidity, pressure, cooling intensity) and lighting are conducted by authorised departments of the Company, in accordance with the relevant applicable legal regulations. Reducing the impact of such nuisance factors is effected through a number of technological and organisational solutions. On a regular basis, measurements of microclimate parameters are conducted. In 2009, on average 1083 staff were working daily in hot microclimate conditions (temperature above 25° C).
On average the number of employees exposed to excessive physical effort amounts to 1785 persons per day. the Company keeps introducing equipment to improve the comfort and conditions of work. The market of new climatic equipment used in underground mines is monitored.

7.8.5 Work accidents

In 2009, there were 70 work accidents at LW BOGDANKA, including one serious accident. The number of accidents and basic accident rates are presented in the table below.

Table 39 Number of accidents and accident rates at the Company in 2007-2009

Year	**2007**	**2008**	***2009***
Number of accidents – total	51	52	**70**
including: fatal	-	1	**-**
causing serious injury	-	-	**1**
frequency rate (per 1000 employees)	14.71	14.55	**18.66**
frequency rate (per 100,000 workdays)	7.00	7.09	**8.91**

Table 40 Work accident costs at the Company in 2007-2009

Year	Number of accidents	including:		benefits paid (in PLN '000)
		fatal	**serious**	
2007	51	-	-	163.6
2008	52	1	-	133.5
2009	**70**	**-**	**1**	**181.6**

7.9 Financial support relating to employment restructuring

In 2009, the Company did not use any public funds for employment restructuring purposes.

7.10 Trade Unions

Four union organisations operate at the Company.
As at 31 December 2009, the size of the individual trade unions was as follows:

1. "Solidarność" Independent Self-Governing Trade Union 1088 members
2. Trade Union of Miners in Poland 832 members
3. "Kadra" Trade Union 260 members
4. "Przeróbka" Trade Union 274 members

As at 31 December 2009, the number of staff employed at the Company amounted to 3885 persons. In total, 2454 employees belonged to union organisations, which constitutes 63.17% of the total head count.
Cooperation of the Management Board of Lubelski Węgiel BOGDANKA S.A. with the management boards of union organisations is constructive. Union organisations participate in decision-making to the extent provided for by the law.

7.11 Collective disputes

In 2009, there were no collective disputes.

7.12 Information on a control system of employee share schemes

In 2009, no control system of employee share schemes was in place at LW BOGDANKA S.A.

8. ENVIRONMENTAL PROTECTION

8.1 Location of the Company

The entire infrastructure of the mine and the "Puchaczów V" mining area are surrounded with protected land. In the immediate vicinity the Polesie National Park and Łęczna Lake District Landscape Park are located. In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Natura 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west.
In the north-west, the Polesie Protected Landscape Area is located, and in the south-east, the Chełm Protected Landscape Area, which changes into the "Dolina Świnki" (Świnka River Valley) wildlife corridor, which stretches parallel to the west border of the mining area.
The mine does not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-ecological actions, implementation of an Integrated Quality and Environmental Management System, and extension of the relevant certificate in accordance with PN EN ISO 14001 and 9001.

8.2 Natural environment protection measures

8.2.1 Air protection

LW BOGDANKA has an organised emitter which emits dust and gas into the atmosphere. It is the Ceramic Building Materials Plant where the main source of gas and dust emissions include: brick tunnel kiln, and ground material preparation unit. The EkoKLINKIER Construction Ceramics Plant has an integrated permit no. PZ 17/2006 of 29 December 2006, which specifies, among other things, the conditions and permissible amounts of pollutants which may be emitted from the plant into the air. The permit was amended by virtue of decision PZ 21/2009 of 6 July 2009 and is valid until 1 May 2012. In 2009, the Ceramic Building Materials Plant emitted 10,921 Mg of dust

and gas into the atmosphere without violating the permit. For air emissions from the Ceramic Building Materials Plant environmental charges were charged and paid at the end of each half-year.
The Ceramic Building Materials Plant is included in the European Union Emissions Trading Scheme and, pursuant to the National Allocation Plan, the plant received 12,049 Mg of CO_2 per annum in the 2nd trading period of 2008-2012. A report on CO_2 emissions after verification by an authorised company will be sent to the National System Administrator – Institute of Environmental Protection by the end of the 1st quarter after the end of the trading year.
The second emitter is the waste rock disposal area, which may be a source of dust on dry and windy days.

8.2.2 Water and sewage management

Water and sewage management in terms of mine water involves:
- rock mass drainage at working sites,
- controlled drainage of Jurassic layers (limited amounts due to safety and technical issues),
- use of water for fire and process purposes (air-conditioning, machinery cooling, fighting dust risk),
- pumping water to the surface,
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczyńska Energetyka Sp. z o.o.),
- retention of mine water in surface tanks in order to reduce suspension,
- discharge of water from tanks through the Rów Żelazny ditch into the Świnka River.

In 2009, the average annual water supply to workings amounted to 15,097 m^3/day, average total mineralisation 2,365.97 mg/dm^3, Cl + SO_4 ion content – 955.58 mg/dm^3. The Cl + SO_4 ion content classifies the mine water of Lubelski Węgiel BOGDANKA S.A. into category II of industrial water (in accordance with GIG [Central Mining Institute] classification) – as was the case in previous years.
The quantity of mine water used in 2009 for industrial purposes underground and on the surface amounted to a total of approx. 10,550 m^3/day, out of which approx. 9,524 m^3/day was used underground for the purpose of supplying the fire-fighting system and climatic systems. On the surface, water was used primarily by the Mechanical Coal Processing Plant in the quantity of 1,009 m^3/day for process purposes (water supplementation in closed circulatory system) and by Łęczyńska Energetyka – 17 m^3/day.
Tests of physicochemical properties of mine water are conducted on a regular basis, once a year, by Pomiar – GIG Lublin. In 2009, as was the case in previous years, 22 samples were taken for the purpose of physicochemical analyses of mine water which reaches the workings.
In 2009, tests of radioactive substances in mine water were conducted by the Radiometry Laboratory of the Central Mining Institute, and revealed the following concentrations: Radium ^{226} in the range of < 0.011 – 0.198 ± 0.028 KBq/m^3, Radium ^{228} < 0.06 – 0.26 ± 0.12 KBq/m^3. In the last 10 years, the results of water radioactivity analyses have been stable and show values significantly below the permissible norms.
The Company holds an administrative decision – water permit for special water use in accordance with its operations. It is decision no. ŚiR.III.6811/91/07 of 31 December 2007, valid until 31 December 2017, concerning:

a) drainage of the LW BOGDANKA S.A. mine in Bogdanka in quantities which shall not exceed:
   Qdavg = 20,000 m^3 /d, Qmax = 22,000 m^3/d,
   Qhmax = 917 m^3 /h, until 31 December 2010, and
   Qdavg = 26,700 m^3 /d, Qmax = 32 000 m^3/d,
   Qhmax = 1,400 m^3 /h, from 1 January 2011 until 31 December 2017.
b) discharge of unused mine water from the sedimentation tank through the discharge ditch into the "Żelazny" ditch, which is a tributary of the Świnka River.

In 2009, 14,070 m^3/day of water from mine drainage was discharged into the river. Mine water discharged into the surface water – the Świnka River – exceeds the parameters specified for category II of water quality only in terms of chloride content (on average 752.83 mg/dm^3).
Basic indicators of pollutants in the discharged water do not exceed the values specified in the water permit decision.
Drinking water and water for household purposes is supplied to Lubelski Węgiel BOGDANKA S.A. from the water mains of "Łęczyńska Energetyka" Sp. z o.o., which holds valid water permit decisions for:
- water intake and groundwater extraction in Bogdanka, Nadrybie and Stefanów,
- discharge of treated sewage,
- use of sewage treatment equipment.

Documentation maintained by "Łęczyńska Energetyka" Sp. z o.o. confirms compliance with the conditions specified in the decisions.
Pursuant to legal requirements, twice a year – after the end of each half-year, LW BOGDANKA calculated and paid a charge for Cl + SO_4 load in unused mine water discharged into the receiving water body – the Świnka River.
In 2009, routine maintenance of the perimeter ditch of the dumpsite and the "Żelazny" drainage ditch which discharges mine water into the Świnka River was conducted.

8.2.3 Surface protection

In 2009, the impact of mining on the surface manifested itself mainly as an increase in the surface scope of impact, with the maximum soil settlement values remaining unchanged in the following regions:
- approx. 2.50 m in the area of the former Zakład Rolno-Hodowlany (Agriculture and Stock Farm) in Puchaczów,
- approx. 2.00 m in the area of the villages of Kobyłka and Nadrybie Dwór,
- approx. 1.50 m in the area of the village of Uciekajka and western part of the village of Kaniwola,
- approx. 1.50 m east of the village of Dratów.

In the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I) – in connection with continuing mining of the second bed (i.e. bed 385) – maximum soil settlement increased to approx. 4.50 m in the central part of the settlement basin.
In the area where faces 1/IV/385, 2/IV/385 and 3/IV/385 are mined (near the railway line east of Puchaczów), soil settlement increased to 1.50 m, with the impact range of that mining also growing.

Damage to buildings in 2009 were primarily related to rural buildings, i.e. small-size residential and farm buildings. The reported damage to those buildings did not constitute a threat to their users and were removed immediately; also, protection against further impact was provided. In total, damage was removed and protection was provided in 6 buildings.
In 2009, in the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I), particularly significant permeation of farmland and entire farms, including buildings, occurred, which was caused by accumulation of precipitation water in the central part of settlement basins. In connection with the above, in order to repair damage caused by mining which could not be removed, two farms, including buildings, were bought in 2009 in Bogdanka.
As part of mining damage repair, dressing of damaged asphalt surface was carried out in sections of commune and district roads (in total, 2.93 km long) as well as rehabilitation of dirt access roads to estates in Nadrybie Wieś was conducted (in total, 0.2 km long).

Damage to farmland in 2009 manifested itself – as was the case in previous years – as persisting permeation of land, with the areas of permanent permeation becoming significantly larger in the following regions:
- the area of the villages of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I), i.e. in the area of mining 385 second bed,
- the area east of the village of Dratów, i.e. in the area where faces 10/I, 9/I and 8/I in bed 382 are mined,
- the area west of the villages of Kaniwola and Nadrybie Ukazowe, i.e. in the area of previous mining of faces 6/II, 7/II and 8/II in bed 382,
- in the area of the railway line east of Puchaczów, i.e. in the area where faces 1/IV, 2/IV and 3/IV in bed 385 are mined.

The costs of removing damage caused by mining in 2009 amounted to a total of PLN 2,371,230. In 2009, the total expenditure in connection with removing damage caused by mining increased by approx. 24% in relation to the expenditure incurred in 2008, which amounted to PLN 1,909,650.
In 2009, supplementary water engineering works connected with controlling hydrographic conditions in the area of the villages of Bogdanka and Nadrybie Wieś and land drainage works in the villages of Kobyłka and Kaniwola commenced.

<u>Reclamation</u>

In 2009, Lubelski Węgiel BOGDANKA S.A. conducted land reclamation works in the landfill on an area of 1.0 ha. Also, land remediation was conducted on an area of 0.15 ha, including provision of organised greenery near the signal tower in Bogdanka and the Stefanów Field on an area of approx. 0.7 ha. The Company nurtured the greenery, and took care of the mining waste landfill, and previously remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

In 2009 and in the years to follow, it is planned to buy back approx. 30 developed farming plots in the village of Bogdanka I and Nadrybie Wieś, due to irreparable to-date and forecasted damages caused by mining exploitation processes (i.e. permanent continuous undercuts). In 2009, 16 applications were received to buy back the above-mentioned real property, out of which two were already bought back in late 2009. In another three cases, price negotiations have been completed, and buy backs will take place in the first quarter of 2010.
Other plots communicated are in the process of either negotiation or pricing, and plans are being made for them to be bought back in 2010.
In 2009, some mining damages were notified of power lines situated at exploitation areas (i.e. continuous undercuts and power line post inclinations). In 2010, it is planned to rebuild several overhead power lines into cable ones and to replace several power lines with insulated networks. This issue is being addressed by the Developmental Investments Department.
As a result of soil settlement (approx. 1.5 m - exploitation of panels 1/IV/385, 2/IV/385 and 3/IV/385) in the area of the ditch that is used to dispose of mining waters, there occurred certain difficulties outflowing these waters. Therefore, geodetic measurements of the ditch were carried out in 2009, based upon which the building design was compiled to modernise the RE "Żelazny" ditch. In 2010, hydrotechnical works will be carried out at this facility to significantly improve bottom water outflow into the receiver, which is the Świnka river.

8.2.4 Waste management

In 2009, the total mining waste amounted to 3,788,150 tonnes.
Approximately 40% of the waste was recovered and reused.
Waste recovery for industrial purposes in the EkoKLINKIER Construction Ceramics Plant amounted to a total of 34,171 tonnes of waste.
Waste recovery for non-industrial purposes (i.e. remediation of post-mining areas, using waste to strengthen roads, yards, and for other purposes) amounted to 1,462,324 tonnes.
Mining waste is mostly (97.5% of all managed waste) used for the purpose of rehabilitation of degraded land (different types of post-mining pits). It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation. That takes place in accordance with the "Program of Mineral Resources Post-Mining Pit Remediation in the Territory of the Lublin Province" developed by the Environmental Protection Department of the Province Governor's Office in Lublin and approved by the Lublin Province Governor.
Owners of remediated land hold appropriate decisions of environmental protection authorities (district governor's office).
The table below shows dynamic quantities of waste obtained, waste recovered, and waste treated by depositing it at a landfill – in accordance with the Act on waste (Dz.U. [Official Journal] No. 62, item 628, 2001, as amended).

Table 41 Waste

Item	2007	2008	2009
Mining waste (Mg)	3,337,444	3,047,323	3,788,150
Deposited waste (Mg)	464,486	614,977	2,291,656*
Reused waste (Mg)	2,872,959	2,432,346	1,496,494

*/including: 1,750,000 Mg deposited
541,655 Mg stored

In 2009, waste was treated by depositing 1,750,000 tonnes of waste, and 541,655 tonnes was stored in order to use it in the next three years. The Company did not pay for waste storage, which is in line with the new Act on mining waste of 10 July 2008 (Article 26.3).
Lubelski Węgiel BOGDANKA S.A. obtained a decision of the Lublin Province Governor no. SiR VII. 6620/32/2004 of 10 September 2004, as amended, permitting the production, recovery and treatment of waste, including a specification of the manner of waste management. The decision – in accordance with the applicable legislation – is applicable to all waste generated by the mine.

In 2009, pursuant to I.10.4. of the integrated permit, tests of the physicochemical composition of waste rock were carried out, and they will be carried out on a regular basis, annually, in accordance with the aforementioned permit.
To date, analyses of Carboniferous waste rock carried out by "Pomiar-GIG" have demonstrated stability of the physicochemical properties of that waste and showed their suitability for, among other things, engineering works connected with levelling of terrain degraded by mining activity, works connected with separators at landfills, non-soil remediation, and road rehabilitation.
LW BOGDANKA also conducts post-industrial waste management (scrap, waste wood, used oil, etc.) and contract treatment of waste (to specialised companies) which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).

8.2.5 Environmental protection sanctions and charges to which the Company is exposed

Mining activity is associated with operating and environmental charges, and a number of costs connected with post-mining waste management, post-industrial land remediation, environmental monitoring, and preparation of certified reports and documentation necessary for proper operation of the plant.

Table 42 Cost related to environmental protection [in PLN '000]

No.	Type of cost		2007	2008	2009
1.	Protection costs (remediation, monitoring)		267.08	326.11	337.66
2.	Post-mining waste management and post-industrial waste treatment		35,123.65	30,159.02	19,231.38
3.	Cost of certified reports, opinions, documentation, designs, etc.		80	77	67.75
4.	Environmental charges, including:		4,663.78	2,385.95	310.37
	- emissions of gas and dust from means of transport and Ceramic Building Materials Plant		152.06	74.32	113.13
	- waste[1)]		4,347.29	2,136.94	2.08
	- discharge of sewage		164.42	174.70	114.36
5.	**Total costs**		**40,134.52**	**32,948.08**	**19,947.15**

[1)] waste costs include only charges for the storage of post-mining waste and waste from mine water treatment

Lubelski Węgiel BOGDANKA SA meets ecology norms and no penalties for violating environmental conditions specified in the applicable legal regulations were imposed on it in 2009.
Charges for operations conducted under the Geological and Mining Law include a mining operations charge and an exploitation charge. In connection with obtaining a new licence for mining operations, the Company paid a relevant charge in May 2009.
The exploitation charge was paid quarterly to the accounts of communes where exploitation was conducted (60%) and towards the National Environmental Protection Fund (40%).

Table 43 Exploitation charge and mining use charge [in PLN '000]

No.	***Type of charge***		***2007***	***2008***	***2009***
1	Exploitation		8,578.13	9,067.15	9,239.49
2	Mining operations		-	-	3,38218[1)]

[1)] one-time charge under the mining operations agreement of 6 April 2009 in order to mine hard coal from the Bogdanka deposit in connection with obtaining Licence No. 5/2009

9. COURT AND OUT OF COURT PROCEEDINGS

As of the date of submitting this Report, the Company has no information on any proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority in which LW BOGDANKA S.A. or its subsidiary is a party, concerning:

- liabilities or claims of LW BOGDANKA S.A. or its subsidiary worth at least 10% of LW BOGDANKA S.A.'s shareholders' equity,
- two or more proceedings concerning liabilities or claims worth a total of at least 10% of LW BOGDANKA S.A.'s shareholders' equity.

9.1 Bankruptcy proceedings

As at 31 December 2009, the Company as a creditor was a party in the bankruptcy proceedings comprising the amount of PLN 30,300.

9.2 Arrangement proceedings

In 2009 the Company was not a party in arrangement proceedings.

9.3 Court cases

Actions brought by the Company

Action brought by the Company against Jerzy Słomczewski – the President of the Management Board of BUDMARK Sp. z o.o., with registered office in Gdańsk, for the payment of PLN 71,240 plus statutory interest on that amount charged from 14 August 2007 to the payment day and for the payment of the court fee. The case is pending before the District Court for Gdańsk-Północ, V Commercial Division, file no. V GNC 1365/09. The case in question is the Company's claim addressed under Article 299 of the Commercial Companies Code to the President of the Management Board of BUDMARK Sp. z o.o. which was a debtor of LW BOGDANKA S.A. (the earlier enforcement of BUDMARK's debt proved ineffective). By virtue of a payment order of 25 June 2009, the Court adjudged the amount of PLN 71,240 plus statutory interest charged from 14 August 2007 to the payment day, and the amount of PLN 3,560 as court fee reimbursement from the defendant to the Company as well as PLN 3,610 for court representation. The defendant filed an objection to the above. By virtue of a ruling of 23 December 2009, the District Court for Gdańsk-Północ, V Commercial Division, in case no. V Gc 1365/09, adjudged from the defendant to the Company the amount of principal pursued in the claim plus interest (according to the information obtained by telephone in the Court's secretariat, the interest was adjudged only in the portion as required in the claim, the court fee was also adjudged). The ruling is final and valid. The Company filed to the Court with a motion to adjudge the enforceability of the ruling.

Proceedings against the Company

pending commercial cases

1. Action brought by ENEA S.A., registered office in Poznań, for the payment of PLN 706,890 plus statutory interest on that amount, charged from the date of bringing the action to the payment day, pending before the Regional Court in Lublin, IX Commercial Division, case no. IX GC 200/09. The demand contained in the claim is related to the settlement of advisory services commissioned by ENEA S.A. during the consolidation procedure which was ineffective and which was carried out with participation of ENEA S.A., the Company and Elektrownia Kozienice S.A. Initially the demand contained in the claim was the payment of damages for conducting negotiations in a manner contradictory to good practice, under Article 72.2 of the Civil Code. Further, in the course of litigation, the Court changed the legal basis of the demand contained in the claim and classified it as a claim for the payment of remuneration under a mandate agreement. By virtue of the ruling of 27 January 2010, the court of first instance dismissed the action in full and adjudged from ENEA to the Company the amount of PLN 7,210 as court fee reimbursement.

2. Action brought by Biuro Projektów i Realizacji Inwestycji SEPARATOR –ROBERTS&SCHAEFER SP. z o.o., with registered office in Gliwice, for the payment of PLN 535,200 plus statutory interest from 24 March 2009 to the day of payment, pending before the District Court in Lublin, IX Commercial Division, case no. IX GC 161/10. The demand covered with the claim referred to a payment of a part of remuneration for making designs under agreement no. 1279/I/2007, concluded on 8 January 2008. As the abovementioned contractor was in delay with the performance of the agreement, the Company charged liquidated damages of PLN 535,200 to the contractor, and deducted this amount form the contractor's remuneration for the performance of the agreement. The statement of claim was served to the Company on 17 March 2010. The Company is preparing a response to the statement of claim.

commercial cases closed in 2009

1. Action brought by the Company against INWESTYCJA S.A., with registered office in Lublin, for the payment of PLN 6,525,740, pending before the Regional Court, IX Commercial Division, case no. IX GC 16/09. The demand contained in the claim refers to payment of liquidated damages for terminating by the Company a supply agreement and for a delay of a supplier of INWESTYCJA S.A. in performing the assumed contractual obligations. By virtue of a payment order issued in the proceedings by writ of payment for a lesser value of 17 December 2008, the Regional Court in Lublin, IX Commercial Division, adjudged the amount of PLN 6,525,740 plus statutory interest charged from 12 December 2008 to the payment day, and the amount of PLN 32,220 as court fee reimbursement to the Company. On 3 December 2009, a settlement was concluded by the parties before the Regional Court in Lublin, and under the settlement the Company undertook to pay to INWESTYCJA S.A. the price for carriages purchased as a result of the settlement, in the total amount of PLN 219,600 gross, within 14 days from the settlement, i.e. by 17 December 2009. The case was validly closed.

2. Action brought by the Company against DDJ Recykling Sp. Jawna, with registered office in Łęczna, and against its partners, i.e. Janusz Dąbski and Zbigniew Siewardze for the payment of PLN 92,320, representing the Company's claim related to a lease and services agreement, pending before the Regional Court in Lublin, I Civil Division, case no. I C 280/09. By virtue of a ruling issued by default on 9 June 2009, the Regional Court in Lublin adjudged severally from the defendants for the Company, the amount of PLN 92,320 plus interest from 27 January 2009 to the payment day and the amount of PLN 8,2440 as court fee, the ruling being immediately enforceable. The ruling in question issued by default is final and valid.

3. Action brought by Elektrownia Kozienice S.A. for the payment of PLN 3,178,590. By virtue of a ruling of 30 April 2007, in case no. IX GC 197/06, the Regional Court in Lublin, IX Commercial Division, adjudged from the Company to the plaintiff the amount of PLN 3,178,590 plus statutory interest charged from 9 October 2006 to the payment day, and the amount of PLN 107,220 as court fee reimbursement. The Company has appealed against the above ruling. By virtue of a ruling of 6 September 2007, in case no. I ACa 442/07, the Court of Appeal in Lublin dismissed the Company's appeal against the aforementioned ruling of the Regional Court. As a result of a cassation appeal filed by the Company, the Supreme Court, by virtue of a ruling of 10 April 2008 in case no. IV CSK 22/08, overturned the ruling which had been appealed against and sent the case back for re-examination to the Court of Appeal. By virtue of a ruling of 26 June 2008, in case no. I ACa 264/08, the Court of Appeal in Lublin dismissed the Company's appeal and adjudged the amount of PLN 7,220 as court fee in the first instance and PLN 210,800 as court fee in appellate instances. Elektrownia Kozienice S.A. filed cassation appeal of the above ruling to the Supreme Court. The Supreme Court, by virtue of a ruling of 19 March 2009, case no. IV CSK 492/08, overturned the ruling of the Court of Appeal in Lublin of 26 June 2008, case no. I ACa 264/08, and sent the case back for re-examination the Court of Appeal in Lublin. By virtue of a ruling of 24 November 2009, in case no. I ACa 240/09, the Court of Appeal in Lublin dismissed the Company's appeal. The Company did not file cassation appeal of the above ruling.

4. Action brought by Elektrownia Kozienice S.A. for the payment of PLN 6,463,490. The Regional Court in Lublin, IX Commercial Division, in case no. IX GC 210/06, adjudged from the Company to the plaintiff the amount of PLN 6,463,490 plus statutory interest charged from 25 October 2006 to the payment day, and the amount of PLN 107,220 as court fee reimbursement. The Company has appealed against the above ruling. By virtue of a ruling of 6 September 2007, in case no. I ACa 441/07, the Court of Appeal in Lublin dismissed the Company's appeal against the aforementioned ruling of the Regional Court. As a result of a cassation appeal filed by the Company, the Supreme Court, by virtue of a ruling of 24 July 2008 in case no. IV CSK 86/08, overturned the ruling which had been appealed against and sent the case back for re-examination to the Court of Appeal. By

virtue of a ruling of 2 December 2008, in case no. I ACa 53408, the Court of Appeal in Lublin dismissed the Company's appeal and adjudged from the Company to Elektrownia Kozienice the amount of PLN 10,817 as court fee in appellate instances. On 9 January 2009, a copy of the aforementioned ruling of the Court of Appeal in Lublin, including written substation, was delivered. On 9 March 2009, the Company filed a cassation appeal with the Supreme Court against the aforementioned ruling of the Court of Appeal in Lublin. By virtue of a ruling of 17 July 2009, in case no. IV CSK 2009/163/09, the Supreme Court dismissed the Company's cassation and adjudged from the Company to Elektrownia Kozienice the amount of PLN 5,400 of court fee. The case has been validly closed by virtue of the aforementioned ruling of the Supreme Court.

5. Action brought by Elektrownia Ostrołęka S.A. for the payment of PLN 542,330. By virtue of a ruling of 4 May 2007, in case no. IX GC 214/06, the Regional Court in Lublin, IX Commercial Division, adjudged from the Company to the plaintiff the amount of PLN 542,330 plus statutory interest charged from 8 November 2006 to the payment day, and the amount of PLN 34,330 as court fee. The Company has appealed against the above ruling. By virtue of a ruling of 6 September 2007, in case no. I ACa 451/07, the Court of Appeal in Lublin dismissed the Company's appeal against the aforementioned ruling of the Regional Court. As a result of a cassation appeal filed by the Company, the Supreme Court, by virtue of a ruling of 25 April 2008 in case no. IV CSK 29/08, overturned the ruling which had been appealed against and sent the case back for re-examination to the Court of Appeal. By virtue of a ruling of 2 December 2008, in case no. I ACa 332/08, the Court of Appeal in Lublin dismissed the Company's appeal and adjudged from the Company to Elektrownia Ostrołęka the amount of PLN 10,800 as court fee in appellate instances. On 9 January 2009, a copy of the aforementioned ruling of the Court of Appeal in Lublin, including written substation, was delivered. On 9 March 2009, the Company filed a cassation appeal with the Supreme Court against the aforementioned ruling of the Court of Appeal in Lublin. By virtue of a ruling of 24 September 2009, in case no. IV CSK 166/09, the Supreme Court in Warsaw dismissed the Company's cassation appeal and adjudged from the Company to Elektrownia Ostrołęka the amount of PLN 5,400 as court fee. The case has been validly closed by virtue of the aforementioned ruling of the Supreme Court.

6. Action brought by Elektrownia Ostrołęka S.A. for the payment of PLN 1,529,080. By virtue of a ruling of 4 May 2007, in case no. IX GC 224/06, the Regional Court in Lublin, IX Commercial Division, adjudged from the Company to the plaintiff the amount of PLN 1,529,080 plus statutory interest charged from 13 November 2006 to the payment day, and the amount of PLN 83,670 as court fee. The Company has appealed against the above ruling. By virtue of a ruling of 6 September 2007, in case no. I ACa 443/07, the Court of Appeal in Lublin dismissed the Company's appeal against the aforementioned ruling of the Regional Court. As a result of a cassation appeal filed by the Company, the Supreme Court, by virtue of a ruling of 25 April 2008 in case no. IV CSK 30/08, overturned the ruling which had been appealed against and sent the case back for re-examination to the Court of Appeal. By virtue of a ruling of 2 December 2008, in case no. I ACa 327/08, the Court of Appeal in Lublin dismissed the Company's appeal and adjudged from the Company to Elektrownia Ostrołęka the amount of PLN 10,800 as court fee in appellate instances. On 2 January 2009, a copy of the aforementioned ruling of the Court of Appeal in Lublin, including written substation, was delivered. On 2 March 2009, the Company filed a cassation appeal with the Supreme Court against the aforementioned ruling of the Court of Appeal in Lublin. By virtue of a ruling of 24 September 2009, in case no. IV CSK 168/09, the Supreme Court in Warsaw dismissed the Company's cassation appeal and adjudged from the Company to Elektrownia Ostrołęka the amount of PLN 5,400 as court fee. The case has been validly closed by virtue of the aforementioned ruling of the Supreme Court.

7. Action brought by Elektrownia Ostrołęka S.A. for the payment of PLN 618,720. By virtue of a ruling of 4 May 2007, in case no. IX GC 237/06, the Regional Court in Lublin, IX Commercial Division, adjudged from the Company to the plaintiff the amount of PLN 618,720 plus statutory interest charged from 13 November 2006 to the payment day, and the amount of PLN 38,150 as court fee. The Company has appealed against the above ruling. By virtue of a ruling of 6 September 2007, in case no. I ACa 450/07, the Court of Appeal in Lublin dismissed the Company's appeal against the aforementioned ruling of the Regional Court. As a result of a cassation appeal filed by the Company, the Supreme Court, by virtue of a ruling of 20 June 2008 in case no. IV CSK 57/08, overturned the ruling which had been appealed against and sent the case back for re-examination to the Court of Appeal. By virtue of a ruling of 2 December 2008, in case no. I ACa 417/08, the Court of Appeal in Lublin dismissed the Company's appeal and adjudged from the Company to Elektrownia Ostrołęka the amount of PLN 10,800 as court fee in appellate instances. On 9 January 2009, a copy of the aforementioned ruling of the Court of Appeal in Lublin, including written substation, was delivered. On 9 March 2009, the Company filed a cassation appeal with the Supreme Court against the aforementioned ruling of the Court of Appeal in Lublin. By

virtue of a ruling of 24 September 2009, in case no. IV CSK 167/09, the Supreme Court in Warsaw dismissed the Company's cassation appeal and adjudged from the Company to Elektrownia Ostrołęka the amount of PLN 5,400 as court fee. The case has been validly closed by virtue of the aforementioned ruling of the Supreme Court.

8. Action brought by Zdzisław Koza, conducting business under the name KOZAMEX ZPChR Zdzisław Koza, registered office in Lisów, for the payment of, after limiting the action, PLN 315,710 plus statutory interest charged from 29 March 2008 to the payment day, pending before the Regional Court in Lublin, IX Commercial Division, case no. IX GC 139/08. The plaintiff seeks compensation for an undue performance of a supply agreement by the Company. By virtue of a ruling of 23 February 2009, the Regional Court in Lublin decided to discontinue the proceedings as regards the amount of PLN 7,890 and interest on that amount, and adjudged from the Company to the plaintiff the amount of PLN 315,710 plus statutory interest charged from 29 March 2008 to the payment day, and the amount of PLN 27,800 as court fee. The Company has appealed against the above ruling on 17 April 2009. By virtue of a ruling of 9 June 2009, Court of Appeal in Lublin, in case no. I Aca 244/09, changed section II of the ruling issued by the court of first instance, by lowering the amount of adjudged costs from PLN 27,800 to PLN 27,400 and dismissed the appeal in the remaining part and adjudged from the Company to the plaintiff the amount of PLN 5,400 as court fee. The Company did not brought a cassation appeal from the abovementioned ruling of the Court of Appeal, hence the ruling is final and valid.

9. Action brought by INWESTYCJA S.A., with registered office in Lublin, for the payment of PLN 1,864,420 plus statutory interest from 1 November 2007 to the payment day. The demand contained in the claim refers to damages for an undue performance of a supply agreement by the Company. By virtue of a ruling of 26 June 2008, the Regional Court in Lublin, case no. IX GC 2/08, dismissed the action of INWESTYCJA S.A. INWESTYCJA S.A. brought an appeal from the abovementioned ruling. By virtue of a ruling of 12 November 2008, the Court of Appeal in Lublin, case no. I ACa 531/08, dismissed the appeal of INWESTYCJA S.A. and adjudged for the Company the amount of PLN 5,400 as court fee in appellate instances. INWESTYCJA S.A. filed cassation of the above ruling to the Supreme Court. By virtue of a ruling of 17 June, in case no. IV CSK 90/09, the Supreme Court overturned the ruling of the Court of Appeal in Lublin and sent the case back for re-examination to that Court. On 1 December 2009, a court settlement was concluded between the parties in the case pending before the Court of Appeal in Lublin, case no. I ACa 423/09. In accordance with the settlement, the Company undertook to pay to INWESTYCJA S.A. the price for the carriages purchased under the settlement, in the total amount of PLN 1,098,000 within 14 days from the settlement i.e. until 15 December 2009. The case was validly closed.

civil cases closed in 2009

Action brought by Krzysztof Nagrodzki for the payment of PLN 150,000 plus statutory interest from 19 December 2002 to the payment day. The demand contained in the claim refers to the compensation for a mining damage inflicted to the plaintiff's real property. The case is pending before the Regional Court in Lublin, I Civil Division, case no. I C 913/03. By virtue of a ruling of 30 September 2009, the Regional Court in Lublin dismissed the action of Krzysztof Nagrodzki. The ruling is final and valid.

9.4 Administrative cases

9.4.1 Administrative cases pending

1. Proceedings to determine the amount of property tax liability for 2003 conducted by the Head of the Cyców commune, file no. Fn.3113-5-9/08. By virtue of a decision of 28 November 2008, the Head of the Cyców commune defined the tax liability in the amount of PLN 1,306,990. The Company filed an appeal from the above decision on 16 December 2008 to the Local Government Appellate Court in Lublin. By virtue of decision of 24 February 2009, the Local Government Appellate Court in Lublin (SKO 41/24/P/2009) overturned the first instance decision in full and discontinued the proceedings due to expiry of the tax liability. On 31 March 2009, the Head of the Cyców commune returned to the Company the excess payment, i.e. the amount of tax liability specified in the decision of 28 November 2008 plus interest and interest on that excess payment. The District Prosecutor in Lublin filed a complaint for the above decision to the Provincial Administrative Court in Lublin. The Provincial Administrative Court in Lublin, at the session held on 22 January 2010 in case no. I SA/Lu 657/09 decided to suspend the proceedings, until the Constitutional Tribunal provides a reply to a legal question posed by the Provincial Administrative Court in Gliwice, as regards the compliance of Article 1a.1.2 in conjunction with Article

2.1.3 of the Tax and Local Levies Act with Article 217 in conjunction with Article 84 and Article 2 of the Constitution of the Republic of Poland. The District Prosecutor in Włodawa filed a complaint for this decision to the Supreme Administrative Court in Warsaw. The Company, in the letter of 5 March 2010 took a position to that complaint. The case awaits resolving by the Supreme Administrative Court in Warsaw.

2. Proceedings to determine the amount of property tax liability for 2003 conducted by the Head of the Puchaczów commune. By virtue of a decision of 30 May 2008, the Head of the Puchaczów commune, in case no. PF3110/001/75/06/07/08 2003 defined the property tax liability for 2003 in the amount of PLN 8,735,950. The Company filed an appeal of the above decision. The Local Government Appellate Court in Lublin, by virtue of decision of 14 October 2008 overturned the above decision in full and sent the case back for the re-examination to the authority of first instance. Following the re-examination the Head of the Puchaczów commune, by virtue of a decision of 23 December 2008, in case no. PF-3110/001/80/06/07/08 2003 defined the property tax liability for 2003 in the amount of PLN 8,346,780. On 31 December 2008, the Head of the Puchaczów commune returned to the Company the excess payment of PLN 686,960 comprising the property tax liability, interest on tax plus interest on that excess payment. The returned amount resulted from the difference between the amount of past due tax liability specified in the decision of 30 May 2008 and the amount specified in the decision of 23 December 2008. The Company filed an appeal of the above decision on 12 January 2009 to the Local Government Appellate Court in Lublin. The Local Government Appellate Court in Lublin, by virtue of the decision of 17 March 2009, in case no. SKO 41/373/P/2009, overturned the first instance decision in full and discontinued the proceedings due to the expiry of the tax liability. On 29 April 2009, the Head of the Puchaczów commune returned to the Company the excess payment, i.e. the amount of the tax liability specified in the decision of 23 December 2008. The District Prosecutor in Lublin filed a complaint for the above decision to the Provincial Administrative Court in Lublin. By virtue of a ruling of 4 December 2009, the Provincial Administrative Court, in case no. I S.A./Lu 616/09, overturned the decision of the Local Government Appellate Court of 17 March 2009. On 18 December 2009, the above ruling of the Provincial Administrative Court in Lublin was served to the Company. By the day of preparing the list, the Local Government Appellate Court in Lublin did not re-examine the Company's appeal of 12 January 2009 from the decision of the Head of the Puchaczów commune of 23 December 2008. On 23 December 2009 the Company moved to the Local Government Appellate Court with a motion to suspend the execution of the decision of the Head of the Puchaczów commune of 23 December 2008 in case no. PF-3110/001/80/06/07/08 2003. By virtue of a decision of 10 March 2010, the Local Government Appellate Court suspended the execution of the above decision of the Head of the Puchaczów commune, until a final decision is issued.

3. Proceedings to determine the amount of property tax liability for 2004 conducted by the Head of the Puchaczów commune. On 30 November 2009, the Head of the Puchaczów commune sent to the Company, for information purposes, a copy of the decision specifying the property tax liability for 2004 of 30 November 2009, ref no. PD-3110/89/06/07/08/09, in the amount of PLN 8,460,200 as well as past due tax liability for tax instalments for individual months totalling PLN 3,942,760.

Pursuant to Article 153.2 of the Tax Act, on 14 December 2009, the above decision was archived, which shall be deemed equivalent to serving the decision. On 2 December 2009, the Head of the Puchaczów commune sent to the Company, for information purposes, a copy of the decision stating immediate enforceability of the abovementioned decision of 30 November 2009. Also on 2 December 2009, the Head of the Puchaczów commune made an attempt to serve the decision in question to the Company's authorised representative, and given that serving of the decision was not possible, he notified the authorised representative that the decision was available at the Office of the Puchaczów commune for 7 days. On 10 December 2009, the Head of the Puchaczów commune made another attempt to serve the decision in question to the Company's authorised representative, and given that serving of the decision was not possible, he notified the authorised representative that the decision could be collected from the Office of the Puchaczów commune until 16 December 2009. On 15 December 2009 the Company notified the Head of the Puchaczów commune that the power of attorney granted to the representative for service was revoked, and notified the Head of the Puchaczów commune that a new authorised representative was appointed as representative for service. Although a new authorised representative was appointed as representative for service, the Head of the Puchaczów commune made no attempt to serve to the new authorised representative the abovementioned decision stating the immediate enforceability. On 22 December 2009, the Head of the Lubelski Tax Office in Lublin, acting under the writs of enforcement issued by the Head of the Puchaczów commune as regards the tax liabilities along with interest, as specified in the abovementioned decision of 30 November 2009, seized the Company's movables in the form of machines and equipment. On the same day the Company made a payment, to the bank account of the Lubelski Tax Office in Lublin, of the amount of tax liabilities with interest, as specified in the writs of enforcement issued by the Head of the Puchaczów commune along with the enforcement costs.

On 28 December 2009, the Company filed to the Local Government Appellate Court in Lublin an appeal from the decision of the Head of the Puchaczów commune of 30 November 2009.

On 29 December 2009, the Company put in charges under Article 33 of the Act on administrative enforcement proceedings against the enforcement proceedings pending against the Company. By virtue of a decision of 19 January 2010, the Head of the Puchaczów commune recognised the charges brought by the Company as inadmissible. This type of resolving the matter followed from the fact that the Head of the Puchaczów commune treated an informative letter as charges under Article 33 of the Act on administrative enforcement proceedings put by the Company on 17 December 2009 to the Lubelski Tax Office in Lublin, and on 28 December 2009 issued a decision in this respect, under Article 34.1 of the Act on administrative enforcement proceedings.

It should be clarified here that the Company, on 17 December 2009, sent an informative letter to the Lubelski Tax Office in Lublin, which was treated by that office as charges under Article 33 of the Act on administrative enforcement proceedings and was sent to the Head of the Puchaczów commune for him to take a position in this matter. In consequence, the Head of the Puchaczów commune also treated the letter of 17 December 2009 as charges, and on 28 December 2009 issued a decision whereby he found the Company's charges as groundless in full. The Company has lodged a complaint against the above decision with the Local Government Appellate Court in Lublin. By virtue of a decision of 3 March 2010 the Local Government Appellate Court in Lublin overturned in full the decision of the Head of the Puchaczów commune of 28 December 2009 on finding the Company's charges as groundless, and dismissed the proceedings.

4. Proceedings to determine the amount of property tax liability for 2004 conducted by the Head of the Cyców commune. On 30 November 2009, the Head of the Cyców commune sent to the Company, for information purposes, a copy of the decision specifying the property tax liability for 2004 of 30 November 2009, ref no. Fn. 3113-5-09/09, in the amount of PLN 1,387,490 as well as past due tax liability for tax instalments for individual months totalling PLN 1,031,010. Pursuant to Article 153.2 of the Tax Act, on 14 December 2009, the above decision was archived, which shall be deemed equivalent to serving the decision. On 2 December 2009, the Head of the Cyców commune sent to the Company, for information purposes, a copy of the decision stating immediate enforceability of the abovementioned decision of 30 November 2009. Also on 2 December 2009, the Head of the Cyców commune made an attempt to serve the decision in question to the Company's authorised representative, and given that serving of the decision was not possible, he notified the authorised representative that the decision was available at the Office of the Cyców commune for 7 days. On 10 December 2009, the Head of the Cyców commune made another attempt to serve the decision in question to the Company's authorised representative, and given that serving of the decision was not possible, he notified the authorised representative that the decision could be collected from the Office of the Cyców commune until 16 December 2009. On 15 December 2009 the Company notified the Head of the Cyców commune that the power of attorney granted to the representative for service was revoked, and notified the Head of the Cyców commune that a new authorised representative was appointed as representative for service. Although a new authorised representative was appointed as representative for service, the Head of the Cyców commune made no attempt to serve to new authorised representative the abovementioned decision stating the immediate enforceability. On 22 December 2009, the Head of the Lubelski Tax Office in Lublin, acting under the writs of enforcement issued by the Head of the Cyców commune as regards the tax liabilities along with interest, as specified in the abovementioned decision of 30 November 2009, seized the Company's movables in the form of machines and equipment. On the same day the Company made a payment, to the bank account of the Lubelski Tax Office in Lublin, of the amount of tax liabilities with interest, as specified in the writs of enforcement issued by the Head of the Cyców commune along with the enforcement costs.

On 28 December 2009, the Company filed to the Local Government Appellate Court in Lublin an appeal from the decision of the Head of the Cyców commune of 30 November 2009. On 29 December 2009, the Company put in charges under Article 33 of the Act on administrative enforcement proceedings against the enforcement proceedings pending against the Company.

It should be clarified here that the Company, on 17 December 2009, sent an informative letter to the Lubelski Tax Office in Lublin, which was treated by that office as charges under Article 33 of the Act on administrative enforcement proceedings and was sent to the Head of the Cyców commune for him to take a position in this matter. In consequence, the Head of the Cyców commune also treated the letter of 17 December 2009 as charges, and on 28 December 2009 issued a decision whereby he found the Company's charges as groundless in full. The Company has lodged a complaint against the above decision with the Local Government Appellate Court in Lublin.

By virtue of a decision of 3 March 2010 the Local Government Appellate Court in Lublin overturned in full the decision of the Head of the Cyców commune of 28 December 2009 on finding the Company's charges as groundless, and dismissed the proceedings.

5. Action brought by the Company for finding an excess payment on account of real property tax for 2003 made to the Head of the Puchaczów commune - given that the Head of the Puchaczów commune, as a result of overturning by the Local Government Appellate Court in Lublin, by virtue of a decision of 17 March 2009 in case no. SK41/373/P/2009, of the decision of the Head of the Puchaczów commune of 23 December 2008 in case no. PF-3110/001/80/06/07/08, and dismissing the case, did not return to the Company the interest on the real property tax for 2003 along with interest paid by the Company [based on a decision of 30 May 2008 in case no. PF3110/001/75/06/07/08 2003] for the period from 11 June 2008 to 29 April 2009. The Company applied for stating that an excess payment was made with respect to the real property tax for 2003. By virtue of a decision of 18 September 2009, the Head of the Puchaczów commune suspended the proceedings until the Provincial Administrative Court in Lublin resolves on a complaint lodged by the District Prosecutor in Lublin against the decision of the Local Government Appellate Court in Lublin.

6. Proceedings to determine the amount of real property tax for 2005 and 2006 have been instigated against the Company by the Head of the Puchaczów commune. The proceedings are pending.

Administrative cases closed in 2009

Proceedings to determine the amount of property tax liability for 2003 conducted by the Head of the Ludwin commune, file no. 3110-15-5/08. By virtue of decision of 9 July 2009, file. no. 3110/15-3/09, the Head of the Ludwin commune overturned ex officio the proceedings to determine the amount of property tax liability for 2003, due to the expiration of the tax liability.

9.5 Enforcement proceedings

In 2009, the Company was a party to enforcement proceedings for the total amount of PLN 27,665,000. The enforcement proceedings against Dębieńsko Sp. z o.o., with registered office in Czerwionka Leszczyny, covering the amount of PLN 27,134,000, was the item of the highest value.

9.6 Claims which potentially may be addressed against the Company

Claims of the Ludwin and Cyców Communes for the payment of real property tax for the period from 2005 to 2009 (for underground mining pits), Cyców Commune for the period from 2005 to 2009, Puchaczów Commune for the period from 2007 to 2009.

9.7 Planned court proceedings

As the enforcement against Dębieńsko Sp. z o.o., with registered office in Czerwionka Leszczyny, proved ineffective, the Company is currently preparing a statement of claim, under Article 299 of the Commercial Companies Code, against Aleksander Kabut and Marek Sitarz, members of the Management Board of Dębieńsko Sp. z o.o., with registered office in Czerwionka Leszczyny, for the payment severally of the amount of PLN 27,134,000 (amount as at 31 December 2009). The cases refers to the claims of PPHU Promessa Sp. z o.o. acquired by the Company, under agreements for transfer of claims, concluded on 26 June 2003. In August 2009, in District Courts in Rybnik and Gliwice, proceedings were carried out as a result of motions to call Aleksander Kabut and Marek Sitarz to conclude a settlement. However, in both cases, the proceedings brought no results and the settlement was not conclude by the parties. Moreover, according to the Company's knowledge, penal proceedings are currently pending in the District Prosecutor's office in Gliwice, regarding actions of the members of the Management Board of Dębieńsko Sp. z o.o. taken to the detriment of the creditors. Lubelski Węgiel BOGDANKA S.A. may be deemed an injured party in these proceedings.

10. EXTERNAL INSPECTIONS CARRIED OUT AT THE COMPANY

In 2009 the following inspections were conducted in the Company:

Table 3 External inspections in the Company

No.	Inspection body	Dates	Scope of inspection
1.	Supreme Chamber of Control (Najwyższa Izba Kontroli) – Regional Branch in Lublin	26 September 2008 – 27 February 2009	Inspection covered execution of owner supervision in companies with majority share of the State Treasury in the period from the beginning of 2004 until the end of the third quarter of 2008. Framework scope of the inspection included the execution of the owner supervision, economic and financial standing of the Company, development strategy and fulfilment of reporting obligations. The inspection was completed with signing a report on 13 March 2009. Post-inspection document included remarks and findings which were implemented by the Management Board and bodies of the mine. The findings referred to: - correctness of settlement and control of write-offs for the mining plant closure and use of funds from the fund, - principles of booking mining pits and changes in the accounting policy in connection with introduction of new standards of accounting.
2.	Social Security Authority (Zakład Ubezpieczeń Społecznych), Branch in Lublin – Department of Contributions Payment	3 March – 3 April 2009	Inspection covered correctness of calculation and payment of contributions for social security, and establishment of entitlements to financial benefits under health and accident insurance. The inspection was completed with signing a post-inspection report on 3 April 2009. The inspectors did not find any irregularities, and they did not have any remarks to the inspection.
3.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	7 April – 8 April 2009	Inspection covered section GRP-2, which excavates bottom road 4/IV/385 in seam 385/2, selected mining documentation regarding management of the road and the section, manner of fighting natural hazards and the Operation Plan, detailed part for 2007-2009, electrical machines and devices, transport of materials and excavated material within the section; the inspection included also manner of development of pipelines in mining pits. The inspection was completed with signing a post-inspection report; no remarks were made to the inspection.
4	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	15 April - 16 April 2009	Inspection covered electrical power installations and devices, supplying power for exploitation wall 7/V/385/2 and technical documentation regarding supplying power for the wall. The inspection was completed with signing a report; no remarks were made.
5.	State District Sanitary Inspectorate (Państwowy Powiatowy Inspektorat Sanitarny) in Łęczna	22 April - 11 May 2009	Inspection of health conditions of work environment. The inspection was completed and an inspection report was signed; no remarks were made.
6.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	3 May - 6 May 2009	Inspection covered internal high- and medium-voltage electrical power installations along with fire protection system of mining building structures, i.e. shaft hoist tower and hoist machine building of shaft 1.3 and hoist machines' buildings of shaft 1.4. The inspection was completed with signing a report on 6 May 2009. No irregularities were stated in post-inspection findings, no recommendations or post-inspection decisions were issued.
7.	Office for Railway	18 May 2009	Implementation of recommendations and findings from a final report regarding

	Transport (Urząd Transportu Kolejowego) – Local Branch in Lublin		the accident in the siding area on 23 October 2008. On 22 May 2009 an inspection report was signed, without stating any irregularities.
8.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	12 May - 15 May 2009	Inspection covered ventilation department with respect to organisation of operation and fighting risk of coal dust explosion. Results of the inspection were discussed with the Company's Management Board on 15 May 2009, no irregularities were found.
9.	Fiscal Control Authority (Urząd Kontroli Skarbowej) in Lublin	19 May - 24 July 2009	Inspection of correctness of settlements with the state budget on account of corporate income tax for 2006 and goods and services tax for months from January to December 2006. Due to complexity of controlled issues, inspection proceedings were extended to 23 December 2009. The proceedings were completed with: 1) result of the inspection of 17 February 2010 on correctness of the Company's settlements with the state budget on account of corporate income tax for 2006 – where no irregularities with regard to the Company's settlements with the state budget on account of corporate income tax for 2006 were detected; 2) result of the inspection of 17 February 2010 on correctness of the Company's settlements with the state budget on account of goods and services tax for months from January to December 2006 - where no irregularities with regard to the Company's settlements with the state budget on account of goods and services tax for months from January to December 2006 were found.
10.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	2 June - 5 June 2009	Inspection covered organisation of human transport systems on transport roads of mining underground railway. No remarks were made in post-inspection findings.
11.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	14 June – 17 June 2009	Inspection included mining shaft hoist built in shaft 2.2, portable shaft winch of B-1100 A type of emergency and inspection hoist, built in shaft 1.5, under inspection audit, according to specification of the Mining Office for Inspection of Powered Mechanical Equipment, shaft hoist tower of shaft 1.2, hoist machine building of shaft 1.2 and appropriate documents and documentation. The inspection was completed with signing a post-inspection report on 17 June 2009. No irregularities were stated in post-inspection findings, no decisions were issued.
12.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	7 July - 10 July 2009	Inspection covered the scope of operation and organisation of survey service, up-dating of cartographic documentation for the second quarter of 2009, documentation with regard to surveying services connected with carrying out works in the Bogdanka Field. The inspection was completed with signing a report. No remarks were made in post-inspection findings.
13.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	27 July – 30 July 2009	Inspection covered devices of main ventilators' station at shaft 1.3 after introduced changes. On 30 July 2009 a report of the ad hoc inspection was signed. In post-inspection findings no irregularities were stated; issuing permit for admission to operation of the station of main ventilators at shaft 1.3 after introduced changes was made contingent on positive result of test operation, sent to the Office until 31 December 2009.
14.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	27 July – 30 July 2009	Inspection covered telephone exchange devices along with main and emergency power supply under acceptance inspection audit after introduced changes, devices of plant dispatch unit along with main and emergency power supply under acceptance inspection audit after introduced changes. After completion of the inspection both parties signed a report, no irregularities were found and no decision was issued.
15.	Regional Labour Inspectorate	11 August – 10 September	Inspection covered work safety in underground mining, with special consideration to issue of compliance with the OHS provisions at works

	(Okręgowy Inspektorat Pracy) in Lublin	2009 (scheduled date, inspection was completed on 28 August 2009)	connected with underground transport, inspection of circumstances and reasons of accident at work which employee of the MS section had on 27 July 2009, compliance with provisions regarding working time in the mine's ground railway transport. In a post-inspection report appropriate instructions were issued, which were implemented by the Management Board.
16.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	24 August - 25 August 2009	Inspection referred to mining shaft hoist in shaft 1.2. After completion of the inspection parties signed a post-inspection report. In post-inspection findings no irregularities were stated; decision 21/Sz/09 was issued ordering to carry out test operation of mining shaft hoist in shaft 1.2 before issuing permit for admission to operation.
17.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	8 September – 9 September 2009	Inspection covered section G-2, wall 3/IV in seam 385/2 and selected documentation with regard to management of wall operation. After completion of the inspection a report was signed. In post-inspection findings no objections were raised, no decision was issued.
18.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	17 September – 18 September 2009	Inspection covered section G-4, air-hole in wall 1/IV/385 in seam 385/2 and selected documentation with regard to performance of works. The inspection was completed with signing a post-inspection report. No remarks were made in post-inspection findings.
19.	Regional Labour Inspectorate (Okręgowy Inspektorat Pracy) in Lublin, 11 September 2009	11 September 2009	Post-accident recognition was carried out.
20.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	22 September - 23 September 2009	Subject of the inspection: management of deposit in process of fossil extraction and maintaining record of deposit resources, preparation and up-dating of survey and geological documentation. The inspectors made no remarks to the carried out inspection.
21.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	30 September – 2 October 2009	Inspection referred to recognition of entrepreneur's request to grant permit for departure from requirements of Article 210.3 of the Regulation of the Minister of Economy on Operational Health and Safety, Management of Operation and Specific Fire Protection System in Underground Mining Establishments of 28 June 2002 (Dz.U. No. 139, item 1169 and of 2006 No. 124, item 863). The inspection was completed with signing a post-inspection report, no remarks were made.
22.	Regional Branch of the Supreme Chamber of Control in Lublin	05.10.– 5 October – 9 December 2009	Inspection of security of supplying Poland with hard coal. On 22 December 2009 a post-inspection report was signed by the Company's Management Board. No post-inspection recommendations were issued.
23.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	14 October – 16 October 2009	Mining shaft hoist installed in north zone of shaft 2.1 was controlled, by carrying out inspection audit according to specification of the Mining Office for Inspection of Powered Mechanical Equipment No. 1 "Inspection audit of mining shaft hoist along with shaft equipment" of July 2009. The inspection was completed with a report from the ad hoc inspection.
24.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	14 October – 16 October 2009	Inspection covered mining shaft hoist installed in south zone of shaft 2.1, after introduction of changes included in draft supplement No. III S to documentation of mining shaft hoist, by carrying out inspection audit according to specification of the Mining Office for Inspection of Powered Mechanical Equipment No. 1 "Inspection audit of mining shaft hoist along with shaft equipment". The inspection was completed with a report from the ad hoc inspection.
25.	Regional Labour	20 October –	Inspection of circumstances and reasons for accident at work, which employee

	Inspectorate (Okręgowy Inspektorat Pracy) in Lublin	30 October 2009	of the MS section had on 10 October 2009. No remarks were made in a post-inspection report.
26.	.Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	5 November – 6 November 2009	Inspection covered G-3 section, wall 12/II/382 in seam 382, selected mining documentation with regard to management of wall and section, the Operation Plan, detailed part for 2007-2009, electrical machines and devices, placement of excavated material from the wall. The inspection was completed with signing a post-inspection report on 6 November 2009. The inspection results were discussed with the Company's management, without issuing separate decisions.
27.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	5 November – 6 November 2009	Inspection referred to renovation works conducted pursuant to investor's requests regarding reporting an intention to execute construction works of 7 August 2009 and 30 June 2009, works carried out by Ufama from Nasutów. The inspection was completed with signing a report. The following post-inspection recommendations were issued: a) to promptly carry out an evaluation of occupational risk for all workplaces, b) to make employees familiar with the evaluation of occupational risk on individual workplaces. The post-inspection findings were implemented.
28.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	17 November - 18 November 2009	Examination included organisation and execution of works at electrical power high- and medium-voltage devices, installations and grids, which supply power to facilities and devices according to subject matter competence of the Mining Office for Inspection of Powered Mechanical Equipment, main transformer and distributor station 110/6 kV GSTR in Bogdanka, separately 6 kV: STR – M2 in Bogdanka, STR – M3 in Bogdanka, RMWJL in Stefanów. After completion of the inspection a memorandum was issued, where no irregularities were stated and no decision was issued.
29.	Mining Office for Inspection of Powered Mechanical Equipment (Urząd Górniczy do Badań Kontrolnych Urządzeń Energomechanicznych) in Katowice	23 November - 24 November 2009	The inspection object was to establish an actual status of natural and technical hazards as regards the technical state of shaft housings. After completion of the inspection a memorandum was issued, where post-completion recommendations were given. The post-inspection findings were implemented.
30.	Office of Electronic Communications (Urząd Komunikacji Elektronicznej) in Lublin	24 November – 2 December 2009	Inspection of compliance with provisions, decisions and dispositions regarding telecommunications, management of frequencies specified in the Telecommunications Law, including inspection of technical parameters of operation of transmitting and transmitting and receiving devices used in Bogdanka. On 2 December 2009 the inspection was completed with signing a report of the direct inspection.
31.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	10 December - 18 December 2009	Inspection referred to recognition of hazards connected with management of wall and dog headings, operation of electrical devices, with carrying out transport by suspended transport system and dusts detrimental to health. The inspection was completed with signing post-inspection reports.

11. OTHER INFORMATION WHICH IN THE OPINION OF THE MANAGEMENT BOARD IS SIGNIFICANT FOR ASSESSING THE EMPLOYEES, ASSETS, FINANCIAL STANDING AND FINANCIAL RESULT AND CHANGES THERETO AND INFORMATION WHICH IS SIGNIFICANT FOR ASSESSING THE POSSIBILITY OF LW BOGDANKA S.A. SETTLING ITS LIABILITIES

11.1 Donations for causes related to education, culture, fitness and sports, health care and social services, religious worship

Lubelski Węgiel BOGDANKA is a valued employer in the region. The Company's biggest asset are its people, who identify with the business and its mission. The Company's personnel, together with their families, numbers over 10,000 individuals who are directly and indirectly associated with and financially dependent on the mine.

In its operations, apart from achieving positive economic results, the Company has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. Moreover, the Company sponsors sports and cultural activities. This philosophy benefits the Company, helps to promote a favourable image of a business that cares about non-economic activities and, first and foremost, encourages local initiative.

In 2009 the Company's Management Board allocated to donations in the form of cash and non-cash donations of the total amount of PLN 2,223,111.15 (two million two hundred twenty-three thousand one hundred and eleven zlotys 15/100) for the following purposes:

- health care and promotion	- PLN 1,476,054.09,
- public order and safety	- PLN 284,079.14,
- education and science	- PLN 7,458.68,
- promotion of sports	- PLN 67,000.00,
- culture, art, protection of culture and tradition	- PLN 50,000.00,
- environment and animal protection as well as natural heritage	- PLN 17,651.77,
- other	- PLN 230,867.47.

Pursuant to Article 32.2.3 of the Company's Articles of Association, the Supervisory Board's approval is required for contracts of donation whose value exceeds the PLN equivalent of EUR 5,000.

In 2009 two contracts of donation fulfilling the above condition and thus requiring the approval of the Company's Supervisory Board were concluded.

All beneficiaries are required by the provisions of the contract to issue a written statement confirming the acceptance of a donation, followed by a report on the use of the donation for the purpose specified in the contract. Such reports are submitted by the beneficiaries in the form of statements, descriptions, photocopies of invoices and other documents proving due execution of the contract of donation.

11.2 Marketing activities conducted by the Company in 2009

The execution of marketing activities at LW BOGDANKA S.A. in 2009 was based on the following documents:

- *"Programme of Marketing Communication of Lubelski Węgiel BOGDANKA S.A. 2008-2010"* - resolution of the Supervisory Board of 3 October 2008.
- *"Plan of Sponsorship Activities of Lubelski Węgiel BOGDANKA S.A. in 2009"* – approved by the Supervisory Board on 14 May 2009.

The above documents, in particular the "Programme of Marketing Communications", formed the basis for allocating the following dedicated promotional budgets (planned advertising fund):

1. **Advertising sponsorship, sports** – understood as all activities conducted by sports clubs or sports event organisers that involve the provision of sports advertising in exchange for the sponsorship of sports clubs or sports event organisers in various disciplines, significant from the viewpoint of the strategy adopted and the advertising reach.
2. **Advertising sponsorship, other** – understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand.
3. **Promotion – Promotional mix for the Bogdanka corporate brand** – understood as public relations and publicity activities correlated with a media campaign aimed at promoting the Company's corporate image. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion]. These tasks are executed in-house by the Company's promotion and advertising unit, as well as outsourced to advertising agencies in case of official media campaigns.

Promotion – Promotional mix for the EkoKLINKIER associated brand – understood as public relations and publicity activities correlated with a product or image campaign of EkoKLINKIER bricks in the media, in order to boost the sales results of the brand. It also involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion].

The rationale behind the marketing activities undertaken:

1) advertising sponsorship, sports

Involvement in sports sponsorship can give rise to marketing benefits positively affecting the Company's Corporate Identity. The most frequently listed benefits include:

- Greater awareness of the company;
- Enhanced brand and product awareness;
- Positive attitude towards the brand and company;
- Improvement and reinforcement of the brand and product image;
- Transfer of the perception of the supported sports club onto the company or its product (a professional league featuring the best teams that generate positive emotions causes a transfer of the image to companies and products of the sponsor);
- Reaching the so-called difficult marketing targets (business to business);
- Creating a loyal customer base;
- Exposure of the company's logo in the eye of the camera and in the press;
- Increased sales.

2) advertising sponsorship, other

The benefits resulting from sponsoring educational, cultural, scientific, social and environmental events:

- Favourable perception by the local authorities and communities or pro-environmental groups;
- Minimising potential social resistance in case of planned power industry investments;
- Media interest and the opportunity to highlight positive Corporate Behaviour;
- Building positive Corporate Identity, i.e. creating a perception of the company as a business involved in fostering Polish culture, by presenting it in the context of a prestigious artistic event, both for the company's macro-, as well as micro-environment , i.e. the employees;
- Opportunity to present the sponsor's range of products to opinion-makers and the establishment.

3) promotion of the Bogdanka corporate brand and the EkoKLINKIER associated brand

- Creating Bogdanka's Corporate Identity as a modern and highly profitable mining and power company, attractive to capital market investors due to its programme of development and expansion, as well as changes to the Company's capital structure;
- Emphasising the social dimension of the corporate and associated brand by sports, social and cultural sponsorship, which stimulates the activity of local communities in the Lublin region;
- Highlighting the pro-environmental image of the Company by promoting the "EkoKLINKIER" associated brand on the construction materials market, consistently stressing the ecological aspect of the company's operations in all opinion-making circles.

Execution of the 2009 advertising budget

Promotional activities for the Bogdanka corporate brand focused chiefly on the brand's image and were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's advertising was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business (building the success dimension of the brand), as well as a reliable employer, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates [building the social dimension of the brand]. The fundamental PR operations conducted in 2009 concerned mainly the press media market. The co-operation with PRESS KONTAKT was aimed at building a positive image of Bogdanka brand in the trade press (power engineering and mining). The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies in connection with the Company's debut on the Warsaw Stock Exchange and to build a positive image in the eyes of the existing and future shareholders.

Advertising at cultural and scientific events greatly contributed to the creation of positive brand image in the community, as well as among researchers, decision- and opinion makers and emphasised the importance of Lubelski Węgiel BOGDANKA S.A. for the Lublin region as one of few large and expansive companies in the area.

The promotional activities involved mainly displaying the logos of brands belonging to LW BOGDANKA S.A. at events considered important for the region and the corporate brand from the point of view of advertising and target groups. Information about the range of products offered by the Company was actively distributed at cultural, educational and other events.

The advertising activities listed above had a significant impact on the promotion of the BOGDANKA brand. Radio and television broadcasts of sports tournaments and sponsored social or sports events, articles about sports teams sponsored by the Company and their photographs published in the press demonstrated the Company's commitment to the promotion of sports and an active lifestyle. All these activities were aimed at promoting the Company's Corporate Identity – domestic and international success, good relations with the general public, earning the trust of the Company's stakeholders.

In conclusion, the sponsorship of sports clubs, in particular Górnik Łęczna S.A. and LW Bogdanka Racing Team, as well as the purchase of advertising in nationwide media, promoted the BOGDANKA brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of LW BOGDANKA S.A. brands among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Advertising at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers, greatly enhancing the social dimension of the brand in the region. The promotion of the corporate and associated brands was strengthened by the success of sports clubs sponsored through advertising, as well as by advertisements shown at sports events or tournaments involving other clubs, with whom advertising co-operation had been established.

The execution of the advertising budgets of the corporate and the associated brand stood at 77% and approx. 55%, respectively. The sports sponsorship budget was in 95% executed, whereas the execution of the budget allocated to other sponsorship stood at less than 9%. The total savings, amounting to PLN 1,851,380, were due to external factors, including the threat of recession.

Table 45 Advertising budget

Item	Advertising budget item according to the "Programme of Marketing Communication for Lubelski Węgiel BOGDANKA S.A. 2008÷2010"	Plan [PLN '000]	**EXECUTION in 2009**	
			[PLN '000]	**[%] execution**
1	Promotion of the BOGDANKA corporate brand	1,500	**1,158.92**	**77.26%**
2	Promotion of the EkoKLINKIER associated brand	1,000	**546.70**	**54.67%**
3	Advertising sponsorship, sports	7,460	**7,089**	**95.03%**
4	Advertising sponsorship, other	750	**64**	**8.53%**
TOTAL		10,710	**8,858.62**	**82.71%**

12. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT

On 22 July 2009, LW BOGDANKA S.A. concluded an agreement with PricewaterhouseCoopers Sp. z o.o. ("PwC") with registered office in Warsaw, on carrying out an audit of its financial statements and the consolidated financial statements of the LW BOGDANKA Group for 2009, and a review of the abridged consolidated financial statements and the abridged financial statements of the LW BOGDANKA Group for the first half of 2009. The agreement was concluded for a period enabling the subject matter of the agreement to be performed. The total amount for the performance of work was set in the agreement with PricewaterhouseCoopers Sp. z o.o. at a level of PLN 135,000 net.

PwC also audited the consolidated financial statements of the LW BOGDANKA Group for 2008. The remuneration for the audit of the financial statements amounted to PLN 120,000 net.

The remuneration of PwC for the review and audit of the financial statements as well as the remuneration for other work performed for the current and previous financial year is presented below (in PLN '000):

Table 46 Remuneration of PwC for the review and audit of the financial statements as well as the remuneration for other work performed

PricewaterhouseCoopers Sp. z o.o	**2008**	**2009**
– audit of the annual financial statements	120	70
– other certifying services, including the review of the financial statements	-	65
– tax advisory services	-	-
– other services*	795	20,5
Total	**915**	**155,5**

*including remuneration for services related to the preparation of the Issue Prospectus in connection with the public offering of new shares of LW BOGDANKA S.A. and admission and introduction of the Company shares to trading on the Warsaw Stock Exchange. The Company concluded an agreement for these services on 14 May 2008. The agreement covered auditing the consolidated financial statements of the LW BOGDANKA Group for three financial years, i.e. from 1 January 2006 to 31 December 2008, and auditing a forecast of the financial results of the LW BOGDANKA Group for the period from 1 January to 31 December 2009 for the purposes of preparing the Issue Prospectus.

The audit of the Annual Separate Financial Statements LW BOGDANKA S.A. for 2008 was performed by DORADCA Zespół Doradców Finansowo – Księgowych Sp. z o.o., with registered office in Lublin ("DORADCA").

The remuneration of DORADCA for the audit of the financial statements as well as the remuneration for other work, paid or due for 2008 is presented below (in PLN '000):

Table 47 Remuneration of Doradca for the audit of the financial statements as well as the remuneration for other work performed

DORADCA Zespół Doradców Finansowo – Księgowych Sp. z o.o.	**2008**
– audit of the annual financial statements	50
– other certifying services, including the review of the financial statements	-
– tax advisory services	-
– other services	115,6
Total	**165,6**

13. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

13.1 Corporate governance rules applicable at LW BOGDANKA S.A.

In 2009 LW BOGDANKA S.A. complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules in the form of the "Code of Best Practice for WSE Listed Companies" are attached as Appendix to the resolution of the Supervisory Board of the Warsaw Stock Exchange No. 12/1170/2007 of 4 July 2007.

"Code of Best Practice for WSE Listed Companies" is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - www.corp-gov.gpw.pl.

On 23 June 2009 the Company published Current Report No. 7/2009 on non-application of selected rules of the Code of Best Practice for WSE Listed Companies by Lubelski Węgiel BOGDANKA S.A.

According to that report the following rules of the Code of Best Practice for WSE Listed Companies were not applied permanently at the Company:

1. Rule 6 of part III:

"At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or its subsidiary or affiliate cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting."

Explanation:
None of the Company's Supervisory Board members fulfilled the independence criteria specified in rule 6 of chapter III of the Code of Best Practice.
The Supervisory Board consists currently of six members. Due to the fact that the Company was formed pursuant to the provisions of the Act on Commercialisation and Privatisation, two members of the Supervisory Board are elected by the Company's employees. Other members of the Supervisory Board are appointed by the General Shareholders Meeting where until 9 March 2010 the State Treasury was entitled to the majority of votes.

At the Extraordinary General Shareholders Meeting of LW BOGDANKA S.A. on 11 August 2009 Mrs Krystyna Borkowska, Vice-President of the Management Board, presented recommendation of the Company's Management Board regarding undertaking actions by the Company's shareholders aiming at appointing two independent members of the Supervisory Board.

2. Rule 7 of part III:

"The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board."

Explanation:
The audit committee operates within the Company's Supervisory Board. However, that committee does not include any independent member. As it has been indicated in the explanation to the non-application of rule 6 of part III, none of the members of the Company's Supervisory Board fulfils the independence criteria.
Pursuant to the Rules of the Company's Supervisory Board, as long as the State Treasury holds over 50% of the Company shares, in reference to a member of the Supervisory Board delegated to perform the supervisory duties in the audit committee as an independent member, the criterion specified in Article 34.5.4) of the Company's Articles of Association does not apply, i.e. that an independent member may not be the member of the Supervisory Board or of the Management Board or an employee of an entity holding 5% or more of votes at the Company's General Shareholders Meeting or at the Shareholders Meeting or General Shareholders Meeting of the associated entity.
In the opinion of the Company's Management Board, the non-application of the above mentioned rule did not bring about negative results, as the State Treasury is not an active participant of the Company shares' market.

Apart from the infringements of good practice, indicated above and explained, in 2010 the Company has complied with all the corporate governance rules specified in the Code of Best Practice for WSE Listed Companies and the ones subject to reporting.

13.2 The main characteristics of internal audit and risk management systems used by LW BOGDANKA S.A. with regard to the process of drawing up financial statements and consolidated financial statements

Lubelski Węgiel BOGDANKA S.A. draws up separate and consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and tax personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

Lubelski Węgiel BOGDANKA S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The same principles apply in the companies forming the Lubelski Węgiel BOGDANKA S.A. Group, for which LW is the parent entity.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel BOGDANKA S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Internal Audit Department within the Company's organisational structure, operating pursuant to the Rules of Internal Audit, is also of significance. The internal audit system at Lubelski Węgiel BOGDANKA S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues a relevant opinion. A certified auditor is appointed by the Company's Supervisory Board in accordance with the guidelines of the State Treasury, aimed at ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.

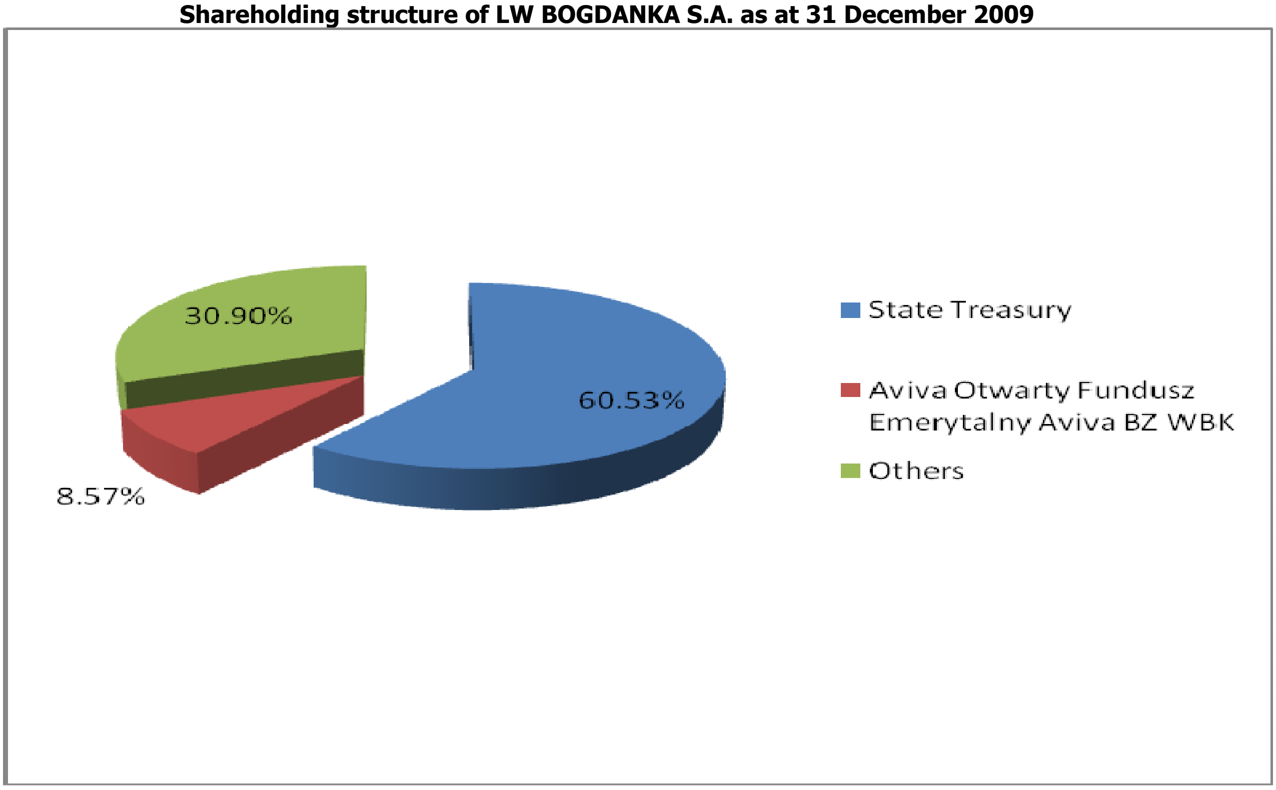
13.3 Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A.

Table 8 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 10 November 2009 and 31 December 2009

Shareholder	**10 November 2009**		**31 December 2009**	
	Number of shares/ Number of votes at the GSM	**Share in the share capital (%)***	**Number of shares/ Number of votes at the GSM**	**Share in the share capital (%)***
State Treasury**	22,279,870	65.50	20,589,931	60.53%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK***	2,141,231	6.30	2,914,265	8.57%
Others	9,592,489	28.20	10,509,394	30.90%
Total	**34,013,590**	**100.00%**	**34,013,590**	**100.00%**

* The share in the share capital corresponds to the share in the total number of votes at the GSM;
** According to the Notification received on 9 December 2009, described in Current Report No. 31/2009, on 8 December 2009 the State Treasury disposed of 1,689,939 shares of LW BOGDANKA S.A. Prior to the above transaction the State Treasury held 22,279,870 shares of LW BOGDANKA S.A., accounting for 65.50% of the Company's share capital. Following the execution and settlement of the transaction, the State Treasury holds 20,589,931 shares of LW BOGDANKA S.A., accounting for 60.53 % of the Company's share capital.
*** as at 31 December 2009 – in accordance with the notice received by the Company from AVIVA Powszechne Towarzystwo Emerytalne AVIVA BZ WBK on 8 February 2010.

Shareholding structure of LW BOGDANKA S.A. as at 31 December 2009



On 9 March 2010 the State Treasury disposed of 15,882,000 shares of the Company. As a result of that transaction, the State Treasury, as at the date of submitting the report, held 13.84 % of LW BOGDANKA S.A.'s share capital, thus ceasing to hold the majority stake in the Company's share capital.

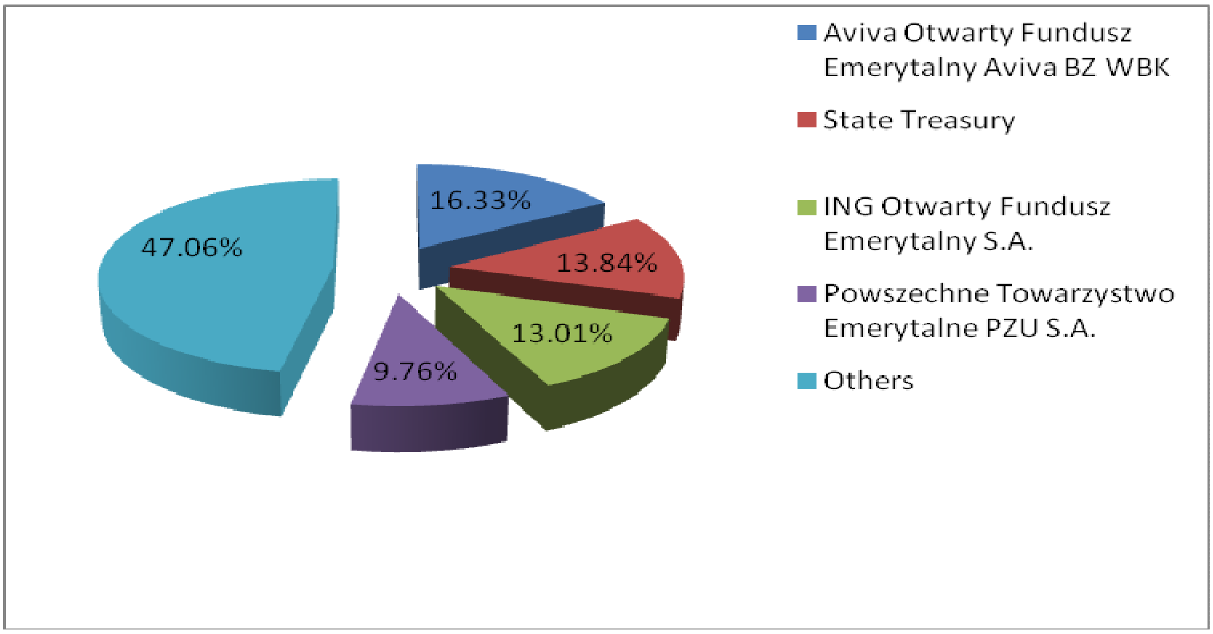
The shareholding structure of LW BOGDANKA S.A. as at 22 March 2010 is presented in the table below.

Table 4 The shareholding structure of LW BOGDANKA S.A. as at 22 March 2010

Shareholder	Number of shares	Number of votes at the GSM	Share in the share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK**	5,553,113	5,553,113	16.33%
State Treasury*	4,707,931	4,707,931	13.84%
ING Otwarty Fundusz Emerytalny S.A.***	4,424,833	4,424,833	13.01%
Powszechne Towarzystwo Emerytalne PZU S.A.****	3,320,377	3,320,377	9.76%
Others	16,007,336	16,007,336	47.06%
Total	**34,013,590**	**34,013,590**	**100.00%**

* According to the Notification received on 16 March 2010, described in Current Report of LW BOGDANKA S.A. No. 8/2010 of 16 March 2010;
** According to the Notification received on 17 March 2010, described in Current Report of LW BOGDANKA S.A. No. 9/2010 of 17 March 2010;
*** According to the Notification received on 15 March 2010, described in Current Report of LW BOGDANKA S.A. No. 7/2010 of 15 March 2010;
**** According to the Notification received on 18 March 2010, described in Current Report of LW BOGDANKA S.A. No. 10/2010 of 15 March 2010;

Shareholding structure of LW BOGDANKA S.A. as at 22 March 2009



13.4 Owners of all the securities which entitle to special control rights

LW BOGDANKA S.A. has not issued any securities which would entitle shareholders to special control rights.

13.5 Restrictions on exercising the voting right

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on exercising the voting right at the General Shareholders Meeting of the Company.

13.6 Restrictions on transferring ownership of the Company's securities

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on transferring ownership of the Company's securities.

13.7 Description of the rules governing the amendments made to the Company's Articles of Association

Amendments to the Articles of Association of LW BOGDANKA S.A. shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Company's Articles of Association as well as provisions of the Commercial Companies Code.

If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

After the General Shareholders Meeting amends these Articles of Association, the Management Board shall draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, in the event of amending the Articles of Association, the Regulation of the Minister of Finance of 19 February 2009 (Dz. U. 09.33.259) on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.

13.8 Governing bodies

13.8.1 Management Board

13.8.1.1 Description of rules regarding appointment and dismissal of management officers as well as their rights, and in particular the right to make a decision on the issue or purchase of shares

Appointment of Management Board members

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of Lubelski Węgiel BOGDANKA S.A. are governed by the following regulations:

1. The Articles of Association of Lubelski Węgiel BOGDANKA S.A.;
2. The Act on Commercialisation and Privatisation of 30 August 1996 (uniform text Dz.U. of 2002 No. 171, item 1397, as amended);
3. The Regulation of the Polish Council of Ministers of 18 March 2003 on the verification procedure for positions of management board members in certain companies (Dz.U. No. 55, item 476).

Pursuant to the Articles of Association of Lubelski Węgiel BOGDANKA S.A., the Management Board shall be composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board shall be appointed for a joint term of office lasting 3 (three) years.

As long as over a half of the shares in the Company were held by the State Treasury, the members of the Management Board (with the exception of the Management Board member elected by the employees) were appointed by the Supervisory Board following a verification procedure, pursuant to the Regulation of the Council of Ministers on the verification procedure for positions of management board members in certain companies, dated 18 March 2003 (Dz. U. No. 55, item 476, as amended).

The Supervisory Board conducts qualification procedure in the event that circumstance justifying the appointment of a Management Board member occurs.

The Supervisory Board also appoints the Management Board member nominated by the Company's employees.

The Supervisory Board shall order the election of a Management Board member nominated by employees for the successive term of office within two months of the lapse of the last full financial year of the Management Board's term of office. The election shall be held within one month of its being ordered by the Supervisory Board. The election shall take place within the entire Company at the same time.

The conclusion of the election and recognition of its validity shall take place prior to the date of the General Shareholders Meeting accepting the statements, balance sheet and the profit and loss account for the final year of the Management's Board term of office.

Employees shall elect members of the Management Board directly in a general election, in secret ballot.

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

Dismissal of Management Board members

Each Management Board member may be dismissed or suspended from office by the Supervisory Board. A Management Board member appointed by the employees may be dismissed from office upon fulfilment of the requirements specified in the Company's Articles of Association. If a Management Board member nominated by employees is dismissed from office, the vacancy shall be filled without undue delay by way of appointing a new member. A Management Board member nominated by employees who has been dismissed from office before the expiry of his/her term of office may not seek re-election.

13.8.1.2 Composition

The Management Board is currently in office for the 6th term. The mandates of the members of the Management Board expire on the date of the Annual Shareholders Meeting which approves the financial statements of the Company for 2009, i.e. not later than 30 June 2010.

As at 31 December 2009 and as at the day of submitting the Report, the composition of the Management Board of LW BOGDANKA S.A. was as follows:

Management Board - 6th term of office

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

Mirosław TARAS, M.Sc.Eng. - President of the Management Board

Born in 1955. Mirosław Taras graduated in 1980 from the Faculty of Mining at the AGH University of Science and Technology with an M.Sc. Eng. degree in mining, specialising in Mine Design and Construction. In 1996 he completed postgraduate studies at the Warsaw School of Economics in the field of Corporate Finance Management. He attended a wide range of training sessions, courses and workshops (including finance management, sales, negotiations, controlling and accounting), as well as successfully completed a course for supervisory board members of State Treasury companies.

He has been involved with work in the Lublin Coal Basin since 1980; in 1980-1991 and 1992-1998 he worked at PP KWK Bogdanka and KWK Bogdanka, subsequently moving on to Lubcoal S.A. and the Lubelski Węgiel S.A. Group as Vice-President of the Management Board. In 2001 he returned to Lubelski Węgiel BOGDANKA S.A. to the position of the Director of the Construction Ceramics Plant, and in 2003 he was appointed the Sales and Rail Transportation Deputy Director and Commercial Proxy.

Zbigniew STOPA, M.Sc.Eng. - Vice-President of the Management Board for Technical Affairs

Born in 1959. Zbigniew Stopa graduated in 1984 from the Faculty of Mining at the AGH University of Science and Technology with an M.Sc. Eng. degree in Mining and Geology, specialising in Deposits Exploitation Technology. In 1997 he completed postgraduate studies at the Central Mining Institute in Katowice in the field of Occupational Health and Safety Management. He attended a wide range of training sessions and specialist courses (the fundamentals of economics, human resource management, finance for managers) as well as completed a course for supervisory board members of State Treasury companies. Zbigniew Stopa's career has always been connected with Lubelski Węgiel BOGDANKA S.A., starting from an underground internship and leading to the position of the Manager of Mining Works.

Waldemar Bernaciak, M.Sc.Eng. - Vice-President of the Management Board for Trade and Logistics

Born in 1956. Graduated from the Faculty of Mining at the AGH University of Science and Technology (in 1979), specialising in Mine Design and Construction. Furthermore, he attended a number of specialist training courses (including a course on planning and production management in a coal mine at the Silesian University of Technology, logistics, materials management and stock optimisation). In 1999 he completed postgraduate studies in the field of materials management and logistics. He has also completed a course for supervisory board members of State Treasury companies. He was also recognised by the District Mining Authority in Lublin as a Mining Works Manager. From 1979 he worked on various positions within the mining operations supervision systems of companies constituting the Lublin Coal Basin. Since 1997 he has been an employee of the Bogdanka mine.

Krystyna BORKOWSKA, M.A.- Vice President of the Management Board for Economic and Financial Affairs, Chief Accountant

Born in 1951, she received her master's degree in economics at the Faculty of Production Economics at the University of Gdańsk (specialisation: finance). She has also completed postgraduate studies at the Warsaw School of Economics in the field of European Standards in Accounting and Finance and postgraduate studies in Public Procurement at the European School of Law and Administration in Warsaw. She has obtained a Controller's Diploma from the School of Controlling in Katowice and completed several other specialist courses (including project management and real estate appraisal). She has been an employee of the Bogdanka mine since 1998. Her previous employer was PRGB Progobex S.A. in Łęczna. In 1998-2000 she was the Vice-President for Economic and Financial Affairs of the Lubelski Węgiel Group.

She worked for Bogdanka as the Company's Chief Economist, and in 2004-2007 was the Vice-President of the Management Board for Economic and Financial Affairs. Her subsequent position in the Company was Chief Accountant and Commercial Proxy.

Janusz CHMIELEWSKI, M.Sc.Eng. – Management Board member nominated by the employees, Chief Engineer – Head of Mining Supervision in Mining Facility

Born in 1955. Janusz Chmielewski graduated from the Faculty of Mining at the AGH University of Science and Technology with an M.Sc. Eng. degree in Mining and Geology, specialising in Deposits Exploitation Technology. He has completed a number of courses on remedying naturals hazards, organising and leading rescue operations, fire prevention, geological and mining law, commercial law, public procurement law, commercial companies law, management, enterprise finance, and controlling; these skills are supplemented by his excellent knowledge of the Company, in particular of the Company's Mining Facility. He has also successfully completed a course for supervisory board members of State Treasury companies. Janusz Chmielewski has been with Lubelski Węgiel

BOGDANKA S.A. since 1980. He has held positions on all levels of the mining supervision system. He has been the Head of Mining Supervision in Mining Facility since 1996. In 2004-2006 he was the Vice-President of the Management Board for Production Affairs.

Outside of Lubelski Węgiel BOGDANKA S.A., the members of the Management Board do not conduct business activity on their own or manage such business activity jointly with other persons, nor are they representatives or attorneys in conducting business activity.

Management Board – 7th term of office

On 5 March 2010 the Supervisory Board appointed the following persons for the 7th term of office (2010-2012) of the Company's Management Board:

1) Mirosław Taras, as the President of the Company's Management Board;
2) Krystyna Borkowska, as Vice-President of the Management Board for Economic and Financial Affairs and Chief Accountant;
3) Zbigniew Stopa, as Vice-President of the Management Board for Technical Affairs;
4) Waldemar Bernaciak, as Vice-President of the Management Board for Trade and Logistics.

The persons indicated above were appointed with effect as of the date of the Company's Annual General Shareholders Meeting, approving the Company's financial statements for the financial year ended on 31 December 2009.

All of persons mentioned above hold positions in the Management Board in the current term of office.

The first round of election of the Management Board member elected by the Company's employees for the period of the 7th term of the Company's Management Board took place on 10 March 2010.

Pursuant to the Rules of appointment and dismissal of Management Board members of Lubelski Węgiel BOGDANKA S.A. by the Company's employees, the election of the Management Board member referred to above is only valid in the event that votes were cast by no less than 50% of employees with the right to vote. The elected candidate is required to receive an absolute majority of votes. No candidate received an absolute majority of votes in the first round of the election. Given the above, the second round of elections was scheduled for 23 March 2010.

13.8.1.3 Description of operations and authorisations

Pursuant to the Company's Articles of Association, the Management Board of LW BOGDANKA S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board.

In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

1. adopting the Rules of Procedure for the Management Board,
2. adopting the Company's Organisational Rules,
3. creation and liquidation of the Company branches,
4. appointment of a proxy,
5. contracting loans,
6. adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
7. assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
8. disposing of and acquiring non-current assets with a value exceeding the PLN equivalent of EUR 50,000.00 (fifty thousand euro),
9. any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW BOGDANKA S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW BOGDANKA S.A. pays due attention to transparency and efficiency of the management system of the Company and to the maintenance of its affairs in compliance with the provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Declarations of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The power of proxy may be revoked by any and each of the Management Board members.

In accordance with the Company's Organisational Rules, the **President of the Management Board**:

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over Company affiliates through representatives appointed to Supervisory Boards;
2. Represents the Company in relations with third parties;
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
   a) company organisation,
   b) supporting the operations of the Company's governing bodies,
   c) privatisation, Company restructuring,
   d) ownership supervision and capital investments,
   e) internal structural and ownership transformations,
   f) providing information and reports to investors, shareholders and stock exchange institutions,
   g) implementing LW BOGDANKA S.A.'s strategy and the Company's long-term plans,
   h) co-operation with the media and the information policy,
   i) current records archive and general secretariat,
   j) internal audit in the Company,
   k) matters of defence,
   l) HR policy, employee and social issues,
   m) occupational health and safety, training workshops,
   n) diversification of the Company's operations and EU integration,
   o) future plans with regard to the development and modernisation of the production process,

p) protection of personal data and confidential information,
q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,
r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,
s) monitoring the quality of construction ceramics.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:

1. Managing the Company's finances.
2. Economic effectiveness of investment projects.
3. Pay and insurance policy.
4. Economic and financial analyses.
5. Reporting and statistics.
6. Budgeting and controlling.
7. Supervising Company value management.
8. Providing financial and bookkeeping services.
9. Accounting and settlements with business partners.
10. Continuous stocktaking.

Major responsibilities of the **Vice-President for Economic and Financial Affairs as the Chief Accountant** include:

1. Organising the work of subordinate departments and ensuring their effective operation in line with the Accounting Act and other accounting tasks.
2. Drawing up the required current financial statements.
3. Drawing up the annual financial statements.
4. Supervising the organisation of management accounting.
5. Compiling internal reports for the Company's governing bodies.
6. Ongoing analysis of settlements (accounts receivable and liabilities).
7. Approving documents for payment and posting.
8. Submitting motions to the Company's Management Board regarding issues requiring its decision.
9. Developing the rules for managing short-term securities.
10. Organising the work related to financial management in terms of cash accounting and settlements with third parties.

The Vice-President for Commerce and Logistics organises and supervises the Company's operations in the following areas:

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Sales of construction ceramics.
4. Designing and executing promotional, advertising and brand management activities.
5. Market analyses.
6. Rail transportation.
7. Logistics and warehouse management.

8. Computerisation of the Company.
9. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues
10. Production of construction ceramics.

The Vice-President for Technical Affairs organises and supervises the Company's operations in the following areas:

1. Investment and refurbishment activities.
2. Cost estimation and service valuation.
3. Material and machinery management.
4. Environmental protection and utilisation of pit waste.
5. Maintaining and developing production capacity.
6. Analysis and optimisation of the usage of production capacity, including machinery and equipment.
7. Deposit management planning.
8. Trade coal mining and production.
9. Keeping surveyor and geological records, as well as production records.
10. Technical and economic progress.
11. Organising and planning production and mine development.
12. Research and implementation.

Member of the Management Board elected by employees is responsible for:

1. Co-operating with the workforce and the trade unions active in the Company.
2. Social dialogue in the Company.
3. Creating conditions for better use of the Company's social potential (internal marketing).
4. Supervising the correct use of the funds available from the Company's Social Fund.
5. Performing other duties imposed by the resolutions of the Management Board.

13.8.1.4 Information about Management Board meetings and the resolutions adopted

In the reporting year 2009 the Management Board appointed for the 6th term held 77 minuted meetings and adopted the total of 1614 resolutions.

The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Company's ordinary management and at the request of individual Management Board members.

The Management Board resolutions concerned the following issues:

- accepting the annual financial statements, the report on the Company's operations in 2008 and the consolidated financial statements of the capital group,
- allocation of net profit for 2008,
- convening General Shareholders Meetings and specifying their agenda and draft resolutions,
- granting individual powers of attorney to represent the Company,
- granting authorisations and powers of attorney to employees to perform specific operations,
- motions addressed to the Company's Supervisory Board,
- approving amendments to the Work Regulations at LW BOGDANKA S.A.,
- introducing amendments to the Company's Organisational Rules and the organisation chart;
- introducing amendments to the Corporate Collective Labour Agreement,
- introducing amendments to the Rules of Procedure for Internal Tenders,
- introducing changes in the composition of the Standing Tender Committee,
- adopting the Company's technical and economic plan for 2009,
- introducing adjustments to the plans for 2009,

- approving the collective plan for material requirements and the plan of investments in the construction of fixed assets for 2010;
- approving the Terms of Reference and the content of the invitation to negotiations,
- conducting tenders and direct negotiations,
- waiving tender procedures,
- increasing the budgets for executing public procurement contracts,
- approving the outcomes of negotiations,
- cancelling tenders,
- settling the protests lodged by bidders in public procurement procedures,
- approving repeated actions in public procurement procedures,
- concluding and terminating contracts, amending the conditions of contracts, extending the terms of contracts – signing annexes to contracts,
- withdrawing from contracts,
- concluding agreements and settlements,
- approving changes to the prices of coal and EkoKLINKIER ceramics,
- introducing special offers and price reductions for construction brick,
- establishing the amount of write-offs to the mine decommissioning fund in the years 2004-2008,
- establishing the mine decommissioning fund,
- creating reserves and charging them to expenses of 2008,
- performing a write-off of disputed receivables that have gone into litigation,
- new hires at the Company,
- making single-source purchases,
- preparing evaluations, cost estimates, analyses and legal opinions,
- approving the motions by the Company's Inventions Committee,
- approving rewards for the designers of innovative projects,
- repairing mining damage,
- purchasing plots of land,
- purchasing, selling and leasing fixed assets,
- social, pay and personnel issues,
- subsidising employees' education and granting them training leave,
- making donations,
- advertising and sponsorship,
- waiving the accrual of interest,
- cancelling interest notes,
- amortising interest for defaulting on payment deadlines,
- waiving the right to charge business partners with liquidated damages,
- postponing payment dates,
- writing off bad debt,
- assignment of receivables,
- making early payments of invoices,
- appointing teams for specific purposes,
- amendments to the Company's Articles of Association,
- introducing new items into the plan for building fixed assets in 2009,
- concluding an agreement to prepare a report outlining an extended Company Development Strategy and to provide consulting services,
- approving the Rules for Granting Bonuses to Sales Representatives,
- appointing the Central Election Committee (election to the Supervisory Board),
- approving the plan for purchasing services from third-party providers in 2009,
- approving the Rules for the Company's HR policy,
- taking out a long-term bank loan,
- accepting the rules of sponsorship,
- granting a power of attorney to Dom Inwestycyjny BRE Banku S.A. to represent the Company before the National Depository for Securities (KDPW) and the Warsaw Stock Exchange,
- submitting to the jurisdiction of the Court of Arbitration affiliated with the National Depository for Securities (KDPW),

- concluding an agreement with Biuro Informacji Kapitałowych establishing regular co-operation with regard to the reporting obligations of stock exchange listed companies,
- adopting the Rules of Stock Exchange Information at LW BOGDANKA S.A.,
- allocating C series shares in the institutional investors tranche, private investors tranche and employee tranche,
- approving the Plan of Mining Works,
- adopting the draft amendments to the Rules of Procedure of the Company's General Shareholders Meeting,
- opening fixed-term deposit accounts by the Company,
- approving the purchase plan of ready goods for 2010,
- adopting the draft Annex to LW BOGDANKA S.A.'s Incentive Scheme
- concluding an agreement for the audit of the Company's financial statements for 2009 and the consolidated financial statements of the capital group,
- approving the plan of expenditure on machine and equipment refurbishment in 2010,
- concluding an agreement on co-operation with regard to conducting Investor Relations at LW BOGDANKA S.A.,
- awarding a funded scholarship,
- concluding an escrow account agreement,
- approving the public procurement procedure for insuring the employees of LW BOGDANKA S.A.,
- adopting the adjusted Investment Expenditure Plan for ZCB EkoKLINKIER for 2010,
- concluding a share sales agreement to dispose of 420 Górnik Łęczna S.A. shares,
- approving the sports sponsorship budget for 2010,
- approving the central register and list of jobs involving work under special conditions.

13.8.1.5 Information on powers of proxy granted and revoked

In 2009, the function of the Company's Proxy was fulfilled by Mr Henryk Koza, Msc, Eng. Investment Director (Power of Proxy Since 13 April 2007).

13.8.2 Supervisory Board

13.8.2.1 Composition

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting. Two members of the Supervisory Board are elected by the Company's employees.

Supervisory Board - 6th term of office

Up until 15 May 2009 (the date of the Extraordinary General Shareholders Meeting which approved the Company's financial statements for 2008), the Supervisory for the 6th term of office was composed of:

1.	Krzysztof Maślankowski	- Chairman of the Board
2.	Grażyna Dec	- Vice-Chairman of the Board
3.	Jadwiga Kalinowska	- Secretary of the Board
4.	Henryk Czapla	- Member of the Board
5.	Adam Partyka	- Member of the Board
6.	Wiesław Różycki	- Member of the Board

Supervisory Board - 7th term of office

From 15 May 2009 to the date of submitting this Report, the Supervisory Board for the 7th term has been in office. The mandates of the members of the Supervisory Board expire on the date of the Extraordinary General Shareholders Meeting which approves the financial statements of LW BOGDANKA S.A. for 2011, i.e. not later than 30 June 2012.

As at 31 December 2009 and as at the day of submitting the Report, the Supervisory Board of LW BOGDANKA S.A. was composed of:

1.	Krzysztof Maślankowski	- Chairman of the Board
2.	Grażyna Dec	- Vice-Chairman of the Board
3.	Bogdan Kowal	- Secretary of the Board
4.	Henryk Czapla	- Member of the Board
5.	Adam Partyka	- Member of the Board
6.	Wiesław Różycki	- Member of the Board

13.8.2.2 Description of activities

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations.

The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

The responsibilities of the Supervisory Board include:

- assessment of reports,
- assessing motions of the Management Board regarding the distribution of profits or covering of losses;
- submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
- selecting a chartered auditor to audit annual financial statements;
- determining the scope and deadlines for the Management Board's submission of annual material and financial plans and long-term strategic plans;
- issuing opinions on long-term strategic plans;
- issuing opinions on annual business plans (specifying the tasks to be performed and the related budgets),
- adopting rules laying down the detailed procedure followed by the Supervisory Board;
- adopting for the Company's internal purposes the uniform text of the Articles of Association,
- approving the Management Board rules;
- adopting the Company's Organisational Rules.

The powers of the Supervisory Board shall include granting consent to the Management Board for the following:

- acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 200,000.00, up to the PLN equivalent of EUR 800,000.00,
- acquisition or disposal of property, plant and equipment not related to the Company's core business, where the value of a single transaction exceeds one-twentieth of the Company's share capital,
- conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 5,000.00, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association,
- conclusion by the Company or its subsidiary of a material agreement with a party related to the Company.

Additionally, the Supervisory Board's powers shall include in particular:

- appointing and dismissing members of the Management Board,
- making requests concerning the remuneration rules and remuneration amounts to be received by the Management Board members,
- suspending members of the Management Board for important reasons,
- delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,

- conducting the procedure of qualifying members to the position of a Management Board member,
- representing the Company in agreements and disputes between the Company and the Management Board members,
- granting consent to the creation of foreign branches of the Company,
- granting permission to Management Board members for accepting positions on the governing bodies of other companies.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, are defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee is a standing committee at the Supervisory Board.

13.8.2.3 Audit Committee

The Audit Committee is composed of three members, at least one of whom shall be an independent member, subject to Article 8.8 of the Rules of Procedure of the Supervisory Board, and at least one shall possess competence and experience with regard to finance and accounting.

The task of the Audit Committee shall be advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its capital group, as well as chartered auditors auditing the Company's financial statements.

In particular, the duties of the Audit Committee shall include:

(i) review of interim and annual financial statements of the Company (separate and consolidated),

(ii) cooperation with the chartered auditor auditing the financial statements of the Company and recommending to the Supervisory Board the auditor to be selected,

(iii) discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and

(iv) providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

The Audit Committee, from 6 December 2008 to 28 May 2009, was composed of:

1. Henryk Czapla
2. Adam Partyka
3. Jadwiga Kalinowska

As the 6th term of office of the Supervisory Board was ended, and the new composition was appointed, on 28 May 2009 the Supervisory Board appointed the Audit Committee in the following composition:

1. Grażyna Dec
2. Henryk Czapla
3. Adam Partyka

13.8.3 General Shareholders Meeting

13.8.3.1 Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in

particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting

The General Shareholders Meeting of LW BOGDANKA S.A. holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and Article 44 of the Company's Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website (www.lw.com.pl), in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the General Shareholders Meeting with the right to vote.

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A., members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.

Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.

The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports,
- adopt a resolution on the distribution of profit or coverage of loss,
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties,
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members,
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts.
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon,
- acquisition or disposal of real estate, perpetual usufruct right to or interest in real estate with a value exceeding the PLN equivalent of EUR 800,000,
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator,
- increase in or reduction of the Company's share capital,
- issue of bonds of any type,
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code,
- mandatory redemption of shares in accordance with the Commercial Companies Code,
- creation, use and release of capital reserves,
- use of statutory reserve funds,
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company,
- contribution of non-current assets to the Company or a cooperative as a contribution-in-kind,
- merger, transformation or demerger of the Company,
- amendments to the Company's Articles of Association, including changes to the Company's business profile,
- dissolving and liquidating the Company.
- establishment of another company by the Company,
- subscription for or acquisition of shares in another company,
- disposal of subscribed for or acquired shares in another company.

13.8.3.2 Information of General Shareholders Meetings held in 2009

In 2009 four General Shareholders Meetings were held:

1) Extraordinary General Shareholders Meeting on 16 December 2008 (Rep. A Nr 5513/2008) and 15 January 2009 (Rep. A Nr 222/2009), held in the Company's registered office in Bogdanka.

Before item 5 of the agenda was performed, the representative of the shareholder – the State Treasury, requested making a break until 12.00 on 15 January 2009.

Agenda:

1. Opening of the Extraordinary General Shareholders Meeting.
2. Electing the Chairman of the Extraordinary General Shareholders Meeting.
3. Acknowledging the Extraordinary General Shareholders Meeting to be validly convened and

acknowledging its capacity to adopt resolutions.

4. Adopting the agenda.
5. Adopting resolutions on changes in the composition of the Supervisory Board.
6. Miscellaneous.
7. Closing the Meeting.

2) Extraordinary General Shareholders Meeting on 16 February 2009, held in the Company's registered office in Bogdanka (Rep. A Nr 597/2009).

Agenda:

1. Opening of the Extraordinary General Shareholders Meeting.
2. Electing the Chairman of the Extraordinary General Shareholders Meeting.
3. Acknowledging the Extraordinary General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting the agenda.
5. Adopting a resolution on preparing consolidated financial statements of the capital group in compliance with the International Accounting Standards (IAS) as well as International Financial Reporting Standards (IFRS) beginning from 1 January 2008.
6. Adopting a resolution on amending Article 53.1 of the Company's Articles of Association.
7. Miscellaneous.
8. Closing of the Extraordinary General Shareholders Meeting.

3) Annual General Shareholders Meeting on 15 May 2009, held in the Company's registered office in Bogdanka (Rep. A Nr 2234/2009).

Agenda:

1. Opening the General Shareholders Meeting.
2. Electing the Chairman of the General Shareholders Meeting.
3. Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting the agenda.
5. Recognising the Financial Statements and Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2008.
6. Presentation of the Report on Operations of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. as the Company's governing body for 2008.
7. Presentation of the Management Board's motion regarding the distribution of net profit for 2008 and coverage of loss brought forward.
8. Presentation of the Supervisory Board's Report on the assessment of the Company's the Financial Statements and Directors' Report on Operations for 2008, and the Management Board's motion regarding the distribution of net profit and coverage of loss brought forward.
9. Adopting resolutions on:

   8.1.approval of the Directors' Report on Operations Lubelski Węgiel BOGDANKA S.A. for 2008,

8.2.approval of the Financial Statements of Lubelski Węgiel BOGDANKA S.A. for 2008,
8.3.granting discharge to the members of the Management Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2008,
8.4.approval of the Report on Operations of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. as the Company's governing body for 2008,
8.5. granting discharge to the members of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2008,
8.6.distribution of net profit for the financial year 2008 and undistributed profit brought forward,
8.7.specifying a dividend date and a date of the dividend payment.

10. Information on elections of the employees' representatives to the Supervisory Board to the 7th term of office for the years 2009-2011 carried out at the Company.
11. appointment of the Supervisory Board members for the 7th term of office,
12. Miscellaneous.
13. Closing the General Shareholders Meeting.

4) Extraordinary General Shareholders Meeting on 11 August 2009, held in the Company's registered office in Bogdanka (Rep. A No. 3897/2009).

Agenda:

1. Opening of the Extraordinary General Shareholders Meeting.
2. Adopting a resolution on election of the Chairman of the Extraordinary General Shareholders Meeting;
3. Acknowledging the Extraordinary General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting a resolution on accepting the agenda;
5. Electing the Ballot Counting Committee.
6. Presenting the consolidated Financial Statements of Lubelski Węgiel BOGDANKA S.A. Group and the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. Group for 2008.
7. Presenting the Supervisory Board's opinion on the assessment of the consolidated Financial Statements of the Lubelski Węgiel BOGDANKA S.A. Group and the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. Group for 2008;
8. Adopting a resolution on approving the consolidated financial statements of the Lubelski Węgiel BOGDANKA S.A. Group and the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. Group for 2008.
9. Adopting a resolution on amending the Company's Articles of Association.
10. Adopting a resolution on amending the Rules of Procedure of the Company's General Shareholders Meeting.
11. Miscellaneous.
12. Closing of the Extraordinary General Shareholders Meeting.

13.8.3.3 Dividend policy

In accordance with the Articles of Association of LW BOGDANKA S.A., the manner of allocating the net profit of the Company is specified in a resolution of the General Shareholders Meeting.
The amount of profit to be distributed as dividend should be divisible by the total number of the Company shares.
The General Shareholders Meeting may allocate a portion of the profit towards:

1) dividend for the shareholders, with the proviso that the amount of profit to be distributed as dividend should be divisible by the total number of the Company shares,
2) other long-term capitals and funds,
3) other purposes defined by the General Shareholders Meeting by way of a resolution.

The dividend record date shall be the date of the Annual General Shareholders Meeting for the financial year, with the proviso that the dividend payment shall be made within two months from the dividend record date.

Dividend for 2005

Under resolution of 17 August 2006 regarding the Management Board's request concerning the amendment of a resolution adopted by the Annual General Shareholders Meeting of 29 June 2006 on the distribution of net profit for 2005 generated by the Company, the net profit of PLN 72,536,230 was allocated in 60.03%, i.e. in the amount of PLN 43,541,710, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 18.92.

Dividend for 2006

Under resolution of 17 August 2007 regarding the Management Board's request concerning the amendment of a resolution adopted by the Annual General Shareholders Meeting of 29 June 2007 on the distribution of net profit for 2006 generated by the Company, the net profit of PLN 84,218,680 was allocated in 59.38%, i.e. in the amount of PLN 50,008,530, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 21.73.

Dividend for 2007

Under resolution of 25 April 2008 regarding the opinion on the Management Board's request concerning the distribution of net profit for 2007 and the undistributed profit from previous years, the net profit generated by the Company of PLN 75,262,490 was allocated in 7.49%, i.e. in the amount of PLN 5,638,330, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 0.24. The description of allocation of shares in 2007 is presented in the Financial Statements.

Dividend for 2008

On 31 March 2009, the Management Board of LW BOGDANKA S.A. adopted a resolution on making a request to the General Shareholders Meeting regarding the distribution of net profit for 2008. The Management Board proposed that the net profit generated by the Company in the amount of 118,370,160 was allocated in full to the capital reserve of the Company for the purpose of financing investments planned for 2009, in line with the Technical and Economic Plan adopted by the Company for 2009. On 17 April 2009, the Supervisory Board adopted a resolution accepting the proposition of the Management Board regarding the distribution of net profit for 2008. Under the resolution of 15 May 2009 regarding the distribution of net profit for 2008 generated by the Company amounting to PLN 118,370,160, 75.05%, i.e. PLN 88,832,460 was allocated for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 3.86.

Dividend for 2009

In pursuance of the strategy of LW BOGDANKA S.A. which assumes incurring significant investment outlays, the Management Board will not recommend to the General Shareholders Meeting a dividend payment for 2009. The Company wishes to allocate the profit in full amount for the fulfilment of investment goals.

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**	....

Bogdanka, 19 March 2010