LUBELSKI WĘGIEL BOGDANKA S.A.

FINANCIAL STATEMENTS

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

BOGDANKA, MARCH 2010

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(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Statement of Financial Standing (Balance Sheet)

	Note	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Assets				
Fixed assets				
Tangible fixed assets	7	1,521,808	1,297,098	1,115,103
Intangible fixed assets	8	12,084	10,083	11,397
Long-term investments	9	73,341	73,761	73,761
Trade debtors and other receivables	10.1	-	418	58
Cash and cash equivalents	12	46,158	41,073	36,257
		1,653,391	1,422,433	1,236,576
Current assets				
Stocks	11	49,223	33,515	40,590
Trade debtors and other receivables	10.1	113,719	131,537	99,393
Overpaid income tax		2,754	685	-
Cash and cash equivalents	12	640,432	57,502	8,628
		806,128	223,239	148,611
TOTAL ASSETS		**2,459,519**	**1,645,672**	**1,385,187**
Shareholders' equity				
Ordinary shares	13	301,158	246,158	246,158
Other capitals		894,535	404,094	325,540
Retained profits		534,824	455,993	382,109
Total shareholders' equity		**1,730,517**	**1,106,245**	**953,807**
Liabilities				
Long-term liabilities				
Loans and borrowings	16	250,000	-	30,000
Deferred income tax liabilities	17	59,903	58,318	63,157
Employee benefits liabilities	18	97,976	100,971	85,450
Provisions for other liabilities and charges	19	63,079	54,337	44,300
Trade creditors and other liabilities	15	7,834	9,622	7,877
		478,792	223,248	230,784
Short-term liabilities				
Loans and borrowings	16	-	100,000	20,000
Current income tax liabilities		-	-	3,570
Employee benefits liabilities	18	26,338	18,877	14,548
Provisions for other liabilities and charges	19	63,596	51,901	6,136
Trade creditors and other liabilities	15	160,276	145,401	156,342
		250,210	316,179	200,596
Total liabilities		**729,002**	**539,427**	**431,380**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2,459,519**	**1,645,672**	**1,385,187**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Statement of Comprehensive Income

	Note	for the financial year from 1 January to 31 December 2009	2008
Revenue on sales	20	1,110,851	1,026,217
Costs of products, goods and materials sold	21	(755,201)	(723,630)
Gross profit		**355,650**	**302,587**
Cost of sales	21	(41,652)	(40,336)
Administrative costs	21	(64,485)	(49,843)
Other income	22	6,030	1,655
Other expenses	23	(2,140)	(3,707)
Other profits/(losses) - net	24	(22,602)	(2,305)
Profit on operating activities		**230,801**	**208,051**
Financial income	25	16,002	5,487
Financial expenses	25	(7,067)	(9,054)
Net financial income/expenses	25	8,935	(3,567)
Profit before taxation		**239,736**	**204,484**
Income tax	26	(47,683)	(46,408)
Net profit for the period		**192,053**	**158,076**
Total income for the period		**192,053**	**158,076**
Earnings per share attributable to the Company's shareholders during the year (in PLN per share)			
- basic	27	6.66	6.87
- diluted	27	6.66	6.87

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Statement of Changes in Shareholders' Equity

	Ordinary shares	Other capitals	Retained profits	Total shareholders' equity
As at 1 January 2008	**246,158**	**325,540**	**382,109**	**953,807**
Presentation adjustment of capitals	-	6,738	(6,738)	-
Total income for the accounting period	-	-	158,076	158,076
Dividends concerning 2007	-	-	(5,638)	(5,638)
Transfer of the result for 2007	-	71,816	(71,816)	-
As at 31 December 2008	**246,158**	**404,094**	**455,993**	**1,106,245**
As at 1 January 2009	**246,158**	**404,094**	**455,993**	**1,106,245**
Total income for the accounting period	-	-	192,053	192,053
Proceeds from issue of shares	55,000	-	-	55,000
Share premium	-	466,051	-	466,051
Dividends concerning 2008	-	-	(88,832)	(88,832)
Transfer of the result for 2008	-	24,390	(24,390)	-
As at 31 December 2009	**301,158**	**894,535**	**534,824**	**1,730,517**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Cash Flow Statement

	Note	for the financial year from 1 January to 31 December	
		2009	**2008**
Operating cash flow			
Operating cash inflow	29	418,085	393,221
Interest paid		(9,353)	(5,522)
Income tax paid		(48,167)	(55,502)
Net operating cash flow		360,565	332,197
Investing cash flow			
Acquisition of tangible fixed assets	29	(365,894)	(326,813)
Acquisition of intangible fixed assets		(4,244)	(858)
Inflow on sale of tangible fixed assets		188	337
Interest received		14,541	4,260
Other net investing cash flow		640	204
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(5,085)	(4,815)
Net investing cash flow		(359,854)	(327,685)
Financing cash flow			
Net proceeds from the sale of shares		521,051	-
Loans and borrowings received		180,000	70,000
Loans and borrowings repaid		(30,000)	(20,000)
Dividend paid to Company shareholders		(88,832)	(5,638)
Net financing cash flow		582,219	44,362
Net increase in cash and cash equivalents		582,930	48,874
Cash and cash equivalents at beginning of period		57,502	8,628
Cash and cash equivalents at end of period		**640,432**	**57,502**

Notes to the Financial Statements

Additional information

1. General information

1.1. Information on the Company

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

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

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

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

In June 2009, the Company issued series C shares and introduced its shares to public trading. Details concerning the capital increase are set out in Note 13.

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

The Company is the parent undertaking in the Lubelski Węgiel BOGDANKA S.A. Group. The Group prepares consolidated financial statements compliant with the IFRS for the period from 1 January 2009 to 31 December 2009. These separate financial statements should be read in connection with the consolidated financial statements of the LW BOGDANKA S.A. Group for the period from 1 January 2009 to 31 December 2009.

1.2. Assumption of continued business activity

The financial statements were prepared under the assumption of continued business activity in the foreseeable future and that there are no circumstances indicating any risk to the continuation of the Company's activities.

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

2. Description of key accounting principles applied

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

2.1. Basis for preparation

These financial statements of LW BOGDANKA S.A. were prepared in accordance with the International Financial Reporting Standards as approved by the European Union.

These 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.

Preparing financial statements in accordance with IFRS requires the application of certain significant accounting estimates. It also requires that Management Board exercise its own judgment while applying accounting principles adopted by the Company.

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

- IFRS 8 "Operating Segments"

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

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

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

- IAS 23 (revision) "Borrowing costs"

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

- Improvements to IFRS 2008

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

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

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

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

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

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

- Improvements to IFRS 2009

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

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

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

- Amendments to IAS 24 "Related Party Disclosures".

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

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

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

- IFRS 9 "Financial Instruments".

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

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

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

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

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

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

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

- IFRS 3 (Z) "Business Combinations"

Amended IFRS 3 was published by the International Accounting Standards Board on 10 January 2008 and is effective prospectively for business combinations in which the acquisition date falls on or after 1 July 2009. The introduced amendments include a possibility to chose to recognise the minority interests either at their fair value or their share in the fair value of identifiable net assets, to re-measure the interests held hitherto in the acquiree to fair value and take the resulting difference to the statement of comprehensive income as well as additional guidance for the application of the acquisition method, including treatment of transaction costs as the costs of the period in which they were incurred.

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

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

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

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

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

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

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

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

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

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

- Amendments to IAS "Classification of Rights Issues".

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

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

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

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

- IFRIC 12 "Service Concession Agreements"

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

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

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

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

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

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

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

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

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

- IFRIC 18 "Transfers of Assets from Customers"

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

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

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

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

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

- IFRIC 13 – Customer Loyalty Programmes

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

2.2. Information regarding seasonality

The production is not seasonal, whereas seasonal character of sales can be noticed in the case of retail sales at a point of coal sale. Sales for individual customers account for 2.0% of the total sales. They do not have any significant impact on the operating and financial activities of the Company.

2.3. Measurement of items expressed in foreign currencies

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

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

2.4. Tangible fixed assets

Tangible fixed assets are the assets:

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

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

As at initial recognition, the acquisition or production cost of tangible fixed assets includes costs of construction of underground tunnels (the so-called main tunnels and operational tunnels) and longwall headings driven in the extraction fields net of revenue from sales of coal mined during construction of such tunnels and headings.

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

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

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

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

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

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

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

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

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

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

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

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

2.5. Intangible fixed assets

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

(b) Computer software

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

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

2.6. Long-term investments

Shares and equity interests in subsidiary and associated undertakings are measured at acquisition cost less impairment charges.

- Gain or loss on sale of investments is calculated by comparing the revenue from sale with their carrying value, and is recognised in the statement of comprehensive income under other finance income / expenses.

2.7. Impairment of non-financial assets

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

2.8. Financial assets

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

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

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

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

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

2.9. Stock

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

2.10. Trade debtors

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

2.11. Cash and cash equivalents

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

2.12. Share capital

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

2.13. Trade creditors

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

2.14. Loans and borrowings

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

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

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

2.15. Current income tax and deferred tax

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

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

2.16. Employee benefits

(a) Retirement and other employee benefits

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

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

As at the balance-sheet date, the Company recognises liabilities under the above stated benefits in the statement of financial standing at the current value of the liability, taking into account the adjustment for unrecognised actuarial gains or losses and costs of past service. The Company's liability under employment benefits is assessed by an independent actuary using the projected unit credit method.

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

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

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

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

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

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

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

(b) Profit-sharing programmes and bonus programmes

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

2.17. Provisions

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

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

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

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

The amounts of provisions are recognised in the present value of expenditures which are expected to be needed to discharge a given obligation. An interest rate is applied before taxation which reflects the current assessment of the market situation with respect to time value of money and risk related to a particular item of liabilities. Increase in provisions due to the passage of time is included in interest expenses. Change in provisions due to revaluation of relevant estimates (discount rate, inflation rate, expected nominal value of expenditures on decommissioning) is recognised as adjustment to the value of tangible fixed assets for which a decommissioning obligation exists.

2.18. Recognition of revenue

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

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

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

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

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

2.19. Leases

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

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

2.20. Dividend payment

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

3. Managing financial risk

3.1. Financial risk factors

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

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

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

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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

	2009	**2008**
Cash in hand and bank deposits	686,590	98,575
Current trade debtors	92,682	104,879
Total exposure to credit risk	779,272	203,454
Receivables from 7 key customers	78,459	99,368
Concentration of credit risk under receivables from 7 key customers	85%	95%
Cash deposited at banks: Bank Millennium S.A., BOŚ S.A., PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	65%	91%
Cash deposited at BRE BANK S.A. (expressed as % of total cash and bank deposits)	30%	-

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

The banks at which the Company places its cash and deposits have been awarded the following ratings (data as at the date of these financial statements):
- Bank Millennium S.A. – long-term Fitch rating: A
- Bank Ochrony Środowiska S.A. – long-term Fitch rating: BBB
- PKO Bank Polski S.A. – Fitch support rating: 2 (no long-term rating was awarded)
- BRE Bank S.A. – long-term Fitch rating: A

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

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

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Balance as at 31 December 2009				
Loans and borrowings	12,175	61,954	218,351	-
Trade creditors and other liabilities	116,116	8,725	9,894	8,776

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Balance as at 31 December 2008				
Loans and borrowings	106,480	-	-	-
Trade creditors and other liabilities	116,006	1,408	4,225	4,225

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

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

The assessment indicates that a 1% increase in the unit price of coal (translating into a 1% increase in revenues from the sale of coal) results in a rise of the result on sales by 4.45%. Similarly, a 1% decrease in the coal price reduces the result on sales by 4.45%. The table below shows changes in the result in other analysed ranges (assuming that other factors remain unchanged).

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in result	-66.78%	-44.52%	-22.26%	-8.90%	-4.45%	0.00%	4.45%	8.90%	22.26%	44.52%	66.78%

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

3.2. Managing capital risk

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

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

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

	31 Dec. 2009	**31 Dec. 2008**
Total loans	250,000	100,000
Net of cash and cash equivalents	(686,590)	(98,575)
Net debt / (liquid assets)	(436,590)	1,425
Total shareholders' equity	1,730,517	1,106,245
Employed capital	1,293,927	1,107,670

4. Material accounting estimates and judgments

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

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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

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

Estimate concerning provision for mining plant decommissioning

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

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

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

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

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

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

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

Retirement benefits

The current value of employee benefits depends on a number of factors which are determined with the use of actuarial methods on the basis of certain assumptions. The assumptions used to determine the provision and expenses related to employee benefits include assumptions concerning discount rates. Key assumptions regarding provisions for employee benefits are presented in Note 18. Any changes to these assumptions affect the carrying value of the provisions for employee benefits.

5. Additional information on adoption of the International Financial Reporting Standards

5.1. Assumptions underlying application of the IFRS

On 1 January 2005, the LW BOGDANKA Group adopted the International Financial Reporting Standards for the first time. The full accounting policies of the LW BOGDANKA Group were published in the annual consolidated financial statements for 2008.

The Company applied the IFRS for the first time in these financial statements. 1 January 2008 is the date of the first-time adoption of the IFRS. On conversion to the IFRS, the same principles and equivalent restatements were adopted by the Company as those used in the preparation of the consolidated financial statements for 1 January 2005.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Changes in shareholders' equity as at 1 January 2008 and 31 December 2008 as well as the financial result for 2008 resulting from the adoption of the IFRS are presented in Note 5.2.

5.2. Differences between the IFRS and the accounting policies applied previously

5.2.1. Differences in capitals

	Note	1 Jan. 2008	31 Dec. 2008 *
Capitals under the Polish Accounting Act		596,031	697,975
Capitalisation of costs related to construction of workings	a)	141,380	148,161
Fair-value measurement of tangible fixed assets	b)	316,277	334,994
Capitalisation of costs of major inspections	c)	13,428	13,282
Cost of wall reinforcement amortised over time	d)	5,268	10,798
Provision for employee benefits	e)	(60,270)	(40,856)
Establishment of provision for unused holidays	f)	427	-
Disclosure of capitalised costs in the statement of comprehensive income	g)	(9,293)	(9,065)
Deferred tax	h)	(72,909)	(82,275)
Provision for a mine closure	j)	22,803	22,877
Recognition of post-balance-sheet events – property tax refunded		-	7,968
Other		665	2,386
Capital in accordance with the IFRS		**953,807**	**1,106,245**

* the year 2008 was the last year for which the Company prepared its financial statements in accordance with the Polish Accounting Act.

5.2.2. Differences in the financial result

	Note	2008 *
Net result in accordance with the Polish Accounting Act		118,370
Reconciliation of capitalised costs related to construction of excavation pits	a)	6,781
Adjustment to fair-value measurement of tangible fixed assets	b)	18,717
Capitalisation of costs of major inspections	c)	(146)
Cost of wall reinforcement amortised over time	d)	5,530
Adjustment to provision for employee benefits	e)	19,414
Adjustment to provision for unused holidays	f)	(427)
Disclosure of capitalised costs in the statement of comprehensive income	g)	(5,194)
Deferred tax	h)	(9,092)
Profit distribution to employees	i)	(5,640)
Provision for a mine closure	j)	74
Recognition of post-balance-sheet events – property tax refunded		7,968
Other		1,721
Net profit in accordance with the IFRS		**158,076**

* the year 2008 was the last year for which the Company prepared its financial statements in accordance with the Polish Accounting Act

(a) Capitalisation of costs related to construction of excavation pits

Capitalisation of costs related to construction of underground development tunnels (the so-called operational tunnels) and long wall headings driven in the extraction fields net of revenue from sale of coal extracted during construction of those tunnels and headings. Under previously applied accounting policies, the costs were charged to the statement of comprehensive income at the time they were incurred.

(b) Fair-value measurement of tangible fixed assets

Treating fair value of selected tangible fixed assets as their acquisition cost in accordance with the principles of IFRS 1, under which an entity may choose to measure items of tangible fixed assets at fair value on transition to IFRS, and may apply fair value as the assumed cost determined as at the transition day. Prior to transition to IFRS, the Company measured tangible fixed assets at acquisition or production cost less depreciation or impairment charges, in accordance with the Polish accounting laws.

(c) Capitalisation of costs related to major inspections

Recognising the cost of regular, major inspections (including certification inspections) which are considered necessary in the value of tangible fixed assets. This method follows from the application of IAS 16. Under the previously applied accounting policies, such cost was disclosed in the statement of comprehensive income at the time it was incurred.

(d) Costs related to wall reinforcement amortised over time

Adjustment resulting from amortisation of costs related to wall reinforcement in accordance with production progress. Under the previously adopted accounting principles, such costs were disclosed in the statement of comprehensive income at the time they were incurred. Under the IFRS, they are capitalised and amortised over time until the estimated discontinuation of coal production from a given coal face.

(e) Adjustment to provision for employee benefits

Adjustment resulting from actuarial valuation of liabilities under employee benefits (severance pays upon retirement due to old age or disability, death benefits, coal allowance benefit) due to a change in the calculation method of the provisions to a method compliant with IAS 19.

(f) Adjustment to provision for unused holidays

Adjustment to provision for unused holidays primarily following from a change in the calculation method of the provision.

(g) Disclosure of capitalised cost in the statement of comprehensive income

Recognition under expenses of these items of assets which, in accordance with the IFRS, do not qualify as assets.

(h) Deferred tax

Effect of adjustments on the carrying value of deferred tax.

(i) Profit distribution to employees

Recognition of costs related to profit distribution to the Company's employees in costs of the period. Under the previously applied accounting policies, the costs were disclosed directly in shareholders' equity.

(j) Provision for a mine closure

Recording a provision for a mine closure, amounting to PLN 54,337,000, had no bearing on the difference between equity under the Polish Accounting Act and equity under the IFRS, because the amount was credited to the value of tangible fixed assets. The amount of PLN 20,015,000 relates to release of the Mine Closure Fund which was charged by the Company to costs pursuant to the Polish regulations applying to companies in the production sector.

5.2.3. Information on key adjustments to the cash flow statement

In connection with the adjustments due to the IFRS described in sections 5.2.1 and 5.2.2, the amounts disclosed in the cash flow statement changed. The most significant adjustments result from the different measurement of tangible fixed assets (including capitalisation of expenditures on construction of mining workings) and presentation of profit distribution to employees in the current year result.

6. Information on business segments

(a) Key reporting structure – industry segments

The Company's core business is production and sale of coal. In 2009, revenue from sales of other products and services amounted to PLN 32,170,000 (in 2008: PLN 29,968,000), representing, respectively, 2.9% in 2009 and 2.92% in 2008 of total sales revenue.

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

(b) Supplementary reporting structure – geographical segments

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

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

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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

7. Tangible fixed assets

	Land	Buildings and structures (including mining excavations)	Plant and equipment	Vehicles	Other tangible fixed assets	Tangible fixed assets in construction	Total
As at 1 January 2008							
Cost or assessed value	1,774	913,020	587,800	80,782	9,563	264,371	1,857,310
Depreciation	-	(401,490)	(302,310)	(32,840)	(5,567)	-	(742,207)
Net book value	1,774	511,530	285,490	47,942	3,996	264,371	1,115,103
As at 31 December 2008							
Net book value at beginning of year	1,774	511,530	285,490	47,942	3,996	264,371	1,115,103
Increases	104	243,081	76,779	6,797	1,463	286,242	614,466
Decreases	-	(29)	-	(14)	-	(301,674)	(301,717)
Depreciation	-	(81,301)	(38,228)	(10,248)	(977)	-	(130,754)
Net book value	**1,878**	**673,281**	**324,041**	**44,477**	**4,482**	**248,939**	**1,297,098**
As at 31 December 2008							
Cost or assessed value	1,878	1,079,475	663,772	87,330	10,925	248,939	2,092,319
Depreciation	-	(406,194)	(339,731)	(42,853)	(6,443)	-	(795,221)
Net book value	1,878	673,281	324,041	44,477	4,482	248,939	1,297,098
As at 1 January 2009							
Cost or assessed value	1,878	1,079,475	663,772	87,330	10,925	248,939	2,092,319
Depreciation	-	(406,194)	(339,731)	(42,853)	(6,443)	-	(795,221)
Net book value	1,878	673,281	324,041	44,477	4,482	248,939	1,297,098
As at 31 December 2009							
Net book value at beginning of year	1,878	673,281	324,041	44,477	4,482	248,939	1,297,098
Increases	1,004	248,924	70,713	8,834	1,117	369,434	700,026
Decreases*	-	(6,326)	(2,063)	(107)	(4)	(330,810)	(339,310)
Depreciation	-	(86,272)	(39,645)	(9,000)	(1,089)	-	(136,006)
Net book value	**2,882**	**829,607**	**353,046**	**44,204**	**4,506**	**287,563**	**1,521,808**
As at 31 December 2009							
Cost or assessed value	2,882	1,341,306	717,004	92,504	11,804	287,563	2,453,063
Depreciation	-	(511,699)	(363,958)	(48,300)	(7,298)	-	(931,255)
Net book value	2,882	829,607	353,046	44,204	4,506	287,563	1,521,808

* the item includes write-offs revaluating tangible fixed assets

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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

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

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

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

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

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

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

	2009	**2008**
Costs of products, goods and materials sold	(130,036)	(127,420)
Cost of sales	(299)	(170)
Administrative costs	(5,671)	(3,164)
	(136,006)	**(130,754)**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

8. Intangible fixed assets

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 January 2008					
Cost or assessed value	2,412	607	10,789	9	13,817
Amortisation	(790)	(544)	(1,079)	(7)	(2,420)
Net book value	1,622	63	9,710	2	11,397
As at 31 December 2008					
Net book value at beginning of year	1,622	63	9,710	2	11,397
Increases	385	255	-	14	654
Amortisation	(918)	(100)	(948)	(2)	(1,968)
Net book value	**1,089**	**218**	**8,762**	**14**	**10,083**
As at 31 December 2008					
Cost or assessed value	2,797	862	10,789	23	14,471
Amortisation	(1,708)	(644)	(2,027)	(9)	(4,388)
Net book value	1,089	218	8,762	14	10,083
As at 1 January 2009					
Cost or assessed value	2,797	862	10,789	23	14,388
Amortisation	(1,708)	(644)	(2,027)	(9)	(4,305)
Net book value	1,089	218	8,762	14	10,083
As at 31 December 2009					
Net book value at beginning of year	1,089	218	8,762	14	10,083
Increases	807	3,437	-	19	4,263
Amortisation	(885)	(100)	(1,275)	(2)	(2,262)
Net book value	**1,011**	**3,555**	**7,487**	**31**	**12,084**
As at 31 December 2009					
Cost or assessed value	3,604	4,299	10,789	42	18,734
Amortisation	(2,593)	(744)	(3,302)	(11)	(6,650)
Net book value	1,011	3,555	7,487	31	12,084

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

	2009	**2008**
Costs of products, goods and materials sold	(2,163)	(1,867)
Cost of sales	(5)	(5)
Administrative costs	(94)	(96)
	(2,262)	**(1,968)**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

9. Long-term investments

	Shares in limited liability companies	Shares in joint stock companies	Total
As at 31 December 2007			
Net book value	73,341	420	73,761
As at 31 December 2008			
Net book value	73,341	420	73,761
As at 31 December 2009			
Net book value at beginning of year	73,341	420	76,761
Decreases	-	(420)	(420)
Net book value	**73,341**	**-**	**73,341**

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

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

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

The Company's shares in the subsidiary are not listed on the stock exchange. Shares in the aggregate assets, liabilities, revenue and profits:

Name of the undertaking	Registration country	Assets	Liabilities	Revenue	Profit/ (Loss) net	Shares held (%)
2008						
Łęczyńska Energetyka Sp. z o.o. in Bogdanka	Poland	87,294	4,381	21,081	2,063	88.70
2009						
Łęczyńska Energetyka Sp. z o.o. in Bogdanka	Poland	85,992	4,896	23,130	(1,255)	88.70

Shares and voting rights held remained on the same level in the period under analysis. The value of assets, liabilities and revenue in 2008-2009 is comparable. The loss for 2009 results from making a revaluation write-off for the impairment of value of OW Kalnica.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

10. Financial instruments by type

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

	Loans and accounts receivable	**Total**
31 December 2009		
Assets as disclosed in the Statement of financial standing		
Trade debtors	92,682	92,682
Cash and cash equivalents	686,590	686,590
Total	**779,272**	**779,272**

	Other financial liabilities	**Total**
Liabilities as disclosed in the Statement of financial standing		
Loans and borrowings	250,000	250,000
Trade creditors and other financial liabilities	100,931	100,931
Total	**350,931**	**350,931**

Interest and commissions paid	
Interest	9,237
Fees and commissions	777
Total	**10,014**

	Loans and accounts receivable	**Total**
31 December 2008		
Assets as disclosed in the Statement of financial standing		
Trade debtors	104,879	104,879
Cash and cash equivalents	98,575	98,575
Total	**203,454**	**203,454**

	Other financial liabilities	**Total**
Statement of financial standing		
Loans and borrowings	100,000	100,000
Trade creditors and other financial liabilities	72,124	72,124
Total	**172,124**	**172,124**

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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

	Loans and accounts receivable	Total
31 December 2007		
Assets as disclosed in the Statement of financial standing		
Trade debtors	87,457	87,457
Cash and cash equivalents	44,885	44,885
Total	**132,342**	**132,342**

	Other financial liabilities	Total
Liabilities as disclosed in the Statement of financial standing		
Loans and borrowings	50,000	50,000
Trade creditors and other financial liabilities	164,219	164,219
Total	**214,219**	**214,219**

10.1. Trade debtors and other receivables

	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Trade debtors	98,961	112,362	90,824
Less: write-off revaluating accounts receivable	(6,279)	(7,483)	(3,367)
Net trade debtors	**92,682**	**104,879**	**87,457**
Prepayments	11,268	14,535	6,408
Other accounts receivable	9,769	12,123	5,528
short-term	**113,719**	**131,537**	**99,393**
Prepayments	-	418	58
Other accounts receivable	-	-	-
long-term	**-**	**418**	**58**
Total trade debtors and other receivables	**113,719**	**131,955**	**99,451**

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

All receivables of the Company are expressed in PLN.

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

	2009	2008
As at 1 January	**7,483**	**3,367**
Creating a write-off	2,562	6,938
Receivables written down during the year as uncollectible	(6)	(182)
Reversal of unused amounts	(3,760)	(2,640)
As at 31 December	**6,279**	**7,483**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

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

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

	31 Dec. 2009	31 Dec. 2008
Up to 1 month inclusive	5,435	6,633
1 to 3 months	-	69
3 to 6 months	69	38
6 to 12 months	38	-
Above 12 months	737	743
	6,279	**7,483**

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

	31 Dec. 2009	31 Dec. 2008
Up to 1 month inclusive	2,057	4,068
1 to 3 months	32	135
3 to 6 months	41	323
6 to 12 months	202	2
Above 12 months	35	-
	2,367	**4,528**

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

11. Stocks

	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Materials	31,042	28,855	30,690
Production in progress	615	770	-
Write-off for revaluating to the sale price, likely to achieve, of the production in progress	(63)	(129)	-
Finished goods	18,529	4,728	9,900
Write-off for revaluating to the sale price, likely to achieve, of the finished goods	(900)	(709)	-
	49,223	**33,515**	**40,590**

Write-offs revaluating the value of stock was presented in the Statement of comprehensive income in the 'other net profit / (loss)' item.
Cost of stock disclosed under 'Cost of products, goods and materials sold' amounted to PLN 755,201,000 in 2009 (2008: PLN 724,467,000).

12. Cash and cash equivalents

	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Cash in banks and at hand	158,461	4,059	5,754
Short-term bank deposits	528,129	94,516	39,131
	686,590	**98,575**	**44,885**
including:			
Long-term *	46,158	41,073	36,257
Short-term	640,432	57,502	8,628
	686,590	**98,575**	**44,885**

* cash with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 46,158,000 as at 31 December 2009, (2008: PLN 41,073,000) and primarily comprises the funds deposited in the **Mine Closure Fund** for the coverage of the costs of liquidation of a mine plant.

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

2009 – 3.5% - 5.6%
2008 – 5.4% - 6.6%

13. Share capital

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

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

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

On 22 June 2009, pursuant to the decision of the Polish Financial Supervision Authority, Series A and C Shares and Rights to Series C Shares were admitted to public trading on the WSE main market. On 25 June 2009, the Company made its debut on the WSE by introducing Rights to Series C Shares to trading. The issue price of Series C Shares was PLN 48.00 and the value of the public offering was PLN 528 million. The above amount was reduced by the costs of carrying out the offering and disclosed as a capital increase in July 2009. The value of the share issue costs, which reduced the value of other capitals, amounted to PLN 6,949,000.

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

The share capital of the Company was increased by means of an issue of 11 million shares with a value of PLN 55 million and currently amounts to PLN 170,068,000 (PLN 301,158,000 after hyperinflation revaluation). The increase in the share capital was registered on 10 July 2009 by the District Court in Lublin, XI Commercial Division of the National Court Register.

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

14. Other capitals

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

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

15. Trade creditors and other liabilities

	31 Dec. 2009	**31 Dec. 2008**	**31 Dec. 2007**
Trade creditors	62,612	49,450	49,949
Accruals	26,338	25,520	20,802
Other liabilities, including:	51,611	47,884	69,855
the Company Social Benefits Fund,	4,772	5,155	6,261
Liabilities due security deposit	3,047	2,634	3,129
Investment liabilities	35,272	20,040	38,719
Other liabilities	8,520	20,055	21,746
Total financial obligations	140,561	122,854	140,606
Non-financial liabilities – social security and other tax payable	27,549	32,169	23,613
Trade creditors and other liabilities	**168,110**	**155,023**	**164,219**
including:			
Long-term	7,834	9,622	7,877
Short-term	160,276	145,401	156,342
	168,110	**155,023**	**164,219**

16. Loans and borrowings

	31 Dec. 2009	**31 Dec. 2008**	**31 Dec. 2007**
Long-term:			
Bank loans	250,000	-	30,000
Short-term:			
Working capital bank loans	-	100,000	20,000
	250,000	**100,000**	**50,000**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

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

The Company takes out loans in PLN.

The Company has the following unused credit lines:

	31 Dec. 2009	**31 Dec. 2008**	**31 Dec. 2007**
with a variable interest rate:			
- expiring within one year	-	60,000	25,000
	-	60,000	25,000

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

17. Deferred income tax

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

	31 Dec. 2009	**31 Dec. 2008**	**31 Dec. 2007**
Deferred income tax assets			
- to be realised after 12 months	35,363	28,916	19,654
- to be realised within 12 months	2,097	8,840	10,035
	37,460	37,756	29,689
Deferred income tax liabilities			
- to be realised after 12 months	95,127	92,354	85,974
- to be realised within 12 months	2,236	3,720	6,872
	97,363	96,074	92,846
Deferred income tax liabilities (net)	**59,903**	**58,318**	**63,157**

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

Deferred income tax assets	**Employee benefits and similar liabilities**	**Unpaid remuneration and other benefits**	**Provision for real property tax**	**Other**	**Total**
As at 1 January 2008	18,646	7,549	-	3,494	29,689
Decrease/(increase) of the financial result	4,235	(113)	6,145	(2,200)	8,067
As at 31 December 2008	22,881	7,436	6,145	1,294	37,756
Decrease/(increase) of the financial result	739	(5,519)	1,355	3,129	(296)
As at 31 December 2009	23,620	1,917	7,500	4,425	37,460

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

Deferred income tax liabilities	**Valuation of fixed assets**	**Costs of panel strengthening**	**Provision of r liquidation of a mining plant**	**Other**	**Total**
As at 1 January 2008	86,011	1,001	5,349	485	92,846
Decrease/(increase) of the financial result	2,331	1,051	17	(171)	3,228
As at 31 December 2008	88,342	2,052	5,366	314	96,074
Decrease/(increase) of the financial result	1,772	(130)	(353)	-	1,289
As at 31 December 2009	90,114	1,922	5,013	314	97,363

18. Employee benefits liabilities

	31 Dec. 2009	**31 Dec. 2008**	**31 Dec. 2007**
Liabilities as disclosed in the Statement of financial standing			
- Retirement and disability benefits	28,741	29,825	24,052
- Long service awards	37,712	33,998	33,151
- Coal allowances in kind	52,705	54,690	40,856
- Other benefits for employees	5,156	1,335	1,939
	124,314	**119,848**	**99,998**

	2009	**2008**
Costs as disclosed in the Statement of comprehensive income		
- Retirement and disability benefits	727	8,361
- Long service awards	11,427	8,774
- Coal allowances in kind	299	15,346
- Other benefits for employees	4,054	(256)
	16,507	**32,225**

Amounts disclosed in the Statement of comprehensive income are as follows:

	2009	**2008**
Liabilities at the beginning of period	119,848	100,040
Costs of current employment	8,378	4,419
Interest expense	6,394	5,762
Costs of past employment	-	-
Actuarial losses / (profits)	1,735	22,044
Disclosed in total in the employee benefits costs	**16,507**	**32,225**
Benefits paid	(12,041)	(12,417)
Liabilities at end of period	**124,314**	**119,848**
including:		
- long-term	97,976	100,971
- short-term	26,338	18,877

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

	Benefits during employment	**Post-employment benefits**	**Total**
Liabilities at the beginning of period	35,333	84,515	119,848
Costs of current employment	6,357	2,021	8,378
Interest expense	1,803	4,591	6,394
Costs of past employment	-	-	-
Actuarial losses / (profits)	7,319	(5,584)	1,735
Disclosed in total in the employee benefits costs	**15,479**	**1,028**	**16,507**

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

	Benefits during employment	**Post-employment benefits**	**Total**
Liabilities at the beginning of period	35,090	64,950	100,040
Costs of current employment	2,905	1,514	4,419
Interest expense	1,944	3,818	5,762
Costs of past employment	-	-	-
Actuarial losses / (profits)	3,668	18,376	22,044
Disclosed in total in the employee benefits costs	**8,517**	**23,708**	**32,225**

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

	2009	**2008**
Costs of products, goods and materials sold	15,074	30,614
Cost of sales	93	96
Administrative costs	1,340	1,515
Disclosed in total in the employee benefits costs	**16,507**	**32,225**

Main actuarial assumptions made:

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

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

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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

19. Provisions for other liabilities and charges

	Liquidation of a mining plant	Mining damage	Legal claims	Total
As at 1 January 2008	**44,300**	**-**	**6,136**	**50,436**
Including:				
Long-term	44,300	-	-	44,300
Short-term	-	-	6,136	6,136
Recognition in the total income statement				
- Creation of additional provisions	6,840	-	36,304	43,144
- Release of an unused provision	-	-	(1,796)	(1,796)
- Interest	-	-	11,257	11,257
- Discount settlement	3,197	-	-	3,197
As at 31 December 2008	**54,337**	**-**	**51,901**	**106,238**
Including:				
Long-term	54,337	-	-	54,337
Short-term	-	-	51,901	51,901
Recognition in the total income statement				
- Creation of additional provisions	5,784	6,680	15,332	27,796
- Release of an unused provision	-	-	(18,357)	(18,357)
- Interest	-	-	8,040	8,040
- Discount settlement	2,958	-	-	2,958
As at 31 December 2009	**63,079**	**6,680**	**56,916**	**126,675**
Including:				
Long-term	63,079	-	-	63,079
Short-term	-	6,680	56,916	63,596

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

(a) Liquidation of mines and removal of mining damage

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

(b) Legal claims

The amounts disclosed constitute:

- a provision for certain legal claims filed against the Company by customers and suppliers. The amount of the provision is disclosed in the Statement of comprehensive income as administrative expenses. In the Management Board's opinion, supported by an appropriate legal opinion, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 31 December 2009.
- a provision for real property tax. While preparing statements for real property tax, the Company (like other mining companies in Poland) does not take into account the value of buildings and

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

equipment located in mining excavations for the purpose of calculating this tax. By the decision of 30 May 2008, the Administrator of Puchaczów Commune stated that tax arrears for 2003 on this account amounted to PLN 6,965,000, which was paid by the Company. The amount of tax arrears was calculated based on the assumption that most building structures entered in the fixed assets register maintained for tax purposes as type 200 (construction for mining and extraction) in group 2 (land and water engineering structures) are taxable, although according to recent developments in case law only buildings and equipment located in mining excavations should be subject to taxation, while the excavation itself, understood as "space in a land property or in a rock mass created as a result of mining works" should not be subject to taxation. In 2008, the Company paid a total of PLN 7,968,000 of tax with interest to the Communes of Cyców and Puchaczów. On 24 February 2009 and 17 March 2009 the Local Government Appellate Court in Lublin issued final decisions concerning liabilities on the account of real property tax related to mining excavations for 2003 in the Communes of Cyców and Puchaczów, ruling that the amounts of the tax together with interest paid by the Company to these communes in 2008 should be returned. Although the paid amounts concerning 2003 were returned, the Communes of Cyców and Puchaczów filed complaints to the District Prosecutor in Włodawa and District Prosecutor in Lublin, respectively. As a result, the Provincial Administrative Court in Lublin overturned the decision of the Local Government Appellate Court with respect to the Commune of Puchaczów and suspended the proceedings regarding the real property tax for 2003 with respect to the Commune of Cyców until the Constitutional Tribunal issues decision on Polskie Sieci Elektroenergetyczne S.A. and replies the question posed by the Provincial Administrative Court in Gliwice. In 2009, the communes where the Company extracts coal conducted clarification proceedings regarding mining pits released for mining in 2004. Proceedings to determine the amount of property tax liability for 2004 we completed with the issuance of decisions by the Head of the Puchaczów commune and the Head of the Cyców commune on 30 November 2009. The decisions are immediately enforceable as of 2 December 2009. Under the writs of enforcements, on 22 December 2009 the total of PLN 7,190,200 was remitted to the account of the Lubelski Tax Office. The amount comprised: real property tax of PLN 4,973,800, interest of PLN 1,746,000 and enforcement costs of PLN 470,400.

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

20. Revenue on sales

	2009	**2008**
Sales of coal	1,078,681	996,249
Sales of ceramics	8,528	2,501
Other activities	15,095	19,087
Sales of goods and materials	8,547	8,380
Total revenue on sales	**1,110,851**	**1,026,217**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

21. Costs by type

	2009	**2008**
Amortisation/depreciation	138,268	132,722
Materials and energy used	325,026	215,882
Contracted services	201,215	166,247
Employee benefits	398,189	332,361
Entertainment and advertising expenses	9,110	8,407
Taxes and charges	19,784	20,563
Other costs by type	30,646	14,664
Total costs by type	**1,122,238**	**890,846**
Cost of sales	(41,652)	(40,336)
Administrative costs	(64,485)	(49,843)
Activities for the Company's own needs	(259,057)	(94,610)
Change in products	(9,962)	9,763
Cost of products sold	**747,082**	**715,820**
Value of goods and materials sold	8,119	7,810
Costs of products, goods and materials sold	**755,201**	**723,630**

22. Other income

	2009	**2008**
Compensations and damages received	1,657	741
Other, including release of other provisions for liabilities	4,373	914
Total other income	**6,030**	**1,655**

23. Other expenses

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

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

24. Other profits/(losses) - net

	2009	2008
Profit / (loss) on sale of tangible fixed assets	1,811	203
Result from settlement of the results of fortuitous events	-	1,045
Currency exchange differences	(696)	(1,758)
Revaluation of stock	(963)	(838)
Other	(22,754)	(957)
of which:		
- Creating revaluation write-offs for tangible fixed assets	(7,190)	-
- Creating provision for mining damage	(6,680)	-
Total other profits/(losses) - net	**(22,602)**	**(2,305)**

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

25. Financial income and expenses

	2009	2008
Interest income on short-term bank deposits	14,747	5,437
Other	1,255	50
Total financial income	**16,002**	**5,487**
Interest expenses:		
- bank loans	(3,332)	(5,547)
- settlement of discount on long-term provisions	(2,958)	(3,197)
Fees and commissions	(777)	(310)
Total financial expenses	**(7,067)**	**(9,054)**
Net financial income/expenses	**8,935**	**(3,567)**

26. Income tax

	2009	2008
Current tax	46,098	45,881
Deferred tax	1,585	527
	47,683	**46,408**

Income tax on the gross profit before taxation differs from the theoretical amount which would be obtained if the rate of 19% was applied, as follows:

	2009	**2008**
Profit before taxation	239,736	204,484
Tax calculated at the rate of 19%	45,550	38,852
Non-taxable income	(21,212)	(410)
Costs not carried as costs of sales	23,345	7,966
Decrease in financial result by the income tax	**47,683**	**46,408**

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

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

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

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

27. Earnings per share

(a) Basic
Basic earnings per share are calculated as the quotient of the profit attributable to the Company's shareholders and the weighted average number of ordinary shares during the year.

	2009	**2008**
Earnings attributable to the Company's shareholders	192,053	158,076
Weighted average number of ordinary shares ('000)	28,830	23,014
Basic earnings per share (in PLN per share)	**6.66**	**6.87**

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

28. Dividend per share

(a) Basic

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

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

(b) Diluted

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

29. Net operating cash inflow

	2009	**2008**
Profit before taxation	239,736	204,484
- Depreciation of tangible fixed assets (note 7)	136,006	130,754
- Amortisation of intangible fixed assets (note 8)	2,262	1,968
- (Profit)/Loss on sale of tangible fixed assets (see below)	1,811	(203)
- Net financial expenses (note 25)	(8,935)	3,567
- Change in employee benefits liabilities (note 18)	4,466	19,808
- Changes in provisions (note 19)	20,437	55,802
- Other flows	317	(2,723)
- Creating revaluation write-offs		
Tangible fixed assets	7,190	-
- Stocks	(15,708)	7,075
- Trade debtors and other receivables	18,236	(32,136)
- Trade creditors and other liabilities	12,266	4,825
Operating cash inflow	**418,085**	**393,221**
Balance-sheet change in accounts receivable	(18,236)	32,143
Change in accrued interest	-	(7)
Change in accounts receivable for the purposes of the cash flow statement	**(18,236)**	**32,136**
Balance-sheet change in liabilities	13,087	(9,196)
Change in investment liabilities	821	(14,021)
Change in liabilities for the purposes of the cash flow statement	**12,266**	**4,825**
Increase in tangible fixed assets	369,216	312,792
Capitalised borrowing costs	(9,353)	-
Adjustment by income on temporary investments of cash	6,852	-
Change in investment liabilities	(821)	14,021
Acquisition of tangible fixed assets	**365,894**	**326,813**

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

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

30. Contingent items

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

No significant liabilities are expected to arise on account of these contingent liabilities, apart from those for which provisions were created (Note 19).

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

31. Future contingent liabilities

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

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

32. Transactions with related entities

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

The revenue of the Company resulting from the cooperation with its subsidiary, Łęczyńska Energetyka, primarily refer to the sale of coal and brick as well as the payments for lease of premises, telecommunications services and re-invoicing the cost of electricity.
Purchases primarily include the purchase of heat power, potable water and the maintenance services for sewage installations, central heating, tailwater and water grid.

In years ending on 31 December 2008 and 2009, the value of turnover on account of purchase with the subsidiary Łęczyńska Energetyka Sp. z o.o. in Bogdanka and the total liabilities of the Company towards that related entity for subsequent balance-sheet dates were as follows:

	31 Dec. 2009	**31 Dec. 2008**
Purchases in period	9,353	10,202
Total liabilities at end of period including VAT	1,355	1,158

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

In the years ending on 31 December 2008 and 2009, the value of turnover on account of sales with the subsidiary Łęczyńska Energetyka Sp. z o.o. in Bogdanka and the total receivables of the Company towards that related entity for subsequent balance-sheet dates were as follows:

	31 Dec. 2009	**31 Dec. 2008**
Sales in period	9,475	6,646
Total receivables at end of period including VAT	1,681	1,142

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

Information on transactions with undertakings related to the State Treasury

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

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

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

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

(*) including VAT

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

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

(*) including VAT

(All amounts in tables are expressed in PLN '000 unless stated otherwise)

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

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

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

33. Instability of the markets in Poland and worldwide

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

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

34. Events after the balance-sheet date

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

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

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

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

35. Approval of the financial statements

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

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	....