LUBELSKI WĘGIEL „BOGDANKA" SPÓŁKA AKCYJNA

DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2009 to 31 December 2009

BOGDANKA, MARCH 2010

TABLE OF CONTENTS

1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure and changes in the structure of the Lubelski Węgiel BOGDANKA Group

As at 31 December 2009, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", "LW BOGDANKA Capital Group", or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the Parent Undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka"; "subsidiary undertaking") as the subsidiary undertaking.

The affiliated undertaking is EKSPERT Sp. z o.o. held in 50% by Łęczyńska Energetyka Sp. z o.o.

As at the date of submitting this Report (22 March 2010), LW BOGDANKA S.A. also held 24.41% of the shares of the bankrupt company Kolejowe Zakłady Maszyn KOLZAM S.A., with a total par value of PLN 168,050.00. The ownership title to the shares was transferred to the Company as security for settlements for performing transportation services. That company has not been included in the consolidation.

Until 14 December 2009 the Company held 35% of shares in Górnik Łęczna S.A., whose business includes activities connected with sport, services, education and industrial processing.

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

On 27 November 2009 the Management Board of LW Bogdanka S.A. ordered a valuation of the shares of Górnik Łęczna S.A. The sales offer of 420 shares in Górnik, which were held by Lubelski Węgiel BOGDANKA S.A., was submitted to all shareholders of Górnik Łęczna S.A.

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

1.2 Information on the undertakings of the LW BOGDANKA Group:

1.2.1 The Parent Undertaking of the Lubelski Węgiel BOGDANKA Group

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

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

Business activities:

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

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

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

The Company's supplementary activities

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

1.2.2 Subsidiary undertaking and affiliated undertaking

ŁĘCZYŃSKA ENERGETYKA Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	(81) 443 11 02, (81) 462 55 53
Fax:	(81) 443 11 01
Website:	www.lebog.com.pl
e-mail:	biuro@lebog.com.pl
industry identification number (REGON):	004164490
tax registration number (NIP):	713-020-71-92

Share capital (as at 30 September 2009): PLN 82,677,000.00, divided into 82,677 shares of PLN 1,000.

Shareholding structure:

- 88.697% LW BOGDANKA S.A.
- 11.297 % Łęczna Municipality
- 0.006 % Puchaczów Municipality.

The business activities of Łęczyńska Energetyka Sp. z o.o. are: producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations.

Łęczyńska Energetyka Sp. z o.o. provides services to mines involving supplying heat energy and conducts water/wastewater management.

Łęczyńska Energetyka sp. z o.o. was established on 28 May 1990.

The Company was entered into the Commercial Register, Section B, under No. 1823 by the District Court in Lublin, XI Commercial Division, on 15 June 1990. The Company launched its business activity on 1 July 1990 under the business name of KOBO Sp. z o.o., taking over the operations of the mine's Power-Engineering Division in terms of heat energy production in Bogdanka's boiler house and the transmission and distribution of heat energy to customers in Bogdanka, Nadrybie and Stefanów, as well as the town of Łęczna.

As of 1 June 1992 the Company took over the operations of the Water and Wastewater Division.

In 1994-1999 the Company expanded its heat production and distribution operations to include local heat generation plants in Zawadów, Łęczna and Ostrów Lubelski.

As of 2 January 2000 the Company has also provided accommodation and catering services at Kalnica resort.

On 1 February 2001 the Łęczna Municipality made an in-kind contribution to the Company in the form of former ZEC Łęczna's assets in exchange for shares accounting for 23.33% of the Company's increased share capital.

Since 17 April 2001 the Company has operated under the business name of Łęczyńska Energetyka Sp. z o.o. in Bogdanka.

By virtue of Resolution No. 19 of 7 December 2004, the Extraordinary Shareholders Meeting increased the Company's share capital by PLN 40,000,000 by creating 40,000 new shares with par value of PLN 1,000 each. All shares were taken up by Lubelski Węgiel Bogdanka S.A. (by a notarial deed Rep. No. 6026/2004) on 9 December 2004 and fully paid up in cash on 16 December 2004.

By virtue of Resolution No. 1 of 27 July 2006, the Extraordinary Shareholders Meeting increased the Company's share capital by PLN 2,618,000. The shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. No. 3148/2006) on 30 August 2006 in exchange for an in-kind contribution in the form of the right to perpetual usufruct of land and fixed assets to the total market value of PLN 2,618,477.00.

The current share of the Company in the subsidiary's share capital stands at 88.70%

<u>Affiliated undertaking</u>:

EKSPERT Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	(81) 462 20 62
Fax:	(81) 462 20 62
Website:	-
e-mail:	wkekspert@wp.pl
industry identification number (REGON):	432693862
tax registration number (NIP):	505-000-15-99

Share capital (as at 30 June 2009): PLN 50.000,00, divided into 100 shares of PLN 500. The share of Łęczyńska Energetyka Sp. z o.o. in the share capital and votes at the Shareholders Meeting accounts for 50%.

EKSPERT Sp. z o.o.'s business activities involve manufacturing metal constructions and activities involving preparing technical and structural/technological documentation.

1.3 Organisational and capital affiliations of the Group

Łęczyńska Energetyka holds 50 % of the shares in the share capital of EKSPERT sp. z o.o.

1.4 Management system at LW BOGDANKA S.A. and its Capital Group

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

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

The Company's corporate bodies are:

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

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

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

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

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

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

1.4.1 Changes in basic principles of management of LW BOGDANKA S.A. and its Capital Group

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

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

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

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

1.5 Information on branches (establishments) held by the Group's undertakings

Lubelski Węgiel BOGDANKA and its subsidiary do not have any branches (establishments).

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

2.1 Trade agreements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Agreement provides for the following liquidated damages:

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

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

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

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

The Agreement provides for the following liquidated damages:

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

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

2.2 Agreements related to achieving issue objectives

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

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

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

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

The Agreement provides for the following liquidated damages:

- The Contractor agrees to pay to the Client liquidated damages for any delay in the performance of the Subject of the Agreement, caused by any fault of the Contractor, in the amount of 0.05% of the net value of the maximum remuneration per each day of delay;
- In the event of a termination of the agreement by the Client due to reasons attributable to the Contractor, the Client shall be entitled to charge the Contractor with liquidated damages in the amount of 10% of the net value of the maximum remuneration.
- The Contractor agrees to pay the Client liquidated damages for delays caused by reasons attributable to the Contractor, for delays in remedying Faults discovered during the Technical Acceptance of the Facilities or upon Final Acceptance of the Subject of the Agreement or during the warranty period – in the amount of 0.02% of the net value of the maximum remuneration, per each commenced day of delay with respect to the dates of remedying the Faults, as set out in the Agreement or defined by the Client pursuant to the agreement.
- In the event of termination of the agreement by the Contractor for reasons attributable to the Client, the Contractor shall be entitled to charge the Client with the liquidated damages in the amount of 10% of the net value of the maximum remuneration.
- In the event that the incurred damage exceeds the value of the liquidated damages and in other cases of non-performance or undue performance of the agreement, the Parties may seek redress on general terms resulting from the Civil Code. The Client is entitled to concurrently demand liquidated damages specified in sections in sections 1 – 3.

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

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

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

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

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

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

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

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

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

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

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

The Agreement provides for the following liquidated damages:

1. a) Due to delay in performance of the subject matter of the agreement with respect to the time limit specified in the agreement - liquidated damages in the amount of 0.05% of the net value of the maximum remuneration due for the performance of the subject matter of the agreement, for each commenced day of delay,
   b) Due to delay in liquidation of defects found during the acceptance procedure or within the warranty period, with respect to the time limit specified by the Client - liquidated damages in the amount of 0.05% of the net value of the maximum remuneration due for the performance of the subject of the agreement, for each commenced day of delay,
   c) Due to the termination of the agreement by the Client for reasons attributable to the Contractor - liquidated damages in the amount of 10% of the net value of the maximum remuneration due for the performance of the subject matter of the agreement,
2. Due to the termination of the agreement by the Contractor for reasons attributable to the Client, the Contractor shall be entitled to charge the Client with the liquidated damages in the amount of 10% of the net value of the maximum remuneration due for the performance of the subject matter of the agreement.
3. In the event that the incurred damage exceeds the value of the liquidated damages and in other cases of non-performance or undue performance of the agreement, the Parties may seek redress on general terms resulting from the Civil Code, including the redress transferring the amount of the reserved liquidated damages. The Client is entitled to concurrently demand liquidated damages specified in section 1 item a), b), and c). Termination of the agreement by any of the Parties shall not deprive the Client of the right to charge the Contractor with liquidated damages on the grounds stated above.
4. Reservation and charging the liquidated damages does not exclude the possibility of terminating the agreement by the Client due to the untimely performance thereof on terms and conditions provided for in the agreement and the Civil Code.

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

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

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

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

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

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

2.4 Transactions with related entities

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

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

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

Information on transactions concluded by LW BOGDANKA with related entities of the State Treasury is provided in section 31 of the Annual Consolidated Financial Statements of the LW BOGDANKA Group for 2009.

3. FINANCIAL STANDING OF LW BOGDANKA S.A.

3.1 Basis of preparation of the Annual Consolidated Financial Statements

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

The consolidated annual financial statements of the LW BOGDANKA Group for the financial year from 1 January to 31 December 2009 (the "Annual Consolidated Financial Statements") were prepared according to the historical cost principle, including the valuation at fair value of certain components of tangible fixed assets in connection with assuming fair value as a presumed cost, which was carried out as at the day of the Group's transition to the IFRS, i.e. 1 January 2005.

3.2 Selected financial information concerning the Capital Group

Table No. 1 Selected financial information of the LW BOGDANKA Group (in PLN '000 unless indicated otherwise)

Item	2009	2008	Change (%) (2009/2008)
Revenue on sales	1,118,393	1,033,275	8.24%
Gross profit	357,460	305,411	17.04%
EBITDA	367,988	339,639	8.35%
EBIT (Operating profit)	226,710	203,457	11.43%
Profit before taxation	237,835	201,907	17.79%
Net profit for the financial year	190,842	155,791	22.50%

Table No. 2

Item	2009	2008	Change (%) (2009/2008)
Net operating cash flow	365,586	333,795	9.52%
Net investing cash flow	-365,932	-326,530	12.07%
Inflows	16,952	7,071	139.74%
Outflows	-382,884	-333,601	14.77%
Net financing cash flow	582,131	44,110	1,219.73%
Inflows	701,051	70,000	901.50%
Outflows	-118,920	-25,890	359.33%

Table No. 3

Item	31 Dec. 2009	31 Dec. 2008	Change (%) (2009/2008)
Total assets	2,469,814	1,657,430	49.01%
Tangible fixed assets	1,558,727	1,333,959	16.85%
Current assets. including:	852,286	271,397	214.04%
Stocks	50,382	35,055	43.72%
Trade debtors and other receivables	117,491	135,783	-13.47%
Overpaid income tax	2,754	685	302.04%
Cash and cash equivalents	681,659	99,874	582.52%
Total liabilities	730,917	541,682	34.93%
Provisions for liabilities	126,675	106,285	19.18%
Long-term liabilities (excluding provisions)	414,700	168,517	146.09%
including credit facilities and long-term loans	250,000		-
Short-term liabilities (excluding provisions)	189,542	266,880	-28.98%
including credit facilities and short-term loans		100,000	*-100.00%*
Shareholders' equity	1,738,897	1,115,748	55.85%
Share capital	301,158	246,158	22.34%
Weighted average number of ordinary shares ('000)*	28,830	23,014	25.27%
Net earnings attributable to shareholders of the Parent Undertaking (PLN per share)	6.62	6.77	-2.2%

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

3.3 Current economic and financial situation of the LW BOGDANKA Group with the assessment of financial resources management

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

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

Currently there are no liquidity or limited solvency threats for the Group.

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

3.3.1 The Group's revenue on sales, information on basic products and sales markets

In 2009, the Group's revenue on sales was higher by 8.24% than revenue on sales achieved in 2008. The recorded growth in the revenue on sales was attributable to an increase in revenue in three out of four defined groups/types of activity. The most important revenue on coal sales has increased by 8.27% in comparison to the analogous period in 2008.

The increase in revenue on coal sales is a result of higher unit prices of coal at the beginning of 2009. The growth in sales of ceramics was the strongest as compared to the analogous period of the previous year and amounted to as much as 240.98%. It was a consequence of a low comparability base of 2008, as no production and sales were effected in that period, which resulted from fire of the Construction Ceramics Plant in September 2007. The revenue on sale of goods and materials has increased by 3.46%.

The main source of the Group's revenue on sales in 2009 (and 2008) was the production and sale of power coal. From 1 January 2009 and 31 December 2009, those activities generated 96.45% of the revenue on sales generated by the LW BOGDANKA Group (compared to 96.42% in the same period of 2008). Most (approx. 85%) coal sales in the above-mentioned period (as well as in the same period of the previous year) were carried out on the basis of long-term commercial contracts with regular key customers of the Parent Undertaking (primarily Elektrownia Kozienice S.A., GDF Suez Energia S.A. [former Elektrownia Połaniec S.A.], Zakłady Azotowe Puławy S.A. and Elektrownia Ostrołęka S.A.).

The share of other fields of the Group's activity, including the activity of the subsidiary – Łęczyńska Energetyka Sp. z o.o. in Bogdanka, in the Group's revenue on sales was 3.55% in 2009 and 3.58% during the four quarters of 2008.

Table No. 4 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group (PLN '000)

Item	2009	2008	Change (%) (2009 / 2008)
Sales of coal	1,078,681	996,249	8.27%
Sales of ceramics	8,528	2,501	240.98%
Other activities	22,514	26,145	-13.89%
Sales of goods and materials	8,670	8,380	3.46%
Total revenue on sales	**1,118,393**	**1,033,275**	**8.24%**

Table No. 5 Structure by type of revenue on sales of the LW BOGDANKA Group (in PLN '000)

Item	2009	% share	2008	% share
Sales of coal	1,078,681	96.45%	996,249	96.42%
Sales of ceramics	8,528	0.76%	2,501	0.24%
Other activities	22,514	2.01%	26,145	2.53%
Sales of goods and materials	8,670	0.78%	8,380	0.81%
Total revenue on sales	**1,118,393**	**100.00%**	**1,033,275**	**100.00%**

The activities of the Group are primarily concentrated in Poland. In 2009, export sales constituted a fraction of revenues generated – their share in total revenue on sales remained unchanged and amounted to 0.06% comparing with 0.03% during four quarters of 2008.

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

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

Table No. 6 Geographical structure of revenue on sales of the LW BOGDANKA Group (in PLN '000)

Item	2009	% share	2008	% share
Domestic sales	1,117,688	99.94%	1,032,018	99.97%
Foreign sales	705	0.06%	257	0.03%
Total revenue on sales	**1,118,393**	**100.00%**	**1,033,275**	**100.00%**

3.3.2 Production capacity

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

Table No. 7 Production (extraction) capacity of LW BOGDANKA for 4 quarters 2009 and 4 quarters 2008 ('000 tonnes)

2009	2008	Change %
5,236.73	5,576.56	-6.09%

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

3.3.3 Deposit reserves

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

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

Table No. 8 Mine resources covered by the concession to mine hard coal, updated as at 31 December 2009

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

3.3.4 Stocks

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

Table No. 9 Stock

Item	31 Dec. 2009	31 Dec. 2008	2009-2008
Stock of coal (tonnes)	64,784.64	4,011.21	60,773.43

3.3.5 The Group's suppliers

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

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

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

3.4 Consolidated statement of comprehensive income

Table No. 10 Selected items of the consolidated statement of comprehensive income of the LW BOGDANKA Group

Item	2009	2008	Change (%) (2009 / 2008)
Revenue on sales	1,118,393	1,033,275	8.24%
Cost of products, goods and materials sold, cost of sales, administrative expenses	868,866	821,466	5.77%
Gross profit on sales	249,527	211,809	17.81%
Other income	6,143	1,222	402.70%
Other expenses	2,140	3,707	-42.27%
Other net profit/loss	-26,820	-5,867	357.13%

Profit on operating activities	226,710	203,457	11.43%
Financial income	18,112	7,609	138.03%
Financial expenses	7,076	9,060	-21.90%
Share in (losses)/profits of affiliated undertakings	89	-99	-189.90%
Profit before taxation	237,835	201,907	17.79%
Income tax	46,993	46,116	1.90%
Net profit for the financial year	190,842	155,791	22.50%
– attributable to shareholders of the Company	191,472	156,009	22.73%

During the 12 months of 2009, the Group's revenue on sales of increased by 8.24% compared to the same period of the previous year.
Operating result of the Group was primarily affected by the higher gross profit, which is related to a higher dynamics of changes in revenue on core business with respect to the dynamics of changes in operating expenses. During the period under analysis, the cost of products, goods and materials sold (including selling costs and administrative expenses) amounted to PLN 868,866,000 compared to PLN 821,466,000 as at 31 December 2008.

Other income

For 12 months of 2009, other operating revenues amounted to PLN 6,143,000 compared to PLN 1,222,000 for the same period of the previous year – this means a decrease in their value by 402.7%. Such a high value in 2009 resulted from damages received (increase from PLN 741,000 to PLN 1,677,000) as well as other revenues. (increase from PLN 358,000 to PLN 4,466,000).

Other expenses

For 12 months of 2009, other operating expenses amounted to PLN 2,140,000 compared to PLN 3,707,000 incurred in the same period of the previous year – this means a decrease in their value by 42.27%. During the analysed periods there was a decrease in donations from PLN 2,749,000 to PLN 845,000. Simultaneously, there was an increase of PLN 1,053,000 in enforcement costs and penalties.

These values of other operating income generated and expenses incurred led to operating profit for 12 months of 2009 reaching PLN 226,710,000, compared to PLN 203,457,000 for the previous year. Operating profit increased by 11.43% on a year-on-year basis.

Financial income

In 2009, the Group obtained financial income of PLN 18,112,000, compared to PLN 7,609,000 in the previous year (an increase of 138.03%). The increase in financial income resulted from the higher amount of cash available at the LW BOGDANKA Group, kept in bank deposits.

Financial expenses

For 12 months of 2009, financial expenses of PLN 7,076,000 were incurred, compared to PLN 9,060,000 in the same period of previous year. The decrease in financial expenses by 21.90% resulted from capitalising the value of a portion of the costs of servicing bank loans in tangible fixed assets under construction.

These values of financial income generated and expenses incurred led to pre-tax profits for 12 months of 2009 reaching PLN 237,835,000, compared to PLN 201,907,000 in the previous year. Profit before taxation increased by 17.79% on a year-on-year basis.

3.4.1 Assessment of factors an untypical events affecting the Group's operations and the Group's consolidated operating profit for the financial year

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

3.4.2 Differences between the Group's financial results disclosed in the annual report and the published forecasts of results for a given year

The results achieved by the Group in 2009 in comparison to the published forecasts are presented in the table below:

Table No. 11 Results of the LW BOGDANKA Group in 2009 in comparison to published forecasts

Item	Forecast	Completion	Difference	
	2009	2009	%	PLN '000
Revenue on sales	1,143,649	1,118,393	97.79%	-25,256
Profit on operating activities	222,455	226,710	101.91%	4,255
Net profit for the financial year	178,070	190,842	107.17%	12,772

According to the above breakdown, the Group's sales revenue was 2.21% lower than initially planned. The failure to achieve the forecast revenue can be attributed to lower sales of coal due to its lower-than-forecast output. The extensive scope of works related to the expansion of the Mine, in particular the preparation of development works in the Stefanów Field, was a major contributor to the drop in the volume of commercial coal, i.e. coal designated for sale, produced in 2009. The works carried out result in greater volume of stone in the coal output, thus decreasing the volume of commercial coal in a given batch of excavated material.

The net profit of the Capital Group was 7.17% higher than initially planned. This was mainly due to the result on financial operations, where, as a consequence of persistently high balance of cash, the Group's financial income was higher than expected.

3.5 The Capital Group's operating result – EBIT

In 2009, the LW BOGDANKA Group recorded an 11.43% increase in operating profits compared to the same period of the previous year. The Company's operating profit increased from PLN 203.46 million to PLN 226.71 million. This was primarily due to an 8.24% increase in the Group's revenue on sales.

3.6 The Group's profitability

The profitability ratios of the Capital Group are presented below.

Table No. 12 Profitability ratios of the LW BOGDANKA Group

Item	**2009**	**2008**
Gross margin on sales	31.96%	29.56%
EBITDA	32.90%	32.87%
EBIT	20.27%	19.69%

Gross margin	21.27%	19.54%
Net margin	17.06%	15.08%
Return on Assets	9.25%	10.20%
Return on Equity	13.37%	14.97%

Principles for calculating the ratios:

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

In 2009, the profitability ratios regarding the Company's operations achieved higher values than in the same period of the previous year. The Group's gross margin achieved the level of 31.96% and was higher than the analogous period of 2008 by more than 2 p.p. The growth of the abovementioned profitability ratio was attributable to the increase in sales by 8.24% with a simultaneous increase in costs by approx. 5.8%. EBIT was 20.27%, which means an increase by approx. 1 p.p. in comparison of the same period of 2008. Gross margin amounted to 21.27%, while net margin amounted to 17.06%.

The Group's net profit for 12 months of 2009 was PLN 190.84 million and was higher by 22.50% than the net profit for 12 months of 2008.

3.7 Consolidated cash flows

Table No. 13 Structure of cash flows of the LW BOGDANKA Group (PLN '000)

Item	2009	2008
Net operating cash flow	365,586	333,795
Pre-tax profit (loss)	237,835	201,907
Total adjustments	127,751	131,888
Including amortisation/depreciation	141,278	136,182
Net investing cash flow	-365,932	-326,530
Inflows	16,952	7,071
Outflows	-382,884	-333,601
Net financing cash flow	582,131	44,110
Inflows	701,051	70,000
Outflows	-118,920	-25,890
Including paid dividends	-88,832	-5,638
Total net cash flow	**581,785**	**51,375**
Cash and cash equivalents (beginning of period)	99,874	48,499
Cash and cash equivalents (end of period)	**681,659**	**99,874**

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

In 2009, the Group financed its business activities with operating cash flows, the main source of which were pre-tax earnings. The Group also achieved a positive balance of cash flows from financing activities due to a capital increase and long-term bank loan (in a total amount of PLN 250 million). The investment activities of the Group generated a negative balance of cash flows primarily due to investments made in tangible fixed assets in a total amount of PLN 376.27 million, primarily in connection with the pursued development strategy assuming the extension of the Stefanów Field.

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

3.8 Consolidated balance sheet

Table No. 14 Selected items of the balance sheet of the LW BOGDANKA Group

Item	2009	2008	Change (%) (2009/2008)
Assets			
Fixed assets	**1,617,528**	**1,386,033**	**16.70%**
Tangible fixed assets	1,558,727	1,333,959	16.85%
Intangible fixed assets	12,199	10,141	20.29%
Investments in affiliated undertakings	77	8	862.50%
Trade debtors and other receivables	367	852	-56.92%
Cash and cash equivalents	46,158	41,073	12.38%
Current assets	**852,286**	**271,397**	**214.04%**
Stocks	50,382	35,055	43.72%
Trade debtors and other receivables	117,491	135,783	-13.47%
Overpaid income tax	2,754	685	302.04%
Cash and cash equivalents	681,659	99,874	582.52%
TOTAL ASSETS	**2,469,814**	**1,657,430**	**49.01%**
Shareholders' equity			
Shareholders' equity attributable to Company's shareholders	**1,729,954**	**1,106,263**	**56.38%**
Ordinary shares	301,158	246,158	22.34%
Other capitals	890,456	400,015	122.61%
Retained profits	538,340	460,090	17.01%
Minority shareholdings	**8,943**	**9,485**	**-5.71%**
Total shareholders' equity	**1,738,897**	**1,115,748**	**55.85%**
Liabilities			
Long-term liabilities	**477,779**	**222,854**	**114.39%**
Loans and borrowings	250,000		-
Deferred income tax liabilities	58,278	57,346	1.63%
Employee benefits liabilities	98,588	101,549	-2.92%
Provisions for other liabilities and charges	63,079	54,337	16.09%
Trade creditors and other liabilities	7,834	9,622	-18.58%
Short-term liabilities	**253,138**	**318,828**	**-20.60%**
Loans and borrowings		100,000	-100.00%
Employee benefits liabilities	26,338	18,877	39.52%
Provisions for other liabilities and charges	63,596	51,948	22.42%

Trade creditors and other liabilities	163,204	148,003	10.27%
Total liabilities	**730,917**	**541,682**	**34.93%**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**2,469,814**	**1,657,430**	**49.01%**

The balance-sheet total as at 31 December 2009, as disclosed in the Annual Consolidated Financial Statements increased by PLN 812,384,000 as compared to the balance sheet presented as at the end of 2008, which resulted both from an increase in fixed and current assets on the assets side, and increase in own and third-party capitals, on the shareholders' equity and liabilities side.

During the period being analysed, the value of fixed assets increased by 16.70% (from PLN 1,386,033,000 to PLN 1,617,528,000). The increase is primarily due to the performance of the Group's investment programme and this trend should be expected to continue in the following years. At the same time, current assets increased by 214.04%, primarily due to an increase in cash of PLN 581,785,000, as well as an increase in stocks of materials and products of PLN 15,327,000. At the same time, trade and other debtors were reduced from PLN 135,783,000 to PLN 117,491,000. In total, the sum total of assets as at 31 December 2009 relative to the Opening Balance increased by 49.01%.

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

- shareholders' equity by PLN 623,149,000 (including the issue of 11 million of shares),
- long-term loans and borrowings by PLN 250,000,000 (which resulted from a change in balance-sheet presentation – in relation with the signing of the annex to the loan agreement, whereby a final repayment date was extended, and the short-term loan was transformed into a long-term loan.

Information on the structure of assets and liabilities

Table No. 15 Structure of the balance sheet of the LW BOGDANKA Group

Item	31 Dec. 2009	Structure	31 Dec. 2008	Structure
Assets				
Fixed assets	**1,617,528**	**65.49%**	**1,386,033**	**83.63%**
Tangible fixed assets	1,558,727	63.11%	1,333,959	80.48%
Intangible fixed assets	12,199	0.49%	10,141	0.61%
Investments in affiliated undertakings	77	0.00%	8	0.00%
Trade debtors and other receivables	367	0.01%	852	0.05%
Cash and cash equivalents	46,158	1.87%	41,073	2.48%
Current assets	**852,286**	**34.51%**	**271,397**	**16.37%**
Stocks	50,382	2.04%	35,055	2.12%
Trade debtors and other receivables	117,491	4.76%	135,783	8.19%
Overpaid income tax	2,754	0.11%	685	0.04%
Cash and cash equivalents	681,659	27.60%	99,874	6.03%
TOTAL ASSETS	**2,469,814**	**100.00%**	**1,657,430**	**100.00%**
Shareholders' equity				
Shareholders' equity attributable to Company's shareholders	**1,729,954**	**70.04%**	**1,106,263**	**66.75%**
Ordinary shares	301,158	12.19%	246,158	14.85%
Other capitals	890,456	36.05%	400,015	24.13%
Retained profits	538,340	21.80%	460,090	27.76%

Minority shareholdings	**8,943**	**0.36%**	**9,485**	**0.57%**
Total shareholders' equity	**1,738,897**	**70.41%**	**1,115,748**	**67.32%**
Liabilities				
Long-term liabilities	**477,779**	**19.34%**	**222,854**	**13.45%**
Loans and borrowings	250,000	10.12%		
Deferred income tax liabilities	58,278	2.36%	57,346	3.46%
Employee benefits liabilities	98,588	3.99%	101,549	6.13%
Provisions for other liabilities and charges	63,079	2.55%	54,337	3.28%
Trade creditors and other liabilities	7,834	0.32%	9,622	0.58%
Short-term liabilities	**253,138**	**10.25%**	**318,828**	**19.24%**
Loans and borrowings			100,000	6.03%
Current income tax liabilities				
Employee benefits liabilities	26,338	1.07%	18,877	1.14%
Provisions for other liabilities and charges	63,596	2.57%	51,948	3.13%
Trade creditors and other liabilities	163,204	6.61%	148,003	8.93%
Total liabilities	**730,917**	**29.59%**	**541,682**	**32.68%**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**2,469,814**	**100.00%**	**1,657,430**	**100.00%**

The asset item with the largest share in the balance-sheet total is fixed assets (their share amounted to 65.49% and 83.63% as at 31 December 2009 and 31 December 2008 respectively). Tangible fixed assets accounted for 63.11% and 80.48% of the balance-sheet total respectively. The share of current assets increased in the period under analysis from 16.37% (as at 31 December 2008) to 34.51% (as at 31 December 2009), accompanied by an increase in the share of cash and cash equivalents from 6.03% to 27.60%.

The share of shareholders' equity in the total value of shareholders' equity and liabilities increased from 67.32% (as at 31 December 2008) to 70.41% (as at 31 December 2009). In this group, the largest share is taken by shareholders' equity attributable to the shareholders (an increase from PLN 1,106,263,000 as at 31 December 2008 to PLN 1,729,954,000 as at 31 December 2009, but the group with the largest increase was "Other capitals").

The total share of liabilities in the balance-sheet total decreased from 32.68% (as at 31 December 2008) to 29.59% (as at 31 December 2009), with the share of short-term liabilities decreasing to 10.25% and the share of long-term liabilities increasing to 19.34%. Short-term trade liabilities decreased during the period under analysis from 8.93% (as at 31 December 2008) to 6.61% (as at 31 December 2009) of the balance-sheet total.

3.9 The Group's capitals, funds and sources of capital

Table No. 16 Sources of the LW BOGDANKA Group's capital (PLN '000)

Item	2009	2008
Total long-term financing	**771,051**	**0**
Increase in shareholders' equity	521,051	0
Contracted long-term bank loans	250,000	0
Total short-term financing	**382,538**	**420,866**
Operating cash flow	365,586	333,795
Cash inflow from investment activities	16,952	7,071
Contracted short-term bank loans	0	80,000

Total sources of capital	**1,153,589**	**420,866**
Cash and cash equivalents (beginning of period)	99,874	48,499
Cash and cash equivalents (end of period)	681,659	99,874

In 2009, the Group recorded a significant increase in shareholders' equity which resulted from the issue of new shares in June 2009.

Table No. 17 Shareholders' equity and third-party capital of the LW BOGDANKA Group (PLN '000)

Item	31 Dec. 2009	31 Dec. 2008
Shareholders' equity	1,738,897	1,115,748
Third-party capital	730,917	541,682
Long-term third party capital	477,779	222,854
Provisions for other liabilities and charges	63,079	54,337
Trade creditors and other liabilities	7,834	9,622
Loans and borrowings	250,000	0
Deferred income tax liabilities	58,278	57,346
Employee benefits liabilities	98,588	101,549
Long-term third-party capital	253,138	318,828
Provisions for other liabilities and charges	63,596	51,948
Loans and borrowings	0	100,000
Trade creditors and other liabilities	163,204	148,003
Current income tax liabilities	0	0
Employee benefits liabilities	26,338	18,877

In 2009, the LW BOGDANKA Group financed its operations from shareholders' equity and using third-party capital in the form of a bank loan and a commercial loan granted by the Group's suppliers.

3.10 Debt and financing structure of the LW BOGDANKA Group

Table No. 18 Debt ratios of the LW BOGDANKA Group

Item	31 Dec. 2009	31 Dec. 2008
Overall debt ratio	0.30	0.33
Debt to equity ratio	0.42	0.49
Fixed capital to fixed assets ratio	1.33	0.93
Short-term debt ratio	0.10	0.19
Long-term debt ratio	0.19	0.13

Principles for calculating the ratios:

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

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

Table No. 19 Liquidity ratios of the LW BOGDANKA Group

Item	31 Dec. 2009	31 Dec. 2008
Current liquidity ratio	4.50	1.02
Quick liquidity ratio	4.23	0.89

Principles for calculating the ratios:

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

During the period covered with the Annual Consolidated Financial Statements, the Group's liquidity ratios stood at a safe, very high level and the LW BOGDANKA Group does not have any difficulties in fulfilling its obligations. Such a significant increase in the analysed liquidity ratios results from the value of cash injected to the Parent Undertaking as a result of the share capital increase (debut on the Warsaw Stock Exchange). Given the pursued investment programme, a drop of these ratios should be expected to the levels treated as optimum in relevant literature.

Table No. 20 Turnover rates of the LW BOGDANKA Group (in days)

Item	31 Dec. 2009	31 Dec. 2008
Stock turnover	20.5	19.3
Trade debtors collection rate	41.3	42.0
Trade creditors payment rate	74.6	76.8
Operating cycle (1+2)	61.8	61.3
Cash conversion cycle (4-3)	-12.8	-15.5

Principles for calculating the ratios:

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

As at 31 December 2009, the value of the stock turnover ratio showed a growth trend compared to 31 December 2008 (an increase from 19.3 days to 20.5 days), which indirectly is a result of an increase in the stock of coal.

In the period under analysis, a slight decrease indicated the trade debtors collection rate, which derives from the realised higher sales revenue and better collection of receivables.

The trade creditors payment rate decreased in the period covered by financial information from 76.8 days as at 31 December 2008 to 74.6 days as at 31 December 2009.
As a result of the trends described above, a cash conversion cycle of 12.8 days as at 31 December 2009 was achieved.

3.10.1 The Group's loan agreements

In 2009 LW BOGDANKA S.A. had five signed loan agreements.

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

   Since 14 October 2008, under Annex No. A4/60176614/08/400/04 the Company has assumed an obligation to direct to the account in Bank Millennium S.A. inflows in the minimum amount of PLN 20,000,000 each month (condition accounted for in quarterly periods) and to establish a property collateral for transactions (excluding stock) in the amount not smaller than 200% of the transaction amount, if the economic and financial standing deteriorates and exposure value is lost, resulting in necessity to set up provisions and write-offs.
   On account of the said loan in 2009 the Company paid commissions and fees in the amount of PLN 37,742.
   As at 31 December 2009 the Company did not have liabilities under the above loan.

2. Agreement concluded with BRE Bank S.A. on 12 February 2008, valid until 9 February 2009, on current account loan facility in the amount not exceeding PLN 10,000,000 for financing current activity. The interest on the loan is O/N WIBOR + 0.2 pp, interest on past due debt in the amount of four times the lombard loan rate of the National Bank of Poland per year, front-end fee in the amount of 0.1%. Collateral for the loan is a blank promissory note issued by the borrower along with a promissory note declaration. In 2009 the Company did not incur any costs under the loan.
   As at 31 December 2009 the Company did not have liabilities under the loan agreement concluded with BRE Bank S.A.

3. Agreement concluded with Kredyt Bank S.A., valid from 5 October 2007 to 7 August 2009, on long-term working capital loan in the Polish zlotys in the amount of PLN 50,000,000. Interest on the loan was 1M WIBOR + margin 0.19 pp, interest on past due debt 25% (in compliance with the Ordinance of the President of the Bank's Management Board), and front-end fee of 0%. Purpose of that loan is to finance current activities of the Company. Collateral for the loan is a blank promissory note along with a promissory note declaration.
   In 2009 the Company incurred interest costs under the above mentioned loan in the amount of PLN 635,280.
   The Company fully repaid a remaining part of the loan in two identical instalments, PLN 15,000,000 each, on: 30 April 2009 and 5 August 2009, with the zero balance as at the end of 2009.

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

on 15 February 2009.

5. Agreement on working capital non-revolving loan in the Polish currency, concluded with Powszechna Kasa Oszczędności Bank Polski S.A. on 27 May 2008 until 31 December 2009, extended with the Annex of 29 December 2009 until 31 December 2014 for the amount of PLN 250,000,000. In 2009 the tranches were paid on the following dates: 31 March 2009 in the amount of PLN 50,000,000 and 30 June 2009 in the amount of PLN 130,000,000. As at the end of 2009 liabilities under the loan in PKO BP S.A. amounted to PLN 250,000,000.

   The interest is: 3M WIBOR + 0.60 pp, the interest on past due debt is 29%, commission for granting the loan 0.40% of the loan amount, payable on used tranches, commission for changing loan maturity date introduced with Annex No. 3 of 29 December 2009, commission 0.40% of the loan amount. The loan is used for financing current business activities of the Company specified in the Articles of Association, and namely partial financing of investment tasks carried out in 2008-2009, and potential repayment of existing debt; the borrower stipulated that it had the right to change the factual purpose of the loan during the agreement term.

   Collateral for the granted loan is:
   - a blank promissory note along with a promissory note declaration,
   - clause on deduction from an account in PKO BP S.A.,
   - transfer of receivables under agreements on coal sale in the amount of PLN 250,000,000, to which the Company is entitled from Elektrownia Kozienice S.A. with registered office in Świerże Górne.

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

In 2009 the Company incurred interest costs under the loan in the amount of PLN 8,717.293 and in the amount of PLN 970,000 due to fees.
Repayment of the loan changed with Annex No. 3 of 29 December 2009 shall be carried out on the following dates and in the following amounts:

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

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

The loans were not contracted:

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

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

In 2009, Łęczyńska Energetyka Sp. z o.o. did not grant, contract or terminate any loans.

3.11 Information on financial instruments

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

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

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

In 2009 Łęczyńska Energetyka provided a surety for a loan agreement concluded between Górnik Łęczna S.A. and Bank Ochrony Środowiska in Lublin.

The value of the surety for the agreement mentioned above amounts to PLN 825,000 and remains binding from 27 November 2009 to 30 April 2010.

3.13 Overview of significant off-balance sheet items of the Group in subjective, objective and value terms

In 2009 there were no off-balance sheet items of the Group.

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

The Lubelski Węgiel BOGDANKA Group draws up consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

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

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

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

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

The accounting ledgers of LW BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and tax personnel conduct the final check. The process of drawing up the Group's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

LW BOGDANKA S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS).The same principles apply in the companies forming the Lubelski Węgiel BOGDANKA S.A. Group, for which LW is the Parent Undertaking.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel BOGDANKA S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Internal Audit Department within the organisational structure, operating pursuant to the Rules of Internal Audit, is also of significance. The internal audit system at LW BOGDANKA S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor who issues a relevant opinion. A certified auditor is appointed by the Company's Supervisory Board in accordance with the guidelines of the State Treasury, aimed at ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.

4. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR THE GROUP'S OPERATIONS

4.1 The Group's SWOT analysis

4.1.1 External factors

External development opportunities for the Company:

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

External threats:

- Consolidation in the mining industry – the emergence of strong business entities stimulating the power coal market;

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

4.1.2 Internal factors

Internal strengths:

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

Internal weaknesses:

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

<u>Łęczyńska Energetyka Sp. z o.o.</u>

Moreover, the following factors were identified in Łęczyńska Energetyka that could affect its operations:

External threats

- the facilities of the existing boiler house do not comply with environmental protection requirements in terms of air emission standards which come into force from 2011 and which have already been more stringent since 2008,
- a persistently low rise in heat prices controlled by the Energy Regulatory Office (URE) in comparison to the rise in inflation,
- rapidly rising refurbishment costs if no modernization is undertaken,

– continuing unfavourable competition from other energy sources (natural gas).

Weaknesses

- significant losses in heat transmission,
- no desulphurization plant in Bogdanka's boiler house,
- high refurbishment costs,
- no correlation between rising costs (market prices) and income (prices controlled by URE),
- high cost of new connections to the network,
- cost-cutting actions by customers aimed at reducing the demand for the products offered by the Company (thermal efficiency improvement),
- lack of agreement with the local authorities with regard to infrastructure development.

Other factors significant for the development of Łęczyńska Energetyka include:

- modernization of the boiler house, converting it into a combined heat and power plant (meeting all environmental protection requirements,
- opportunity to obtain subsidies for pro-ecological investments,
- expanding the range of services offered in the town of Łęczna (e.g. maintenance services for internal central heating, hot water and water and sewage installations, providing emergency utility assistance),
- executing the conversion of the boiler house into a combined heat and power plant, thus entering an attractive electrical power market in view of the forecast surge in electricity prices,
- opportunity to produce aggregates for the construction industry using the combustion by-products from the fluidized bed boiler designed for the heat and power plant,
- the interest shown by local producers in the cultivation of energy plants offers an opportunity to secure a steady supply of biomass for the future heat and power plant, consequently resulting in the production of attractive "green energy",
- persistently rising prices of liquid and gas fuel make the heat energy offered more attractive.

The operations of the subsidiary will continue to be significantly affected by the laws in force governing the following areas:

- charges and costs related to environmental protection and the use of the natural environment (emitting air pollutants, drawing water from deep wells, disposing treated wastewater into surface waters),
- costs of adjusting energy sources to meet the new, more restrictive norms for air pollution emissions,
- special rules for developing and calculating the heat tariffs and prices for related services,
- the state's pricing policy with regard to managing the fundamental energy resources (such as coal, gas and oil), as well as electrical power.

All factors listed above affect the sales, production and service prices of Łęczyńska Energetyka, and, consequently, its revenue.

4.2 The Group's development strategy and policy on development direction

4.2.1 The strategy for the development of LW Bogdanka S.A.

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

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

The main strategic objectives of development defined by the Company:

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

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

1) Doubling the level of extraction of hard coal

a) increasing production capacity of the Company by enlarging the Stefanów Field

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

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

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

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

b) Increase in employment and human resource management

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

In order to implement the strategy of human resource management, the Company also intends to establish and continue cooperation with schools educating persons with particular qualifications in mining, mechanical and electrical industries.

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

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

c) Marketing operations

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

2) Improving the efficiency of hard coal extraction

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

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

(b) Improving the efficiency of hard coal production

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

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

(c) Restructuring and management of non-productive assets

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

(d) Management of by-products

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

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

3) Developing electricity production activities

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

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

4) Environmental protection measures

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

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

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

4.2.2 Development strategy of Łęczyńska Energetyka Sp. z o.o.

The Management Board of Łęczyńska Energetyka Sp. z o.o. in Bogdanka has set the following strategic objectives for the Company to be completed until 2015:

To perform the investment program "Modernization and extension of the Heat-Generating Plant in Bogdanka into a Heat and Power Station that will cogenerate heat electrical energy" within a staged system, i.e.:

In Stage I, to be completed until the end of 2010, 4 Tasks as discussed below will be performed.

<u>**Task no. 1** – Rebuilding and modernization of 5 WR-5 water boilers.</u>

The main objective of these modernization works is to improve the technical condition of boilers, and to adjust them to biomass co-burning. By the end of 2009, 3 WR-5 boilers were updated and commissioned, whereas the other 2 will be modernized until the end of 2010.

<u>**Task no. 2** – Building desulphuring and dedusting installations, and adjusting the Heat-Generating Plant's infrastructure to the new technological arrangement.</u>

Building dedusting and desulphuring installations for all the modernized water boilers of the Heat-Generating Plant in Bogdanka (5xWR-5 and 1xWRp-46/W-28) is aimed at limiting pollution emissions into the atmosphere, and at adjusting the energy source to legal requirements in the area of emission standards, which must be completed until the end of 2010. Currently, a tendering procedure is going on, as a result of which a "turn-key" installation contractor will be selected.

<u>**Task no. 3** – Building the Water Treatment Station (SUW), including process connections with the hydrophore unit and the Heat-Generating Plant area.</u>

The Water Treatment Station, using the water that will come from draining the Mine, will be producing potable water, water to make up for heat network losses, and water to make up for losses in the cooling cycle and in the water and steam cycle of the Heat and Power Station being designed.
The Water Treatment Station will be situated at the area of the existing liquid waste treatment plant, which will still be operated, whereas its final section will be situated in the existing water softening building adapted to new purposes.
Currently, tendering documentation is being compiled to grant an order to design and build the Water Treatment Station.

<u>**Task no. 4** – rebuilding the 110 kV line at the foreground of the 110/6 kV station in Bogdanka.</u>

The 110 kV line will be rebuilt based upon the Building Permit Decision that has been obtained for this task, in order to remove the existing 110 kV overhead lines' collision with the Heat and Power Station being designed.

In Stage II, i.e. from early 2011 until the end of the 3rd quarter of 2014, the Heat and Power Station will be built based upon fluidal boiler OFz-265 (265 MT/h of steam) and the 77 MWe bleeding and condensation turbine ser.

As part of this Stage, the infrastructure will also be built, which will be necessary for the Heat and Power Station to function properly.
Currently, a tendering documentation is being compiled to grant a "turn-key" public procurement order to modernize and extend the Heat-Generating Plant in Bogdanka into Heat and Power Station that will cogenerate heat and electrical energy. The contractor selection procedure will be over by the end of 2010.

4.3 LW BOGDANKA S.A.'s investments

4.3.1 Investments in fixed assets

4.3.1.1 The Company investments in 2008-2009

Table No. 21 Tangible and intangible fixed assets placed in service in 2008 and 2009

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

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

The Company's investments in 2009

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

The most important facilities that were completed in 2009 were:

Building the excavation and ventilation shaft 2.1 in the Stefanów Field

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

Extension of the Mechanical Coal Processing Plant [ZPMW]

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

Other investments in the Stefanów Field's technical infrastructure

1. Building facilities of the Stefanów Field (the lifting machine and switch room building, workshop and storage hall, main fans station at shaft 2.1, roads and yards) in Stefanów – the workshop and storage hall have been completed, other facilities are still under construction. No works have been commenced yet to build the lifting machine supply switch room due to prolonged tendering procedures.
2. Central air-conditioning system of the Stefanów Field – (air-conditioning system at the bottom of the mine) – this facility is under construction.

Extension of the Bogdanka station's track system

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

Making coal deposits available

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

Purchases of finished goods

1. Reinforcement of panel 1/VI at deposit 385 – providing it with a coal-ploughing complex that covers: powered lining sections, panel scraper conveyor, mining plough, 3.3 kV supply and control facilities, bottom road scraper conveyor. In 2009, advance payment costs were incurred in the amount of 10% of the value of the ploughing complex and assembly of the scraper conveyor and partial assembly of the panel lining. The reinforcement of panel is scheduled for completion on 23 March 2010.

2. The main purchase items are:

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

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

Replacement investments

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

- Suspended internal combustion locomotives

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

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

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

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

Environmental protection

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

Building and modernisation of workings in the Bogdanka field and Nadrybie

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

4.3.1.2 Investments of 2009 and 2010 – completion of investment goals

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

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

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

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

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

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

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

Table No. 22 Investment expenditure in 2009 and planned for 2010, broken up by individual tasks

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

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

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

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

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

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

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

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

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

Increase in expenses results from:

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

2. Extension of the Mechanical Coal Processing Plant

Decrease in expenses results from:

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

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

Increase in expenses results from:

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

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

4. Extension of the Bogdanka station's track system

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

5. Purchases of finished goods

Increase in expenses results from:

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

6. Environmental protection

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

4.3.1.3 Investments planned for years 2010-2011

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

The Mine's development strategy assumes:

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

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

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

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

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

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

- the lifting machine building,
- energy supply facilities,
- building facilities in the station of fans with its ventilation channel,

- lifting tower,
- building lift machinery room,
- completion of building facilities will make it possible to start the lifting facility and the station of fans in shaft 2.1.

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

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

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

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

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

More information on LW BOGDANKA S.A.'s investments planned in 2010 is available in the Directors' Report on Operations of LW BOGDANKA S.A. for 2009.

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

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

4.3.1.5 Capital expenditure and investments

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

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

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

In 2009 the Company made no capital investments.

4.4 Investments of Łęczyńska Energetyka Sp. z o.o.

4.4.1 Investments in 2008-2009

Investment tasks completed in 2008-2009 included:
- purchase of machines and facilities necessary for production purposes,
- repair and modernization within the necessary scope of buildings, structures and machines,
- purchase of vehicles for the supply department.

The total amount of investment expenditure incurred in 2008-2009 amounted to PLN 6,568,000.

The table below presents the value of investment expenditure incurred in 2008-2009 broken down by groups of fixed assets:

Table No. 23 Value of investment expenditure incurred in 2008-2009 broken down by groups of fixed assets

	2008		2009	
Group of fixed assets	PLN '000	%	PLN '000	%
Own land	-	-	-	-
Buildings and structures	1,314.0	86.0	4,775.0	94.8
Machinery and equipment	22.0	1.4	234.0	4.6
Vehicles	127.0	8.3	-	-
Intangible fixed assets	-	0.0	-	-
Other	66.0	4.3	30.0	0.6
TOTAL	1,529.0	100.0	5,039.0	100.0

Modernization works for the buildings and structures within the above-mentioned periods are related to the following fixed assets:
1) modernization of liquid waste water treatment plants in Bogdanka and Nadrybie,
2) modernization of the hydrophore unit in Nadrybie,
3) modernization and extension works of the buildings of the Recreation Center in Kalnica, and erecting a new building,
4) replacement of the heat and water pipeline network at the area of the Mine (Bogdanka and Nadrybie),
5) modernization of the W-2A heat exchanger room in Łęczna and W-5,
6) hardening the WA-2 yard,
7) building a PKS [Public Transport Company] bus station terminal in Łęczna,
8) building a dumping chamber for sanitary and rain water waste in Bogdanka,
9) modernization of WR-5 boilers in the boiler house in Bogdanka,
10) modernization of the boiler house chimney lighting in Bogdanka,
11) modernization of the main heat line to Łęczna.

In 2008-2009, the investments were financed from own funds.

4.4.2 Investments planned for 2010, and assessment of the likelihood of investment plans completion

Łęczyńska Energetyka's priority investment task for 2010 is to adjust its Heat-Generating Plant in Bogdanka to legal requirements that result from Directive 2001/80/EC upon limiting emission volumes of certain gas and dust pollutants into the atmosphere. Requirements as defined in Annex XII Point D of the Accession Treaty to adjust its Heat-Generating Plant do emission standards being in force by 31 December 2010 at the latest; therefore in the Scheduled Program of the "Modernization and extension of the Heat-Generating Plant in Bogdanka into a Heat and Power Station that will cogenerate heat and electrical energy" project, it has been envisaged to complete the tasks meeting the above-mentioned requirements. These are the following Investment Tasks:

Task no. 1 – Rebuilding and modernization of 5 WR-5 water boilers,
Task no. 2 – Building desulphuring and dedusting installations, and adjusting the Heat-Generating Plant's infrastructure to its new technological arrangement.

In order to perform these tasks, the amount of approx. PLN 16.5 million, has been allocated in the Company's investment expenditure plans, out of which the amount of approx. PLN 3.2 million was spent before the end of 2009.
Taking into account the fact that the Company still holds its own investment financial resources in the amount of approx. PLN 37 million, which guarantees that the most important tasks for this year will be completed.
The funds that the Company owns will also make it possible to complete the remaining two Investment Tasks in 2010 that have been planned to be completed in Stage I, which will initiate the Heat and Power Station building process and at the same time make its construction possible. The amount of investment funds allocated to complete these tasks has been defined at approx. PLN 24.2 million.

The completion of the Stage II of this investment that is of key importance for the Company is to be financed with its own funds, with participation of an external source of financing (a consortium loan).

4.4.2.1 Capital expenditure and investments

In 2009, Łęczyńska Energetyka Sp. z o.o. did not make any significant cash investment or deposits.

4.5 The Group's research and development and implementation works

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

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

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

3. R&D and implementation works were commenced with the aim to create grounds to change the exploitation system being used today, in which both main gates are being liquidated along with the progress of panels, and to prepare an attempt to maintain the panel heading downstream the front of the panel. Based upon the agreement

concluded with the University of Science and Technology in Kraków, an research and development study was written entitled "Technical and economic analysis and developing an optimum method to maintain under-panel headings downstream the front of the panel in the BOGDANKA Mine conditions", which was aimed at determining its support parameters and compiling a protective belt design for the under-panel heading of panel 1/VI at deposit no. 385/2. In 2010, attempts will be conducted to maintain the heading that has been left over behind the panel.

4. A team of scientists and mine employees, which had been appointed specially to this aim, continued their works to find some new solutions for heading lining sets, optimised in the area of the cross-section's shape and arrangement, quantities and lengths of sets elements in terms of the need to run a crossing of the heading with the panel. As a result of the Team's work, when implementation of elliptical cross-section turned out to be unsuccessful, a new series of types of ŁPSC sets was designed for the main gates of coal-cutting and coal ploughing panels, with changeable deposit thicknesses. It has been proved that the 7-element sets are appropriate for deposit thicknesses of 1.2 – 1.6 m, whereas the 6-element sets are proper for deposit thicknesses above 1.6 m.

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

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

4.6.1 Risk associated with the Group's market environment

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

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

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

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

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

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

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

- "Strategy for hard coal mining sector in Poland for 2007-2015" adopted by the Council of Ministers in July 2007,

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

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

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

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

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

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

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

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

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

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

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

4.6.1.5 Interest rate risk

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

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

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

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

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

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

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

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

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

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

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

of PLN 250 million accounts for approx. 15% of shareholders' equity (PLN 1,731 million) and approx. 10% of the carrying value.
There is a risk that the macroeconomic situation in 2009 will have some impact on the credit policy of the banks resulting in stricter process of extending debt financing to the Group, which will be manifested by the increased financing costs or/and the increased costs of obtaining the financing. Nonetheless, in the opinion of the Company, in its case this risk is limited as LW BOGDANKA has good standing in terms of capital, low debt and good creditworthiness.

4.6.1.8 Risk associated with changes in exchange rates

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

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

4.6.2 Risk directly associated with the Group's operations

4.6.2.1 Risk associated with estimating the size of deposits

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

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

Therefore there is a risk that the quantity and quality of the estimated resources will be reviewed (in plus or in minus) as a result of gaining better knowledge about the deposit parameters. Any significant negative adjustment of the deposit size may result in shortening of the assumed mining period, and in consequence have an adverse effect on the life of the mine as well as on the future financial results of the Group.
The Company wants to emphasise that specific geological conditions of the deposit exploited by LW BOGDANKA (the fact that the mining deposits are relatively regularly laid out, the geological structure of the deposit is regular – without major disruptions and faults) allow the size of a given deposit to be precisely estimated. Furthermore, the size of the deposit which serves as a basis for the Company to plan the development of its mining capacities has been reviewed many times, and the exploitation works carried out so far confirmed the accuracy of deposit size estimates.

4.6.2.2 Risk associated with the launch of extraction of new deposits

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

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

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

4.6.2.3 Technical and technological risk

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

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

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

4.6.2.4 Risk of IT systems malfunctioning

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

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

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

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

4.6.2.5 Risk associated with retaining and attracting human resources

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

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

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

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

4.6.2.6 Key customer risk

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

As at the date of submitting the Report, the Company has agreements signed with key customers ensuring sales of the coal and stable financial and technical planning until the end of 2010.

4.6.2.7 Key supplier risk

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

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

4.6.2.8 Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by LW BOGDANKA S.A.

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

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

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

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

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

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

4.6.2.9 Risk associated with the strong position of the trade unions in the Group

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, four trade union organisations operate at the Company associating the total of 63% of the Company's employees, while at the Group, there are six trade union organisations, associating the total of 62.5% of the Group's employees.

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

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

4.6.2.10 Customer insolvency risk

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

4.6.2.11 Risk associated with related party transactions

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

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

4.6.2.12 Risk associated with high costs of technologies applied by LW BOGDANKA S.A.

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

4.6.2.13 Risk associated with the mine closure

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

4.6.2.14 Risk associated with reclamation and mining damage

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

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

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

The EU climate policy resulting from the Framework Convention of the United Nation on Climate Changes (Kyoto Protocol) stipulates limiting the emission of greenhouse gases to the atmosphere. The regulations adopted in Poland are compliant with the EU laws.

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

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

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

4.6.2.17 Insurance risk

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

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

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

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

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

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

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

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

4.6.2.20 Investment risks associated with protected areas

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

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

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

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

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

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

4.6.3 Risk factors associated with proceedings and legal environment

4.6.3.1 Risk of change to tax laws

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

4.6.3.2 Risk of real estate tax on mining excavations

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

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

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

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

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

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

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

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

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

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

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

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

4.6.3.5 Risk of violating the stock exchange disclosure requirements

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

5. OWNERSHIP CHANGES IN THE GROUP IN THE FIRST HALF OF 2009

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

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

Table No. 24 The number of the Company shares and shares in a subsidiary of the Company held by the members of the Management the Supervisory Boards of LW BOGDANKA S.A.

	The number of the Company shares as of 22 March 2010	**Par value of the shares (PLN)**	**The number of the Company shares as of 10 November 2009**	**Par value of the shares (PLN)**	**The number of shares in Łęczyńska Energetyka Sp. z o.o. as of 22 March 2010**
Management Board					
Mirosław Taras	1,713	8,565	1,713	8,565	0
Krystyna Borkowska	1,299	6,495	1,299	6,495	0
Zbigniew Stopa	2,810	14,050	2,810	14,050	0
Waldemar Bernaciak	2,162	10,810	2,162	10,810	0
Janusz Chmielewski	5,129,	25,645	6,000	30,000,	0
Supervisory Board					
Krzysztof Maślankowski	0	0	0	0	0
Grażyna Dec	0	0	0	0	0
Henryk Czapla	0	0	0	0	0
Wiesław Różycki	0	0	0	0	0
Bogdan Kowal	2,025	10,125	2,025	10,125	0
Adam Partyka	0	0	270	1,350	0
Total	**16,009**	**80,045**	**16,279**	**77,040**	**0**

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

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

5.3 Acquisition of the Company's own shares

In 2009 the undertakings of the LW BOGDANKA Group did not acquire any of its own shares.

6. INFORMATION ON CAPITAL GROUP'S PERSONNEL

6.1 Employment at the Group

Table No. 25 Employment in the LW BOGDANKA Group

Item		*Employment at the end of year*			*Structure*	*Change*
		2007	*2008*	*2009*	*%*	*2009/2008 %*
Item						
Group total		**3,655**	**3,792**	**4,016**	**100%**	**5.91%**
Including:	Lubelski Węgiel Bogdanka S.A.	3,545	3,667	**3,885**	96.74%	5.95%
	Łęczyńska Energetyka sp. z o.o.	110	125	131	3.26%	4.8%
Full-time employees						
Group total		**523**	**548**	**589**	**14.67%**	**7.48%**
Including:	Lubelski Węgiel Bogdanka S.A.	490	511	549	13.67%	7.44%
	Łęczyńska Energetyka sp. z o.o.	33	37	40	6.79%	8.11%
Workers						
Group total		**3,132**	**3,244**	**3,427**	**85.33%**	**5.64%**
Including:	Lubelski Węgiel Bogdanka S.A.	3,055	3,156	3,336	83.06%	5,70%
	Łęczyńska Energetyka sp. z o.o.	77	88	91	2.27%	3.41%
Underground staff						
Lubelski Węgiel Bogdanka S.A.		**2,540**	**2,643**	**2,838**	**70.67%**	**7.38%**

2009 brought about a 5.91% increase in employment in the Group. Most cases of staff leaving were due to retirement. A rise in employment at the Parent Undertaking was caused by new hirings in connection with the Stefanów Field investment programme.

In 2009 the personnel employed at the Parent Undertaking accounted for 96.74% of total employment.

Workers accounted for 85.33% of all employees. Lubelski Węgiel BOGDANKA S.A. employed 83.06% of all Group's staff.

In comparison to 2008 the number of underground staff went up by 195 workers, i.e. 7.38%. These employees constituted the main group employed in the Capital Group, i.e. 70.67%.

6.2 Salaries and wages in the Group

The average monthly salary in the Capital Group (excluding profit-based compensation) stood at PLN 6,598.68 and was 14.40% higher than the average remuneration in 2007.

Remuneration in the Capital Group is one of the highest in the hard coal mining sector and in the Lublin region.

Table No. 26 Salaries and wages in the LW BOGDANKA Group

Item		*Average salary (PLN)*			*Change %*
		2007	*2008*	*2009*	*2009/2008*
Total staff					
TOTAL		**5,254.38**	**5,767.87**	**6,598.68**	**114.40**
Including:	Lubelski Węgiel Bogdanka S.A.	5,427.60	5,947.35	6,812.68	114.55
	Łęczyńska Energetyka sp. z o.o.	2,620.74	3,084.83	3,369.36	109.22

Item		*Average salary (PLN)*			*Change %*
		2007	*2008*	*2009*	*2009/2008*
Full-time employees					
TOTAL		**6,602.31**	**7,302.16**	**8,356.22**	**114.43**
Including:	Lubelski Węgiel Bogdanka S.A.	6,810.72	7,523.70	8,621.42	114.59
	Łęczyńska Energetyka sp. z o.o.	3,653.89	4,063.69	4,649.35	114.41
Workers					
TOTAL		**5,125.03**	**5,617.79**	**6,421.05**	**114.30**
Including:	Lubelski Węgiel Bogdanka S.A.	5,204.13	5,692.16	6,516.01	114.47
	Łęczyńska Energetyka sp. z o.o.	2,181.65	2,652.61	2,793.14	105.30

The Ordinance of the Council of Ministers of 20 November 2008 on the average monthly pay increase rate in 2009 (Dz. U. 2008, No. 213, item 1339) establishes the average monthly pay increase rate in enterprises at the level of 8.00%.

In connection with the public offering of LW BOGDANKA S.A.'s shares at the Warsaw Stock Exchange in Q3, a bonus was paid out to employees under the Incentive Scheme adopted on 27 November 2008. According to mutual agreement, the bonus is a one-off payment that shall not entail financial consequences for the future reporting periods and shall not constitute a base for the following year.

The level of remuneration paid out at LW BOGDANKA CG did not adversely affect its profitability or management efficiency, nor limit its investment operations.

LW BOGDANKA S.A.'s Management Board exercises ongoing supervision over the share of payroll costs in the total cost of coal production. In the year in question the relationship between the pay increase rate, pay for performance and work efficiency rate is deemed correct.

6.3 The value of remuneration, bonuses or benefits, including those granted under incentive or bonus schemes based on LW BOGDANKA S.A.'s capital, paid out, due or potentially due to the Management Board and Supervisory Board Members

The total gross remuneration paid to the Members of the Management Board of LW BOGDANKA in 2009 amounted to PLN 1,616,422. Within their duties at the Company, Members of the Management Board were given remuneration only in respect of employment agreements.

- Mirosław Taras PLN 250,563.54
- Zbigniew Stopa PLN 373,696.30
- Krystyna Borkowska PLN 333,274.67
- Waldemar Bernaciak PLN 333,839.34
- Janusz Chmielewski PLN 325,048.86
- Henryk Koza PLN 233,827.71

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

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

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

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

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

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

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

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

6.5 Information on a control system of employee share schemes in the Group

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

7. ENVIRONMENTAL PROTECTION

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

7.1 Environment protection measures taken by LW BOGDANKA

7.1.1 Air protection

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

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

7.1.2 Water and sewage management

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

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

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

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

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

7.1.3 Surface protection

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

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

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

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

The costs of removing damage caused by mining in 2009 amounted to a total of PLN 2,371,234. In 2009, the total expenditure in connection with removing damage caused by mining increased by approx. 24% in relation to the expenditure incurred in 2008, which amounted to PLN 1,909,656.
In 2009, supplementary water engineering works connected with controlling hydrographic conditions in the area of the villages of Bogdanka and Nadrybie Wieś and land drainage works in the villages of Kobyłka and Kaniwola commenced.

Reclamation

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

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

7.1.4 Waste management

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

Table No. 27 Waste

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

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

In 2009, waste was treated by depositing 1,750,000 tonnes of waste, and 541,655 tonnes was stored in order to use it in the next three years. The Company did not pay for waste storage, which is in line with the new Act on mining waste of 10 July 2008 (Article 26.3).

Lubelski Węgiel BOGDANKA S.A. obtained a decision of the Lublin Province Governor no. SiR VII. 6620/32/2004 of 10 September 2004, as amended, permitting the production, recovery and treatment of waste, including a specification of the manner of waste management. The decision – in accordance with the applicable legislation – is applicable to all waste generated by the mine.

In 2009, pursuant to I.10.4. of the integrated permit, tests of the physicochemical composition of waste rock were carried out, and they will be carried out on a regular basis, annually, in accordance with the aforementioned permit.

To date, analyses of Carboniferous waste rock carried out by "Pomiar-GIG" have demonstrated stability of the physicochemical properties of that waste and showed their suitability for, among other things, engineering works connected with levelling of terrain degraded by mining activity, works connected with separators at landfills, non-soil remediation, and road rehabilitation.

LW BOGDANKA also conducts post-industrial waste management (scrap, waste wood, used oil, etc.) and contract treatment of waste (to specialised companies) which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).

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

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

Table No. 28 Cost related to environmental protection [in PLN '000]

No.	Type of cost		2007	2008	2009
1.	Protection costs (remediation, monitoring)		267.08	326.11	337.66
2.	Post-mining waste management and post-industrial waste treatment		35,123.65	30,159.02	19,231.38
3.	Cost of certified reports, opinions, documentation, designs, etc.		80	77	67.75
4.	Environmental charges, including:		4,663.78	2,385.95	310.37
	- emissions of gas and dust from means of transport and Ceramic Building Materials Plant		152.06	74.32	113.13
	- waste[1)]		4,347.3	2,136.94	2.08
	- discharge of sewage		164.42	174.70	114.36
5.	**Total costs**		**40,134.52**	**32,948.08**	**19,947.15**

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

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

Table No. 29 Exploitation charge and mining use charge [in PLN '000]

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

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

7.2 Activities taken by Łęczyńska Energetyka Sp. z o.o. with respect to environmental protection

7.2.1 Atmospheric air protection

In 2009, Łęczyńska Energetyka operated the following boiler houses:

- in Bogdanka (power 57 MW, coal co-burned with biomass),
- in Zawadów (power 0.435 MW, coal and waste wood),
- boiler house Pasternik in Łęczna (power 2,06 MW, coal, a reserve boiler house)
- in Ostrów Lubelski (power 3.24 MW, coal),
- in Milejów (power 24.12 MW, coal co-burned with biomass).

With respect to air protection, the subsidiary holds the following decisions:

- decision no. PZ 13/2007 Announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 – of 22 October 2007 - an integrated permit for the "Heat-Generating Plant / Heat and Power Station to cogenerate heat and electrical energy in Bogdanka".
- decision ref. no. RŚ.V.PS.7691/15/09 of 17 April 2009 issued by the Marshall Office in Lublin that allows the Company to take part in the European Community's emission trading scheme in the accounting period for years 2008-2012.

7.2.2 Water and liquid waste management

At the moment, Łęczyńska Energetyka holds the following aquatic legal survey permits:

- decision by the Poviat Starosty [county authorities] in Łęczna Nr BAO OSR6223/10/4/2002/2003 to collect water in Bogdanka and Nadrybie and to dispose liquid waste from the waste treatment plant in Bogdanka and Nadrybie, valid until 31 December 2012, amended by decision no. BAO 6223./6/2009-9 of 10 May 2009 (the change concerns liquid waste disposal from the waste treatment plant in Nadrybie);
- decision no. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 – of 22 October 2007 - an integrated permit for the "Heat-Generating Plant / Heat and Power Station to cogenerate heat and electrical energy in Bogdanka";
- decision by the Poviat Starosty [county authorities] in Łęczna Nr BAO 6223/7/3/2005 to collect water from the water intake Stefanów, valid until 30 September 2015.

Currently, the subsidiary runs three potable water intakes: in Bogdanka, Nadrybie and Stefanów, and two liquid waste treatment plants: a mechanical / biological one in Bogdanka with the capacity of 700 m^3/24 hours, and a mechanical / biological one (Bioblok) in Nadrybie with the capacity of 400 m^3/24 hours.

7.2.3 Waste management

Łęczyńska Energetyka conducts its waste management works based upon the following decisions:

- issued by the Poviat Starosty [county authorities] in Łęczna, ref. no. BAO 6140/29/08-2 valid until 30.06.2018, which is related to management of hazardous waste arising as a result of the Company's activities in places: Nadrybie, Stefanów, Łęczna, and Zawadów,
- decision no. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007

– of 22.10.2007 - an integrated permit for the "Heat-Generating Plant / Heat and Power Station to cogenerate heat and electrical energy in Bogdanka", which covers the waste that is generated on connection with the Heat-Generating Plant's activities.

The waste generated is as follows:

- slags, furnace ashes, and dusts from the boiler house,
- sediments from the liquid waste treatment plant in Bogdanka and Nadrybie,
- screenings from the waste treatment plant,
- used oil,
- waste printer toner,
- fluorescent and mercury lamps, monitors,
- chemical reagent packaging,
- non-seggregable municipal waste, plastic packaging
- used cleaning materials and sorbent,
- steel and cast iron scrap,
- non ferrous metals scrap.
- insulation materials other than mentioned above (mineral wool, glass wool, tar board).

The subsidiary hands over the waste that it generates to business entities that hold the relevant waste management decisions issued by appropriate local government authorities pursuant to the Waste Act of 27 April 2001.

7.2.4 Financial charges for the economic use of the environment

Fees paid by Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment over the last three years are presented in the table below.

Table No. 30 Fees paid by Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment in 2007-2009

Item [PLN]	*2007*	*2008*	*2009*
– Emissions of boiler house pollutions:			
– in Bogdanka	320,996.00	300,709.00	337,767.46
– in Łęczna	-	-	-
– in Zawadów	1,305.00	1,530.00	1,522.94
– in Ostrów Lubelski	10,598.00	9,604.00	10,590.94
– in Milejów	-	15,064.00	73,169.89
For underground water uptake and liquid waste disposal in Bogdanka, Nadrybie and Stefanów	18,229.00	20,451.00	23,432.00
TOTAL	**351,128.00**	**347,358.00**	**446,483.23**

In 2007 ÷ 2009, the Company was not charged with any penalties for having exceeded the standards that have been imposed upon it.
As a result of the verification of Annual Report for 2009, its total volume of CO_2 emissions was 44.792 Mg. The Company still has 5,490 Mg CO_2 left from the limit that it has been granted.

8. PROCEEDINGS PENDING BEFORE A COURT, THE RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION AUTHORITY

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

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

More information on proceedings, to which LW BOGDANKA S.A. was a party, is available in the Directors' Report on Operations of LW BOGDANKA S.A. for the period from 1 January 2009 to 31 December 2009.

9. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT

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

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

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

Table No. 31 Remuneration of PwC for the review and audit of the financial statements as well as the remuneration for other work performed (PLN '000)

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

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

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

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

Table No. 32 Remuneration of DORADCA for the audit of the financial statements as well as the remuneration for other work performed (PLN '000)

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

10. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

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

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

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

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

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

<u>1. Rule 6 of part III:</u>

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

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

At the Extraordinary General Shareholders Meeting of LW BOGDANKA S.A. on 11 August 2009 Mrs Krystyna Borkowska, Vice-President of the Management Board, presented recommendation of the Company's Management

Board regarding undertaking actions by the Company's shareholders aiming at appointing two independent members of the Supervisory Board.

2. Rule 7 of part III:

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

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

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

10.2 The main characteristics of internal audit and risk management systems used by the Group with regard to the process of drawing up financial statements and consolidated financial statements

The Group draws up the financial statements in accordance with universally binding legal provisions and internal regulations.

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

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

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

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

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and tax personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

Lubelski Węgiel Bogdanka S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The same principles apply in the companies forming the Lubelski Węgiel Bogdanka S.A. Group, for which LW is the parent entity.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel Bogdanka S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Internal Audit Department within the Company's organisational structure, operating pursuant to the Rules of Internal Audit, is also of significance. The internal audit system at Lubelski Węgiel Bogdanka S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues a relevant opinion. A certified auditor is appointed by the Company's Supervisory Board in accordance with the guidelines of the State Treasury, aimed at ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.

10.3 Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A.

Table No. 33 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 10 November 2009 and 31 December 2009

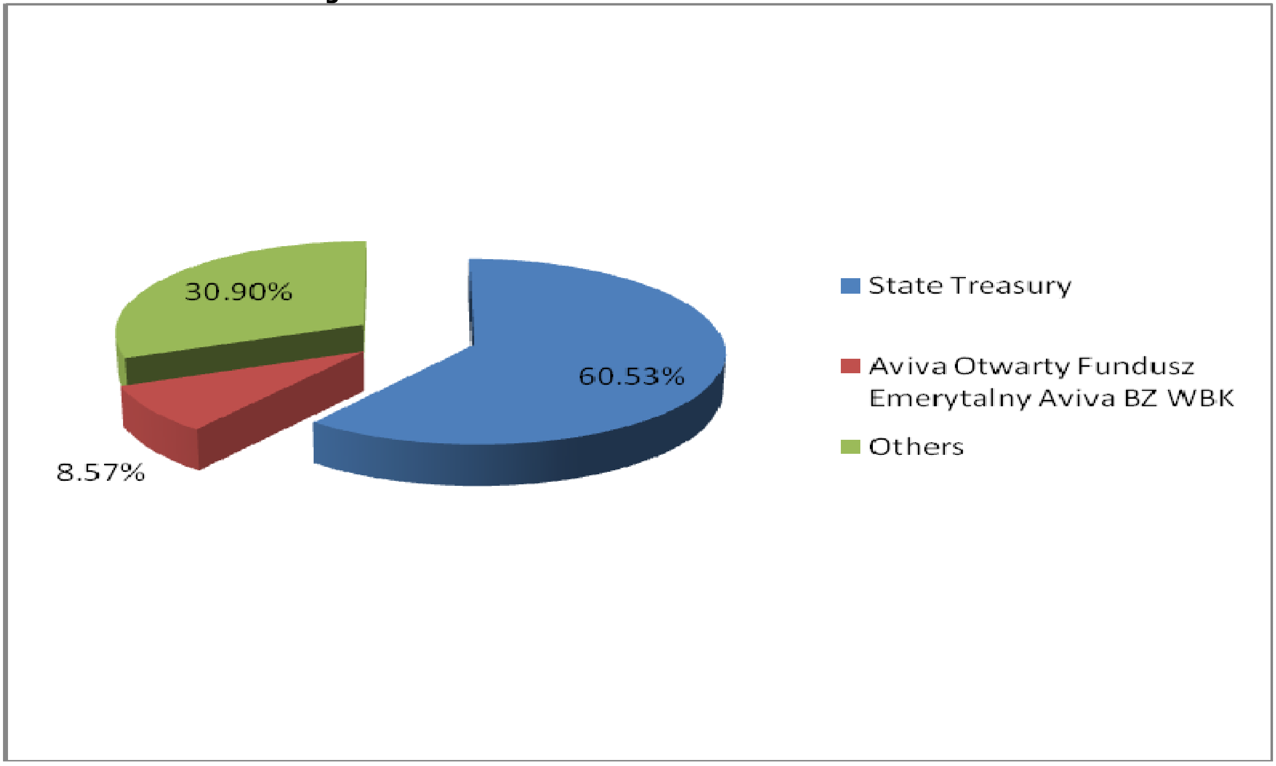
Shareholder	10 November 2009		31 December 2009	
	Number of shares/ Number of votes at the GSM	**Share in the share capital (%)***	**Number of shares/ Number of votes at the GSM**	**Share in the share capital (%)***
State Treasury**	22,279,870	65.50	20,589,931	60.53%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK***	2,141,231	6.30	2,914,265	8.57%
Others	9,592,489	28.20	10,509,394	30.90%
Total	**34,013,590**	**100.00%**	**34,013,590**	**100.00%**

* The share in the share capital corresponds to the share in the total number of votes at the GSM;

** According to the Notification received on 9 December 2009, described in Current Report No. 31/2009, on 8 December 2009 the State Treasury disposed of 1,689,939 shares of LW BOGDANKA S.A. Prior to the above transaction the State Treasury held 22,279,870 shares of LW BOGDANKA S.A., accounting for 65.50% of the Company's share capital. Following the execution and settlement of the transaction, the State Treasury holds 20,589,931 shares of LW BOGDANKA S.A., accounting for 60.53 % of the Company's share capital.

*** as at 31 December 2009 – in accordance with the notice received by the Company from AVIVA Powszechne Towarzystwo Emerytalne AVIVA BZ WBK on 8 February 2010.

Shareholding structure of LW BOGDANKA S.A. as at 31 December 2009



On 9 March 2010 the State Treasury disposed of 15,882,000 shares of the Company. As a result of that transaction, the State Treasury, as at the date of submitting the report, held 13.84 % of LW BOGDANKA S.A.'s share capital, thus ceasing to hold the majority stake in the Company's share capital.
The shareholding structure of LW BOGDANKA S.A. as at 22 March 2010 is presented in the table below.

Table No. 34 The shareholding structure of LW BOGDANKA S.A. as at 22 March 2010

Shareholder	Number of shares	Number of votes at the GSM	Share in the share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK**	5,553,113	5,553,113	16.33%
State Treasury*	4,707,931	4,707,931	13.84%
ING Otwarty Fundusz Emerytalny S.A.***	4,424,833	4,424,833	13.01%
Powszechne Towarzystwo Emerytalne PZU S.A.****	3,320,377	3,320,377	9.76%
Others	16,007,336	16,007,336	47.06%
Total	**34,013,590**	**34,013,590**	**100.00%**

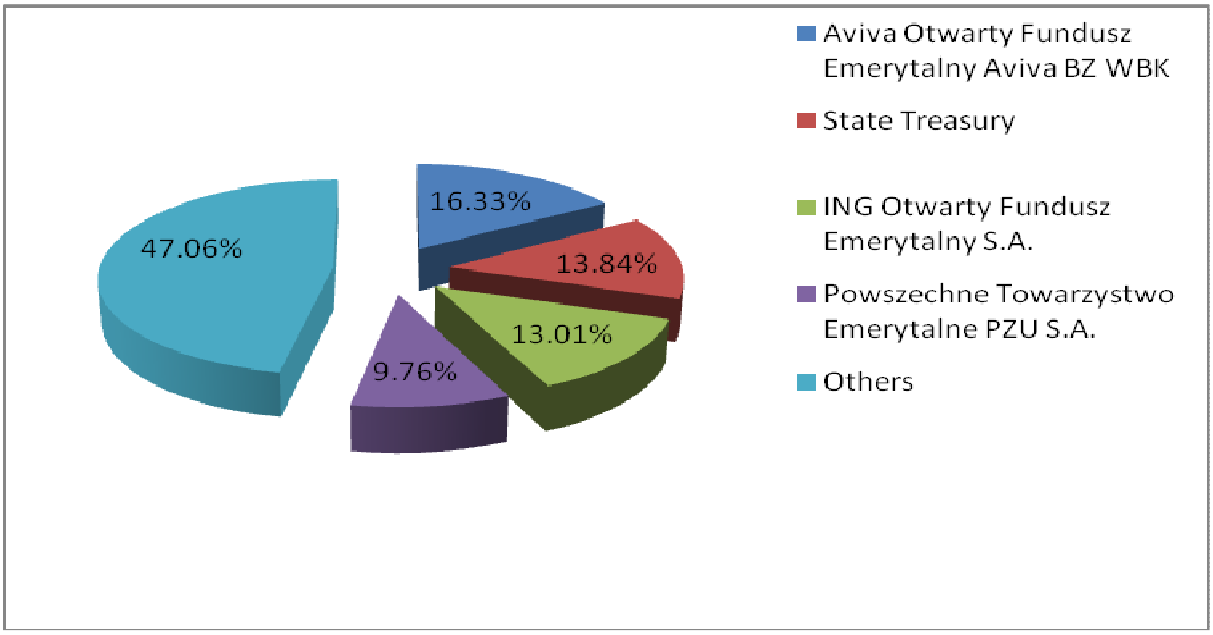
* According to the Notification received on 16 March 2010, described in Current Report of LW BOGDANKA S.A. No. 8/2010 of 16 March 2010;

** According to the Notification received on 17 March 2010, described in Current Report of LW BOGDANKA S.A. No. 9/2010 of 17 March 2010;

*** According to the Notification received on 15 March 2010, described in Current Report of LW BOGDANKA S.A. No. 7/2010 of 15 March 2010;

**** According to the Notification received on 18 March 2010, described in Current Report of LW BOGDANKA S.A. No. 10/2010 of 15 March 2010;

Shareholding structure of LW BOGDANKA S.A. as at 22 March 2009



Owners of all the securities which entitle to special control rights
LW BOGDANKA S.A. has not issued any securities which would entitle shareholders to special control rights.

10.4 Restrictions on exercising the voting right

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on exercising the voting right at the General Shareholders Meeting of the Company.

10.5 Restrictions on transferring ownership of the Company's securities

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on transferring ownership of the Company's securities.

10.6 Description of the rules governing the amendments made to the Company's Articles of Association

Amendments to the Articles of Association of LW BOGDANKA S.A. shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Company's Articles of Association as well as provisions of the Commercial Companies Code.

If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

After the General Shareholders Meeting amends these Articles of Association, the Management Board shall draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, in the event of amending the Articles of Association, the Regulation of the Minister of Finance of 19 February 2009 (Dz. U. 09.33.259) on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.

10.7 Governing bodies

10.7.1 Management Boards of the undertakings

10.7.1.1 Description of rules regarding appointment and dismissal of management officers of the Parent Undertaking as well as their rights, and in particular the right to make a decision on the issue or purchase of shares

Appointment of Management Board members

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of Lubelski Węgiel BOGDANKA S.A. are governed by the following regulations:

1. The Articles of Association of Lubelski Węgiel BOGDANKA S.A.;
2. The Act on Commercialisation and Privatisation of 30 August 1996 (uniform text Dz.U. of 2002 No. 171, item 1397, as amended);
3. The Regulation of the Polish Council of Ministers of 18 March 2003 on the verification procedure for positions of management board members in certain companies (Dz.U. No. 55, item 476).

Pursuant to the Articles of Association of Lubelski Węgiel BOGDANKA S.A., the Management Board shall be composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board shall be appointed for a joint term of office lasting 3 (three) years.

As long as over a half of the shares in the Company were held by the State Treasury, the members of the Management Board (with the exception of the Management Board member elected by the employees) were appointed by the Supervisory Board following a verification procedure, pursuant to the Regulation of the Council of Ministers on the verification procedure for positions of management board members in certain companies, dated 18 March 2003 (Dz. U. No. 55, item 476, as amended).

The Supervisory Board conducts qualification procedure in the event that circumstance justifying the appointment of a Management Board member occurs.

The Supervisory Board also appoints the Management Board member nominated by the Company's employees.

The Supervisory Board shall order the election of a Management Board member nominated by employees for the successive term of office within two months of the lapse of the last full financial year of the Management Board's term of office. The election shall be held within one month of its being ordered by the Supervisory Board. The election shall take place within the entire Company at the same time.

The conclusion of the election and recognition of its validity shall take place prior to the date of the General Shareholders Meeting accepting the statements, balance sheet and the profit and loss account for the final year of the Management's Board term of office.

Employees shall elect members of the Management Board directly in a general election, in secret ballot.

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

Dismissal of a Management Board Member

Each Management Board member may be dismissed or suspended from office by the Supervisory Board. A Management Board member appointed by the employees may be dismissed from office upon fulfilment of the requirements specified in the Company's Articles of Association. If a Management Board member nominated by employees is dismissed from office, the vacancy shall be filled without undue delay by way of appointing a new member. A Management Board member nominated by employees who has been dismissed from office before the expiry of his/her term of office may not seek re-election.

10.7.1.2 Composition of Management Boards

LW BOGDANKA S.A.

The Management Board is currently in office for the 6th term. The mandates of the members of the Management Board expire on the date of the Annual Shareholders Meeting which approves the financial statements of the Company for 2009, i.e. not later than 30 June 2010.

As at 31 December 2009 and as at the day of submitting the Report, the composition of the Management Board of LW BOGDANKA S.A. was as follows:

Management Board - 6th term of office

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

Outside of Lubelski Węgiel BOGDANKA S.A., the members of the Management Board do not conduct business activity on their own or manage such business activity jointly with other persons, nor are they representatives or attorneys in conducting business activity.

Management Board – 7th term of office

On 5 March 2010 the Supervisory Board appointed the following persons for the 7th term of office (2010-2012) of the Company's Management Board:

1) Mirosław Taras, as the President of the Company's Management Board;
2) Krystyna Borkowska, as Vice-President of the Management Board for Economic and Financial Affairs and Chief Accountant;
3) Zbigniew Stopa, as Vice-President of the Management Board for Technical Affairs;
4) Waldemar Bernaciak, as Vice-President of the Management Board for Trade and Logistics.

The persons indicated above were appointed with effect as of the date of the Company's Annual General Shareholders Meeting, approving the Company's financial statements for the financial year ended on 31 December 2009.

All of persons mentioned above hold positions in the Management Board in the current term of office.

The first round of election of the Management Board member elected by the Company's employees for the period of the 7th term of the Company's Management Board took place on 10 March 2010.

Pursuant to the Rules of appointment and dismissal of Management Board members of Lubelski Węgiel BOGDANKA S.A. by the Company's employees, the election of the Management Board member referred to above is only valid in the event that votes were cast by no less than 50% of employees with the right to vote. The elected candidate is required to receive an absolute majority of votes. No candidate received an absolute majority of votes in the first round of the election. Given the above, the second round of elections was scheduled for 23 March 2010.

10.7.1.3 Description of operations of the Parent Undertaking's Management Board and its authorisations

Pursuant to the Company's Articles of Association, the Management Board of LW BOGDANKA S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board.

In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

1. adopting the Rules of Procedure for the Management Board,
2. adopting the Company's Organisational Rules,
3. creation and liquidation of the Company branches,
4. appointment of a proxy,
5. contracting loans,
6. adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
7. assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
8. disposing of and acquiring non-current assets with a value exceeding the PLN equivalent of EUR 50,000.00 (fifty thousand euro),
9. any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW BOGDANKA S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW BOGDANKA S.A. pays due attention to transparency and efficiency of the management system of the Company and to the maintenance of its affairs in compliance with the provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Declarations of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The power of proxy may be revoked by any and each of the Management Board members.

In accordance with the Company's Organisational Rules, the **President of the Management Board**:

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over Company affiliates through representatives appointed to Supervisory Boards;
2. Represents the Company in relations with third parties;
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
    a) company organisation,
    b) supporting the operations of the Company's governing bodies,
    c) privatisation, Company restructuring,
    d) ownership supervision and capital investments,
    e) internal structural and ownership transformations,
    f) providing information and reports to investors, shareholders and stock exchange institutions,
    g) implementing LW BOGDANKA S.A.'s strategy and the Company's long-term plans,
    h) co-operation with the media and the information policy,
    i) current records archive and general secretariat,
    j) internal audit in the Company,
    k) matters of defence,
    l) HR policy, employee and social issues,
    m) occupational health and safety, training workshops,
    n) diversification of the Company's operations and EU integration,
    o) future plans with regard to the development and modernisation of the production process,
    p) protection of personal data and confidential information,
    q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,
    r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,
    s) monitoring the quality of construction ceramics.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:

1. Managing the Company's finances.
2. Economic effectiveness of investment projects.
3. Pay and insurance policy.
4. Economic and financial analyses.
5. Reporting and statistics.
6. Budgeting and controlling.
7. Supervising Company value management.
8. Providing financial and bookkeeping services.
9. Accounting and settlements with business partners.
10. Continuous stocktaking.

Major responsibilities of the **Vice-President for Economic and Financial Affairs as the Chief Accountant** include:

1. Organising the work of subordinate departments and ensuring their effective operation in line with the Accounting Act and other accounting tasks.
2. Drawing up the required current financial statements.
3. Drawing up the annual financial statements.
4. Supervising the organisation of management accounting.
5. Compiling internal reports for the Company's governing bodies.
6. Ongoing analysis of settlements (accounts receivable and liabilities).
7. Approving documents for payment and posting.
8. Submitting motions to the Company's Management Board regarding issues requiring its decision.
9. Developing the rules for managing short-term securities.
10. Organising the work related to financial management in terms of cash accounting and settlements with third parties.

The Vice-President for Commerce and Logistics organises and supervises the Company's operations in the following areas:

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Sales of construction ceramics.
4. Designing and executing promotional, advertising and brand management activities.
5. Market analyses.
6. Rail transportation.
7. Logistics and warehouse management.
8. Computerisation of the Company.
9. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues
10. Production of construction ceramics.

The Vice-President for Technical Affairs organises and supervises the Company's operations in the following areas:

1. Investment and refurbishment activities.
2. Cost estimation and service valuation.
3. Material and machinery management.
4. Environmental protection and utilisation of pit waste.
5. Maintaining and developing production capacity.
6. Analysis and optimisation of the usage of production capacity, including machinery and equipment.
7. Deposit management planning.
8. Trade coal mining and production.
9. Keeping surveyor and geological records, as well as production records.
10. Technical and economic progress.
11. Organising and planning production and mine development.
12. Research and implementation.

Member of the Management Board elected by employees is responsible for:

1. Co-operating with the workforce and the trade unions active in the Company.
2. Social dialogue in the Company.
3. Creating conditions for better use of the Company's social potential (internal marketing).
4. Supervising the correct use of the funds available from the Company's Social Fund.
5. Performing other duties imposed by the resolutions of the Management Board.

Łęczyńska Energetyka Sp. z o.o.

As at 31 December 2009 and as at the day of submitting the Report, the Management Board of the Company was composed of:

1. Marek Martyn - President (pursuant to the resolution of the Supervisory Board of Łęczyńska Energetyka of 29 October 2007)

2. Stanisław Misterek - Vice-President of the Management Board, Economic and Financial Affairs (pursuant to the resolution of the Supervisory Board of Łęczyńska Energetyka of 30 October 2008)

10.7.1.4 Information on powers of proxy granted and revoked at LW BOGDANKA S.A.

In 2009, the function of the Company's Proxy was fulfilled by Mr Henryk Koza, Msc, Eng. Investment Director (Power of Proxy Since 13 April 2007).

10.7.2 Supervisory Boards of the Undertakings

10.7.2.1 Composition

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting. Two members of the Supervisory Board are elected by the Company's employees.

Supervisory Board - 6th term of office

Up until 15 May 2009 (the date of the Extraordinary General Shareholders Meeting which approved the Company's financial statements for 2008), the Supervisory for the 6th term of office was composed of:

1. Krzysztof Maślankowski - Chairman of the Board
2. Grażyna Dec - Vice-Chairman of the Board
3. Jadwiga Kalinowska - Secretary of the Board
4. Henryk Czapla - Member of the Board
5. Adam Partyka - Member of the Board
6. Wiesław Różycki - Member of the Board

Supervisory Board - 7th term of office

From 15 May 2009 to the date of submitting this Report, the Supervisory Board for the 7th term has been in office. The mandates of the members of the Supervisory Board expire on the date of the Extraordinary General Shareholders Meeting which approves the financial statements of LW BOGDANKA S.A. for 2011, i.e. not later than 30 June 2012.

As at 31 December 2009 and as at the day of submitting the Report, the Supervisory Board of LW BOGDANKA S.A. was composed of:

1. Krzysztof Maślankowski - Chairman of the Board
2. Grażyna Dec - Vice-Chairman of the Board
3. Bogdan Kowal - Secretary of the Board
4. Henryk Czapla - Member of the Board
5. Adam Partyka - Member of the Board
6. Wiesław Różycki - Member of the Board

As at 31 December 2009 and as at the day of submitting the Report, the Supervisory Board of Łęczyńska Energetyka Sp. z o.o. was composed of:

1. Zbigniew Stopa - Chairman of the Board

2. Mirosław Taras - Vice-Chairman of the Board
3. Teodor Kosiarski - Secretary of the Board
4. Janusz Chmielewski - Member of the Board
5. Józef Stach - Member of the Board

10.7.2.2 Description of activities of the Parent Undertaking's Supervisory Board

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations.

The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

The responsibilities of the Supervisory Board include:

- assessment of reports,
- assessing motions of the Management Board regarding the distribution of profits or covering of losses;
- submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
- selecting a chartered auditor to audit annual financial statements;
- determining the scope and deadlines for the Management Board's submission of annual material and financial plans and long-term strategic plans;
- issuing opinions on long-term strategic plans;
- issuing opinions on annual business plans (specifying the tasks to be performed and the related budgets),
- adopting rules laying down the detailed procedure followed by the Supervisory Board;
- adopting for the Company's internal purposes the uniform text of the Articles of Association,
- approving the Management Board rules;
- adopting the Company's Organisational Rules.

The powers of the Supervisory Board shall include granting consent to the Management Board for the following:

- acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 200,000.00, up to the PLN equivalent of EUR 800,000.00,
- acquisition or disposal of property, plant and equipment not related to the Company's core business, where the value of a single transaction exceeds one-twentieth of the Company's share capital,
- conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 5,000.00, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association,
- conclusion by the Company or its subsidiary of a material agreement with a party related to the Company.

Additionally, the Supervisory Board's powers shall include in particular:

- appointing and dismissing members of the Management Board,
- making requests concerning the remuneration rules and remuneration amounts to be received by the Management Board members,
- suspending members of the Management Board for important reasons,
- delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,
- conducting the procedure of qualifying members to the position of a Management Board member,
- representing the Company in agreements and disputes between the Company and the Management Board members,
- granting consent to the creation of foreign branches of the Company,

– granting permission to Management Board members for accepting positions on the governing bodies of other companies.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, are defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee is a standing committee at the Supervisory Board.

10.7.2.3 Audit Committee

The Audit Committee is composed of three members, at least one of whom shall be an independent member, subject to Article 8.8 of the Rules of Procedure of the Supervisory Board, and at least one shall possess competence and experience with regard to finance and accounting.

The task of the Audit Committee shall be advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its Capital Group, as well as chartered auditors auditing the Company's financial statements.

In particular, the duties of the Audit Committee shall include:

(i) review of interim and annual financial statements of the Company (separate and consolidated),
(ii) cooperation with the chartered auditor auditing the financial statements of the Company and recommending to the Supervisory Board the auditor to be selected,
(iii) discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and
(iv) providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

The Audit Committee, from 6 December 2008 to 28 May 2009, was composed of:

1. Henryk Czapla
2. Adam Partyka
3. Jadwiga Kalinowska

As the 6th term of office of the Supervisory Board was ended, and the new composition was appointed, on 28 May 2009 the Supervisory Board appointed the Audit Committee in the following composition:

1. Grażyna Dec
2. Henryk Czapla
3. Adam Partyka

10.7.3 General Shareholders Meeting of LW BOGDANKA S.A.

10.7.3.1 Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting (if information in that respect does not result directly from the provisions of law)

The General Shareholders Meeting of LW BOGDANKA S.A. holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and Article 44 of the Company's Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website (www.lw.com.pl), in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the General Shareholders Meeting with the right to vote.

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A., members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.

Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.

The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports,
- adopt a resolution on the distribution of profit or coverage of loss,
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties,
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members,
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts.
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon,
- acquisition or disposal of real estate, perpetual usufruct right to or interest in real estate with a value exceeding the PLN equivalent of EUR 800,000,
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator,
- increase in or reduction of the Company's share capital,
- issue of bonds of any type,
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code,
- mandatory redemption of shares in accordance with the Commercial Companies Code,
- creation, use and release of capital reserves,
- use of statutory reserve funds,
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company,
- contribution of non-current assets to the Company or a cooperative as a contribution-in-kind,
- merger, transformation or demerger of the Company,
- amendments to the Company's Articles of Association, including changes to the Company's business profile,
- dissolving and liquidating the Company.
- establishment of another company by the Company,
- subscription for or acquisition of shares in another company,
- disposal of subscribed for or acquired shares in another company.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

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

Bogdanka, 19 March 2010