LUBELSKI WĘGIEL BOGDANKA S.A.

FINANCIAL STATEMENTS

for the financial year from 1 January 2010 to 31 December 2010

BOGDANKA, MARCH 2011

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Statement of Financial Position (Balance Sheet)

	Note	31 Dec. 2010	31 Dec. 2009
Assets			
Fixed assets			
Tangible fixed assets	6	2,054,412	1,521,808
Intangible fixed assets	7	10,917	12,084
Long-term investments	8	73,341	73,341
Cash and cash equivalents	11	50,909	46,158
		2,189,579	1,653,391
Current assets			
Stocks	10	58,463	49,223
Trade debtors and other receivables	9.1	120,364	113,719
Overpaid income tax		4,456	2,754
Cash and cash equivalents	11	439,314	640,432
		622,597	806,128
TOTAL ASSETS		**2,812,176**	**2,459,519**
Shareholders' equity			
Ordinary shares	12	301,158	301,158
Other capital		1,086,588	894,535
Retained profits		570,133	534,824
Total shareholders' equity		**1,957,879**	**1,730,517**
Liabilities			
Long-term liabilities			
Loans and borrowings	16	200,000	250,000
Deferred income tax liabilities	17	56,378	59,903
Employee benefits liabilities	18	107,798	97,976
Provisions for other liabilities and encumbrances	19	67,314	63,079
Grants	15	19,451	-
Trade creditors and other liabilities	14	5,808	7,834
		456,749	478,792
Short-term liabilities			
Loans and borrowings	16	50,000	-
Employee benefits liabilities	18	29,709	26,338
Provisions for other liabilities and encumbrances	19	82,689	63,596
Trade creditors and other liabilities	14	235,150	160,276
		397,548	250,210
Total liabilities		**854,297**	**729,002**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2,812,176**	**2,459,519**

Statement of Comprehensive Income

	Note	for the financial year from 1 January to 31 December	
		2010	**2009**
Revenue on sales	20	1,221,540	1,110,851
Costs of products, goods and materials sold	21	(815,379)	(755,201)
Gross profit		**406,161**	**355,650**
Selling costs	21	(36,069)	(41,652)
Administrative costs	21	(67,888)	(64,485)
Other revenue	22	3,535	6,030
Other expenses	23	(3,343)	(2,140)
Other net losses	24	(27,650)	(22,602)
Operating profit		**274,746**	**230,801**
Financial income	25	23,569	16,002
Financial expenses	25	(13,543)	(7,067)
Net financial income	25	10,026	8,935
Profit before taxation		**284,772**	**239,736**
Income tax	26	(57,410)	(47,683)
Net profit for the period		**227,362**	**192,053**
Comprehensive income for the period		**227,362**	**192,053**
Earnings per share attributable to the Company's shareholders during the year (in PLN per share)			
- basic	27	6.68	6.66
- diluted	27	6.68	6.66

Statement of Changes in Shareholders' Equity

	Ordinary shares	Other capitals	Retained profits	Total shareholders' equity
As at 1 January 2009	**246,158**	**404,094**	**455,993**	**1,106,245**
Comprehensive income for the accounting period	-	-	192,053	192,053
Proceeds from issue of shares	55,000	-	-	55,000
Share premium	-	466,051	-	466,051
Dividends related to 2008	-	-	(88,832)	(88,832)
Transfer of the result for 2008	-	24,390	(24,390)	-
As at 31 December 2009	**301,158**	**894,535**	**534,824**	**1,730,517**
As at 1 January 2010	**301,158**	**894,535**	**534,824**	**1,730,517**
Comprehensive income for the accounting period	-	-	227,362	227,362
Transfer of the result for 2009	-	192,053	(192,053)	-
As at 31 December 2010	**301,158**	**1,086,588**	**570,133**	**1,957,879**

Cash Flow Statement

	Note	for the financial year from 1 January to 31 December	
		2010	**2009**
Operating cash flow			
Operating cash inflow	29	442,228	418,085
Interest paid	9	(12,265)	(9,353)
Income tax paid		(62,636)	(48,167)
Net operating cash flow		367,327	360,565
Cash flows from investing activities			
Acquisition of tangible fixed assets	29	(606,021)	(365,894)
Acquisition of intangible fixed assets	7	(394)	(4,244)
Inflow from the sale of tangible fixed assets	29	110	188
Interest received		23,180	14,541
Other net investing cash flow		(20)	640
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund		(4,751)	(5,085)
Net investing cash flow		(587,896)	(359,854)
Cash flows from financing activities			
Net proceeds from the sale of shares		-	521,051
Loans and borrowings received		-	180,000
Loans and borrowings repaid		-	(30,000)
Dividend paid to Company shareholders		-	(88,832)
Grants received	15	19,451	-
Net financing cash flow		19,451	582,219
Net increase / (decrease) in cash and cash equivalents		(201,118)	582,930
Cash and cash equivalents at beginning of period		640.432	57,502
Cash and cash equivalents at end of period		**439.314**	**640,432**

Notes to the Financial Statements

Additional information

1. General

1.1. Information on the Company

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

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

The Company was entered in Section B of the Commercial Register of the District Court in Lublin, VIII Commercial Division, under No. H - 2993, on the basis of a valid decision of that Court issued on 30 April 1993 (file ref. No. HB - 2993, Ns. Rej. H 669/93).

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

On 22 June 2009, pursuant to the decision of the Polish Financial Supervision Authority, Series A and C Shares and Rights to Series C Shares were admitted to public trading on the WSE main market. On 25 June 2009, the Company made its debut on the WSE by introducing Rights to Series C Shares to trading. Share capital of the Company was increased, which has been described in detail in Note 12. As a result of transactions effected in 2010 regarding the disposal of shares effected by the State Treasury, represented by the Minister of the State Treasury as well as transfer of shares on the basis of contracts on a free-of-charge disposal of shares for the benefit of eligible employees under the Act on Commercialisation and Privatisation, Lubelski Węgiel Bogdanka Spółka Akcyjna has lost the status of the Company owned by the State Treasury.

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

The Company is the parent undertaking in Lubelski Węgiel Bogdanka S.A. Group. The Group prepares consolidated financial statements in accordance with IFSR for the period from 1 January 2010 to 31 December 2010. These separate financial statements should be read in conjunction with the consolidated financial statements of the LW Bogdanka Group for the period from 1 January 2010 to 31 December 2010.

1.2. Assumption of the Company going concern

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

If after the preparation of its financial statements, the Company receives any information about events significantly affecting the financial statements or resulting in the Company's assumption of going concern becoming illegitimate, the Management Board of Lubelski Węgiel BOGDANKA S.A. is authorised to correct the financial statements before they are approved. This does not exclude the possibility of making retrospective changes to the financial statements in subsequent periods in order to correct errors or to reflect changes to accounting principles in accordance with IAS 8.

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

2. Description of key accounting principles applied

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

2.1. Basis of preparation

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

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

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

(a) New standards and interpretations effective as of 1 January 2010.

- **Improvements to IFRS 2009**

On 16 April 2009 the International Accounting Standards Board published "Improvements to IFRS 2009" amending 12 standards. The improvements include changes in the presentation, recognition and measurement, as well editorial and terminological changes. Eight changes are effective for annual periods starting 1 January 2010. The amendments to the IFRS were endorsed by the EU on 23 March 2010. The changes refer to:

– IFRS 5 "Non-current assets held for sale and discontinued operations" specifies what information must be disclosed with regard to fixed assets or groups of assets held for sale or with regard to discontinued operations.

– IFRS 8 "Operating segments" specifies that operating segment assets must be disclosed only if relevant information is regularly provided to the chief operating decision-makers.

– IAS 1 "Presentation of financial statements" explains that the possibility of forcing the holder of convertible bonds to convert the bonds does not automatically lead to re-classification of convertible debt securities into short-term securities.

– IAS 7 "Cash-flow statements" specifies that only expenses that result in recognition of an asset may be classified as investing activities in a cash-flow statement.

– IAS 17 "Leases" – a lease of land and buildings may be divided into two elements and each may be classified separately.

– IAS 18 "Revenue" helps to establish whether an entity acts as an agent.

– IAS 36 "Impairment of assets" specifies that goodwill must be tested at an operating segment level before aggregation.

– IAS 38 "Intangible assets" provides guidance for establishing the fair value of intangible assets received as part of a business combination which are not traded in active markets.

– IAS 39 "Financial instruments: recognition and measurement" – three separate changes: the exemption from the scope of IAS 39 of contracts in a business combination has been narrowed; the effective portion of the gain and loss on an cash flow hedge should be carried over to the profit and loss account if the anticipated cash flow affects the profit and loss account; an early redemption option embedded in an underlying debt instrument

should not be recognised separately as an embedded derivative instrument if the penalty for repayment is designed so as to compensate the borrower for the loss of interest on the remaining portion of the underlying contract.

The Company applied amendments to the IFRS pursuant to transitional provisions. The amendments to the standards do not have any impact on the Company's financial statements.

- **IFRS 2 "Share-based Payment"**

Changes in IFRS 2 "Share-based payment" were published by the International Accounting Standards Board on 18 June 2009 and are effective for annual periods beginning on or after 1 January 2010 (endorsed by the EU on 23 March 2010). The changes provide for in greater detail the disclosure of intragroup share-based payments settled in cash. They make the scope of IFRS 2 more specific and regulate the joint application of IFRS 2 and other standards. The changes introduce to the standard issues regulated previously in IFRIC 8 and IFRIC 11.

The amendments to the standards do not have any impact on the Company's financial statements.

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

- **IAS 24 "Related party disclosures" (Amendment)**

Amendments to IAS 24 "Related Party Disclosures" were published by the International Accounting Standards Board on 4 November 2009 and are effective for annual periods beginning on or after 1 January 2011 (endorsed by the EU on 19 July 2010). The amendments simplify the requirements for disclosure of information by entities related to state institutions and specify more precisely definitions of a related party.

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

- **IAS 32 "Classification of rights issues" (Amendment)**

Amendments to IAS 32 "Classification of Rights Issues" were published by the International Accounting Standards Board on 8 October 2009 and are effective for annual periods beginning on or after 1 February 2010 (endorsed by the EU on 23 December 2009). The amendments relate to the accounting of issues of rights (rights, options, warrants) denominated in a currency other than the issuer's functional currency. They require that if specified conditions are satisfied, the issue of rights should be classified as shareholders' equity regardless of a currency in which the exercise price is denominated.

The Company will apply the amendments to IAS 32 as of 1 January 2011.

- **IFRIC 19 "Extinguishing financial liabilities with equity instruments"**

IFRIC 19 was issued by the International Financial Reporting Interpretations Committee on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010 (endorsed by the EU on 23 July 2010). The interpretation explains the accounting principles applied in a situation where a liability is extinguished by the issue of equity instruments addressed to the creditor following renegotiation by the undertaking of the terms of its indebtedness. The interpretation requires the measurement of equity instruments at fair value and the recognition of a gain or loss equal to a difference between the liability carrying amount and the equity instrument fair value.

The Company will apply IFRIC 19 as of 1 January 2011.

- **IFRS 7 "Financial Instruments" disclosures (Amendments)**

On 7 October 2010, the International Accounting Standards Board issued a document called "Disclosures - Transfers of Financial Assets" (amendments to IFRS 7 Financial Instruments: Disclosures) applicable to annual periods beginning on or after 1 July 2011). The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments include tighter requirements for disclosures under IFRS 7 relating to

transactions where a financial asset is transferred but is not derecognised, and impose new disclosure requirements relating to assets that have been derecognised but the entity's exposure to those assets has not changed despite the sale of the assets.

The Company will apply the amendments to IFRS 7 as of 1 July 2011.

As at the date of drawing up the present financial statements, the amendments to IFRS 7 have not been yet endorsed by the European Union.

- **IFRS 9 "Financial Instruments Part 1: Classification and Measurement"**

IFRS 9 published by the International Accounting Standards Board on 12 November 2009 replaces those parts of IAS 39 which relate to the classification and measurement of financial assets. In October 2010, IFRS 9 was supplemented to address the classification and measurement of financial liabilities. The new standard is applicable to annual periods beginning on or after 1 January 2013.
The standard introduces a model with only two categories of financial assets: financial assets measured at fair value and financial assets measured at amortised cost. The standard requires that an asset be classified when it is initially recognised and according to the financial instrument management model adopted by the entity and reflecting the characteristics of the contractual cash flows from those instruments.
The majority of IAS 39 requirements for the classification and measurement of financial liabilities have been included in IFRS 9 without any changes. The key change is the requirement that an entity should present, in other comprehensive income, the outcome of changes of its own credit risk arising from financial liabilities classified for measurement at fair value through profit and loss.

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

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

- **Improvements to IFRS 2010**

On 6 May 2010 the International Accounting Standards Board published "Improvements to IFRS 2010" amending 7 standards.

- IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- IFRS 3 "Business Combinations"
- IFRS 7 "Financial Instruments - disclosures"
- IAS 1 "Presentation of Financial Statements"
- Transitional provisions referring to amendments resulting from the application of IAS 27 "Consolidated and Separate Financial Statements"
- IAS 34 "Interim Financial Reporting"
- IFRIC 13 "Customer loyalty programmes"

The improvements include changes in the presentation, recognition and measurement, as well editorial and terminological changes. Most of them will be effective for annual periods beginning as of 1 January 2011.

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

As at the date of drawing up the present financial statements, the improvements to IFRS 2010 have not been yet endorsed by the European Union.

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

- **IAS 39 "Financial instruments: recognition and measurement" – "Eligible hedged items" (Amendments)**

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

To date, there have been no actions described in IAS 39 in the existing operations of the Company.

- **IFRS 1 "First-time Adoption of IFRS" (Amendment)**

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

To date, there have been no actions described in IFRS 1 in the existing operations of the Company.

- **IFRS 1 "First-time Adoption of IFRS" (Amendments)**

Amendments to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" were published by the International Accounting Standards Board on 28 January 2010 and are effective for annual periods beginning on or after 1 July 2010 (endorsed by the EU on 30 June 2010). The amendments introduce additional exemptions for first-time adopters of the IFRS regarding disclosures which are required by the amendments to IFRS 7 issued in March 2009, in respect of measurement to fair value and liquidity risk.

To date, there have been no actions described in IFRS 1 in the existing operations of the Company.

- **Amendments to IAS 12 – "Recovery of Underlying Assets"**

In December 2010, the International Accounting Standards Board published Amendment to IAS 12 "Recovery of Underlying Assets". These amendments are applicable to annual periods beginning on or after 1 January 2012.
The amendments apply to the measurement of deferred tax assets and deferred tax liabilities relating to investment properties measured at fair value in accordance with IAS 40 "Investment Property" and introduce a rebuttable presumption that the value of an investment property may be recovered entirely through sale. The presumption can be rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits represented by the investment property over time, rather than through sale. SIC-21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets", concerning similar issues with regard to non-depreciable assets measured in accordance with the revaluation model presented in IAS 16 "Tangible Fixed Assets", was incorporated into IAS 12 after the exclusion of guidelines for investment properties measured at fair value.

To date, there have been no actions described in IAS 12 in the existing operations of the Company.

As at the date of drawing up these financial statements, the amendments to IAS 12 have not been yet endorsed by the European Union.

- **Amendments to IFRS 1 – "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"**

Amendments to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters of IFRS" were first published by the International Accounting Standards Board in December 2010 and are applicable to annual periods beginning on or after 1 July 2011.
The amendment regarding severe hyperinflation provides an additional exemption where an entity that has been subject to severe hyperinflation re-elects to prepare its financial statements in accordance with the IFRS or is a first-time adopter of the IFRS. This exemption allows the entity to elect to measure its assets and liabilities at fair value and to use that fair value as the presumed cost of such assets and liabilities in the opening balance sheet in its first statement of financial position prepared in accordance with the IFRS.
The International Accounting Standards Board (IASB) also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption in the standard, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of the IFRS prospectively from the date of transition rather than from 1 January 2004. The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market and allows an entity to apply the guidance prospectively from the date of transition to the IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to reconstruct fair value for financial assets and liabilities for periods prior to the date of transition. IFRS 9 was also amended to reflect these changes.

To date, there have been no actions described in IFRS 1 in the existing operations of the Company.

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

- **IFRS 3 "Business combinations" (Amendment)**

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

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

- **IFRS 8 "Operating Segments"**

IFRS 8 was issued by the International Accounting Standards Board on 30 November 2006, and it is mandatory for annual financial statements for periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14 "Segment Reporting". This standard lays down new requirements related to disclosing information concerning segments of business activity, as well as information concerning products and services, geographical areas in which activities are conducted, and major customers. IFRS 8 requires a "management approach" to reporting financial results of business segments.

Since the Company only conducts its business activities in one segment, the introduction of this standard does not affect the financial statements of the Company.

- **IFRIC 12 "Service concession agreements"**

IFRIC 12 was issued by the International Financial Reporting Interpretations Committee on 30 November 2006 and is effective for annual periods beginning on or after 29 March 2009. The interpretation includes guidance for the

application of the existing standards by entities participating in service concession agreements between public and private sector. IFRIC 12 is applicable to agreements in which the ordering party controls which services will be provided by the operator with help of the infrastructure, to whom such services are provided and at what price.

There were no actions described in IFRIC 12 in the existing operations of the Company.

- **IFRIC 13 "Customer loyalty programmes"**

IFRIC 13 explains that where goods or services are sold together with incentives creating customer loyalty (e.g. loyalty credits or free of charge products) we have to do with an agreement with many elements and the compensation receivable from the customer is allocated between the agreement elements at fair value.

There were no actions described in IFRIC 13 in the existing operations of the Company.

- **IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interact project" (Amendment)**

Amendments to IFRIC 14 were issued by the International Financial Reporting Interpretations Committee on 26 November 2009 and are effective for annual periods beginning on or after 1 January 2011 (approved by the EU on 19 July 2010). The interpretation includes guidance regarding the recognition of prepaid contributions for covering minimum funding requirements as assets in an undertaking making such prepayment.

There were no actions described in IFRIC 14 in the existing operations of the Company.

- **IFRIC 15 "Agreements for the construction of real estate"**

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

There were no actions described in IFRIC 15 in the existing operations of the Company.

- **IFRIC 16 "Hedges of a net investment in a foreign operation"**

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

There were no actions described in IFRIC 16 in the existing operations of the Company.

- **IFRIC 17 "Distributions of Non-cash Assets to Owners"**

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

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

- **IFRIC 18 "Transfers of Assets from Customers"**

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

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

2.2. Information regarding seasonality

The production is not seasonal, whereas seasonal character of sales can be noticed in the case of retail sales at a point of coal sale. Sales for individual customers account for 2.46 % of the total sales. They do not have any significant impact on the operating and financial activities of the Company.

2.3. Measurement of items expressed in foreign currencies

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

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

2.4. Tangible fixed assets

Tangible fixed assets are the assets:

- which are held by the Company with a view to being used in the production process, in supply of goods or provision of services, and for administrative purposes,
- which are expected to be used for a period longer than one year,
- in relation to which the entity is likely to gain economic benefits in future (on a particular asset), and
- whose value may be reliably measured.

Tangible fixed assets are initially recognised at acquisition or production cost.
As at initial recognition, the acquisition or production cost of tangible fixed assets includes costs of construction of underground tunnels (the so-called main tunnels and operational tunnels) and longwall headings driven in the extraction fields net of revenue from sales of coal mined during construction of such tunnels and headings.
As at initial recognition, the acquisition or production cost of tangible fixed assets includes estimated cost of dismantling and removing the asset and restoring the site, which the Company is obliged to incur at the installation of an item of tangible fixed assets or its placement in service. In particular, the initial value of tangible fixed assets includes discounted cost of decommissioning tangible fixed assets related to underground mining as well as other structures which, under the applicable mining laws, are subject to decommissioning when operations are discontinued.
Costs of mine decommissioning disclosed at initial value of tangible fixed assets are subject to depreciation with the use of the same method as the one applied to the tangible fixed assets to which they relate starting from the moment a given tangible asset is placed in service for a period determined

in the decommissioning plan for groups of structures under the estimated mine decommissioning schedule.

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

Subsequent expenditures are recognised in the carrying value of a given item of tangible fixed assets or recognised as a separate item of tangible fixed assets (where appropriate) only when it is probable that future economic benefits associated with that item will flow to the Company and the value of that item can be measured reliably. Any other expenditure on repair and maintenance is recognised in the Statement of Comprehensive Income in the accounting period in which it is incurred.
Land is not depreciated. Other items of tangible fixed assets are depreciated using the straight-line method or the unit-of-production method in order to distribute their initial values or re-measured values, less residual values, over their useful economic lives, which for particular groups of tangible fixed assets are as follows:

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

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

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

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

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

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

Specialist spare parts with a significant initial value, which are expected to be used for a period longer than one year are recorded as items of tangible fixed assets. Spare parts and equipment connected with maintenance which may only be used only for certain items of tangible fixed assets are recorded

similarly. Other low-value spare parts and equipment connected with maintenance are carried as stock and recognised in the Statement of Comprehensive Income at the time of their use.

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

2.5. Intangible fixed assets

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

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

(c) Fees and licences
The fee for mining usufruct for the purpose of extraction of coal from the Bogdanka deposit is capitalised in the amount of the fee paid. The capitalised cost is amortised over the estimated period of mining use, i.e. until 31 December 2031.

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

2.6. Long-term investments

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

- Gain or loss on sale of investments is calculated by comparing the revenue from sale with their carrying value, and is recognised in the Statement of Comprehensive Income under other "financial income / expenses".

2.7. Impairment of non-financial assets

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

2.8. Financial assets

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

- *Loans and accounts receivable*
  Loans and receivables are financial assets with fixed or determinable payments, not classified as derivatives and not traded on any active market. Loans and receivables are included in current assets providing their maturity does not exceed 12 months as of the balance-sheet date, and they are included in the non-current

assets if their maturity exceeds 12 months as of the balance-sheet date. Trade and other receivables as well as cash and cash equivalents are presented as loans and receivables.

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

Loans and receivables are disclosed as at the transaction date at the fair value, and subsequently, they are carried at adjusted acquisition cost (amortised cost) using the effective interest rate method. Loans and receivables are derecognised when the rights to receive cash flows related to them expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

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

2.9. Stocks

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

2.10. Trade debtors

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

2.11. Cash and cash equivalents

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

2.12. Share capital

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

2.13. Trade liabilities

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

2.14. Loans and borrowings

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

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

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

2.15. Current income tax and deferred tax

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

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

2.16. Employee benefits

(a) Retirement and other employee benefits

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

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

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

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

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

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

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

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

Actuarial gains and losses are charged or credited to expenses in the Statement of Comprehensive Income in the period in which they arise.

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

(b) Profit-sharing programmes and bonus programmes

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

2.17. Provisions

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

(a) Provision for mine closure

A provision for future cost of decommissioning of a mining plant is established due to obligations arising under the Geological and Mining Law whereby a mining company is required to decommission mining plants on discontinuation of production, in the amount of expected costs related to:

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

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

Amounts of provisions are presented in a current value of expenditure which are expected to be necessary for meeting the liability referred to above. An interest rate is applied before taxation which reflects the current assessment of the market situation with respect to time value of money and risk related to a particular item of liabilities. Increase in provisions due to the passage of time is included in interest expenses. Change in provisions due to revaluation of relevant applicable estimates (inflation rate, expected nominal value of expenditures on decommissioning) is recognised as adjustment to the value of tangible fixed assets for which a decommissioning obligation exists.

2.18. Recognition of revenue

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

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

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

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

2.19. Recognition of government grants

The Company applies the below-described method for accounting for government grants to subsidise initial investments under the Regulation of the Minister of Economy of 10 June 2010 (Dz.U. of 2010, No.109, item 714).

IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" is applied in accounting for, and in the disclosure of, government grants.
According to IAS 20.3, grants related to assets are defined as government grants whose objective is to finance fixed assets. Under IAS 20, government grants must be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.
The Company presents grants related to assets in its financial statements as follows:

- in its Statement of Financial Position (balance sheet) under "Liabilities" and "Grants";
- in its Statement of Comprehensive Income proportionately to the depreciation of the fixed assets for which a particular grant was received.

Recognising a grant in the books of account requires the application of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" to related contingent liabilities or contingent assets.

The grant should be accounted for entirely when the asset financed with the grant is fully depreciated, sold or liquidated.

2.20. Leases

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

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

2.21. Dividend payment

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

3. Managing financial risk

3.1. Financial risk factors

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

(a) Risk of a change in cash flows resulting from a change in interest rates
Given that the Company holds a significant amount of interest-bearing assets, the Company's revenue and cash flows are affected by changes in market interest rates.
The Company is also exposed to interest rate risk in connection with its current and non-current debt instruments. Loans bearing interest at variable rates result in the Company's exposure to a change in cash flows resulting from changes in interest rates. In 2010 the Company used external financing denominated in the złoty.

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

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

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

	2010	**2009**
Cash in hand and bank deposits	490,223	686,590
Current trade debtors	87,544	92,682
Total exposure to credit risk	577,767	779,272

Receivables from 7 key customers	86,630	78,459
Concentration of credit risk under receivables from 7 key customers	99%	85%
Cash deposited at Bank Millenium S.A. (expressed as % of total cash and bank deposits)	44%	30%
Cash deposited at banks: BRE Bank S.A., BOŚ S.A., PKO Bank Polski S.A. (expressed as % of total cash and bank deposits)	49%	66%

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

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

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

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

	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
As at 31 December 2010				
Loans and borrowings	61,144	73,762	143,346	-
Trade creditors and other liabilities	187,274	10,533	15,800	5,267

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

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

(d) Sensitivity analysis of the financial result
Based on the 2010 data concerning the Company's core business, the sensitivity of the financial result to changes in market risk factors (price of coal and interest rates) has been assessed.

The assessment indicates that a 1% increase in the unit price of coal (translating into a 1% increase in revenues from the sale of coal) results in a rise of the result on sales by 4.04%. Similarly, a 1% decrease in the coal price reduces the result on sales by 4.04%. The table below shows changes in the result in other analysed ranges (assuming that other factors remain unchanged).

Change in price	-15%	-10%	-5%	-2%	-1%	0%	1%	2%	5%	10%	15%
Change in sales	-60.63%	-40.42%	-20.21%	-8.08%	-4.04%	0.00%	4.04%	8.08%	20.21%	40.42%	60.63%

The Company mitigates the risk associated with prices of raw materials for energy production by signing long-term commercial contracts with key customers for power coal.

3.2. Managing capital risk

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

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

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

	31 Dec. 2010	**31 Dec. 2009**
Total loans	250,000	250,000
Less: cash and cash equivalents	(490,223)	(686,590)
Net debt / (liquid assets)	(240,223)	(436,590)
Total Equity	1,957,879	1,730,517
Employed capital	1,717,656	1,293,927

4. Material accounting estimates and judgements

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

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

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

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

Estimate concerning provision for mining plant decommissioning

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

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

Adopted inflation ratios for 2011-2034 range from 2.2% to 3.7%.
The calculation of the provision was significantly affected by the discount rate which reflects the change in money value over time. For the purpose of assumptions, a discount rate based on the treasury bills yield was adopted.

If the actual interest rates departed from the Management Board's estimates by 10%, the carrying value of provisions would be PLN 1.126,000 higher or PLN 1.111,000 lower.

Retirement benefits

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

5. Information on business segments

(a) Key reporting structure - industry segments

The Company's core business is production and sale of coal. In 2010, revenue from sales of other products and services amounted to PLN 30,524,000 (in 2009: PLN 32,170,000), representing, respectively, 2.5% in 2010 and 2.9% in 2009 of total sales revenue.

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

(b) Supplementary reporting structure - geographical segments

The Company operates primarily in Poland. In 2010, revenue from foreign sales amounted to PLN 828,000 (in 2009: PLN 705,000), representing, respectively, 0.07% and 0.06% of total sales revenue in the given year. The Company does not hold assets or liabilities outside Poland.

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

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

6. Tangible fixed assets

	Land	Buildings and structures (including mining excavations)	Plant and machinery	Vehicles	Other fixed assets	Construction in progress	Total
As at 1 January 2009							
Cost or assessed value	1,878	1,079,475	663,772	87,330	10,925	248,939	2,092,319
Depreciation	-	(406,194)	(339,731)	(42,853)	(6,443)	-	(795,221)
Net book value	1,878	673,281	324,041	44,477	4,482	248,939	1,297,098
As at 31 December 2009							
Net book value at beginning of year	1,878	673,281	324,041	44,477	4,482	248,939	1,297,098
Increases	1,004	248,924	70,713	8,834	1,117	369,434	700,026
Decreases*	-	(6,326)	(2,063)	(107)	(4)	(330,810)	(339,310)
Depreciation	-	(86,272)	(39,645)	(9,000)	(1,089)	-	(136,006)
Net book value	**2,882**	**829,607**	**353,046**	**44,204**	**4,506**	**287,563**	**1,521,808**
As at 31 December 2009							
Cost or assessed value	2,882	1,341,306	717,004	92,504	11,804	287,563	2,453,063
Depreciation	-	(511,699)	(363,958)	(48,300)	(7,298)	-	(931,255)
Net book value	2,882	829,607	353,046	44,204	4,506	287,563	1,521,808
As at 1 January 2010							
Cost or assessed value	2,882	1,341,306	717,004	92,504	11,804	287,563	2,453,063
Depreciation	-	(511,699)	(363,958)	(48,300)	(7,298)	-	(931,255)
Net book value	2,882	829,607	353,046	44,204	4,506	287,563	1,521,808
As at 31 December 2010							
Net book value at beginning of year	2,882	829,607	353,046	44,204	4,506	287,563	1,521,808
Increases*	3,809	146,323	203,802	7,234	526	672,929	1,034,623
Decreases*	(3,809)	(5,259)	(347)	(200)	(4)	(359,147)	(368,766)
Depreciation	-	(78,395)	(48,893)	(5,092)	(873)	-	(133,253)
Net book value	**2,882**	**892,276**	**507,608**	**46,146**	**4,155**	**601,345**	**2,054,412**
As at 31 December 2010							
Cost or assessed value	2,882	1,439,653	913,709	98,841	12,240	601,345	3,068,670
Depreciation	-	(547,377)	(406,101)	(52,695)	(8,085)	-	(1,014,258)
Net book value	2,882	892,276	507,608	46,146	4,155	601,345	2,054,412

* the item includes creating, releasing and using the write-offs revaluating tangible fixed assets

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

- tangible fixed assets partially unserviceable.

The revaluation write-offs are made in full amount for the tangible fixed assets fully unserviceable. Write-offs revaluating tangible fixed assets are presented in the table below:

	Land	Buildings and structures (including mining excavations)	Plant and machinery	Construction in progress	Total
As at 1 January 2009	**-**	**-**	**-**	**-**	**-**
Creating revaluation write-offs due to impairment of value	-	5,580	1,490	120	7,190
As at 31 December 2009	**-**	**5,580**	**1,490**	**120**	**7,190**
Creating revaluation write-offs due to impairment of value	3,809	-	-	-	3,809
Using the write-off created	-	(2,614)	(37)	-	(2,651)
As at 31 December 2010	**3,809**	**2,966**	**1,453**	**120**	**8,348**

The creation, releasing and using the revaluation write-off due to impairment of value as at 31 December 2010 was disclosed in the Statement of Comprehensive Income under other the 'other net profits / (losses)' item.

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

Depreciation of tangible fixed assets is disclosed in the Statement of Comprehensive Income as follows:

	2010	2009
Cost of products, goods and materials sold	(127,590)	(130,036)
Selling costs	(267)	(299)
Administrative costs	(5,396)	(5,671)
	(133,253)	**(136,006)**

7. Intangible fixed assets

	Computer software	Fees, licences	Geological information	Other	Total
As at 1 January 2009					
Cost or assessed value	2,797	862	10,789	23	14,471
Amortisation	(1,708)	(644)	(2,027)	(9)	(4,388)
Net book value	1,089	218	8,762	14	10,083
As at 31 December 2009					
Net book value at beginning of year	1,089	218	8,762	14	10,083
Increases	807	3,437	-	19	4,263
Amortisation	(885)	(100)	(1,275)	(2)	(2,262)
Net book value	**1,011**	**3,555**	**7,487**	**31**	**12,084**
As at 31 December 2009					
Cost or assessed value	3,604	4,299	10,789	42	18,734
Amortisation	(2,593)	(744)	(3,302)	(11)	(6,650)
Net book value	1,011	3,555	7,487	31	12,084
As at 1 January 2010					
Cost or assessed value	3,604	4,299	10,789	42	18,734
Amortisation	(2,593)	(744)	(3,302)	(11)	(6,650)
Net book value	1,011	3,555	7,487	31	12,084
As at 31 December 2010					
Net book value at beginning of year	1,011	3,555	7,487	31	12,084
Presentation adjustment	106	(62)	(26)	(18)	-
Increases	301	93	-	-	394
Amortisation	(198)	(149)	(1,211)	(3)	(1,561)
Net book value	**1,220**	**3,437**	**6,250**	**10**	**10,917**
As at 31 December 2010					
Cost or assessed value	4,011	4,330	10,763	24	19,128
Amortisation	(2,791)	(893)	(4,513)	(14)	(8,211)
Net book value	1,220	3,396	6,291	10	10,917

Amortisation of intangible fixed assets is disclosed in the Statement of Comprehensive Income as follows:

	2010	2009
Cost of products, goods and materials sold	(1,495)	(2,163)
Selling costs	(3)	(5)
Administrative costs	(63)	(94)
	(1,561)	**(2,262)**

8. Long-term investments

	Shares in limited liability companies	Shares	Total
As at 31 December 2009			
Net book value at beginning of year	73,341	420	76,761
Decreases	-	(420)	(420)
Net book value	**73,341**	**-**	**73,341**
As at 31 December 2010			
Net book value at beginning of year	73,341	-	73,341
Net book value	**73,341**	**-**	**73,341**

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

Name of the undertaking	Registration country	Assets	Liabilities	Revenues	Profit/ (Loss) net	Shares held (%)
2009						
Łęczyńska Energetyka Sp. z o.o. in Bogdanka	Poland	85,992	4,896	23,130	(1,255)	88.70
2010						
Łęczyńska Energetyka Sp. z o.o. in Bogdanka	Poland	90,775	6,859	26,946	2,820	88.70

Shares and voting rights held remained on the same level in the period under analysis. The value of assets, liabilities and revenue in 2009-2010 is comparable.

9. Financial instruments by type

	Loans and accounts receivable	Total
31 December 2010		
Assets as disclosed in the Statement of Financial Position		
Trade debtors	87,544	87,544
Cash and cash equivalents	490,223	490,223
Total	**577,767**	**577,767**

	Other financial liabilities	Total
Liabilities as disclosed in the Statement of Financial Position		
Loans and borrowings	250,000	250,000
Trade creditors and other financial liabilities	157,565	157,565
Total	**407,565**	**407,565**

Interest and commissions paid	
Interest	11,515
Commission	750
Total	**12,265**

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

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

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

9.1. Trade debtors and other receivables

	31 Dec. 2010	31 Dec. 2009
Trade debtors	92,236	98,961
Less: write-off revaluating accounts receivable	(4,692)	(6,279)
Net trade debtors	**87,544**	**92,682**
Prepayments	9,449	11,268
Other receivables	23,371	9,769
short-term	**120,364**	**113,719**
Total trade debtors and other receivables	**120,364**	**113,719**

Fair value of trade debtors and other accounts receivable does not differ significantly from their balance-sheet value.
All receivables of the Company are expressed in PLN.

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

	2010	2009
As at 1 January	**6,279**	**7,483**
Creating a write-off	3,581	2,562
Receivables written down during the year as uncollectible	(101)	(6)
Reversal of unused amounts	(5,067)	(3,760)
As at 31 December	**4,692**	**6,279**

Creating and releasing the write-off for the impairment of value was disclosed in the Statement of Comprehensive Income.
Other categories of trade debtors and other accounts receivable do not included items of reduced value.

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

	31 Dec. 2010	31 Dec. 2009
Less than 1 month	33	5,435
1 to 3 months	3,033	-
3 to 6 months	-	69
6 to 12 months	81	38
above 12 months	1,545	737
	4,692	**6,279**

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

	31 Dec. 2010	31 Dec. 2009
Less than 1 month	186	2,057
1 to 3 months	83	32
3 to 6 months	10	41
6 to 12 months	25	202
above 12 months	-	35
	304	**2,367**

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

10. Stocks

	31 Dec. 2010	31 Dec. 2009
Materials	28,851	31,042
write-offs due to permanent impairment of value	(8)	-
work in progress	454	615
Write-off for revaluating to the sale price, likely to achieve, of the production in progress	(335)	(63)
Finished goods	30,863	18,529
Write-off for revaluating to the sale price, likely to achieve, of the finished goods	(1,362)	(900)
	58,463	**49,223**

Cost of stock disclosed under 'Cost of products, goods and materials sold' amounted to PLN 815,379,000 in 2010 (2009: PLN 755,201,000).

Changes in the write-off for revaluating to the sale price, likely to achieve, and for impairment of stocks are presented below:

	2010	2009
As at 1 January	**963**	**838**
Creating the write-off for revaluating	1,705	963
Recovery of stock value	(963)	(838)
As at 31 December	**1,705**	**963**

Creating and recovery of write-offs revaluating the value of stock was presented in the Statement of Comprehensive Income in the 'other net profits / (losses)' item.

11. Cash and cash equivalents

	31 Dec. 2010	31 Dec. 2009
Cash in banks and at hand	18,276	158,461
Short-term bank deposits	471,947	528,129
	490,223	**686,590**
including:		
Long-term*	50,909	46,158
Short-term	439,314	640,432
	490,223	**686,590**

* with restricted liquidity

Value of cash with restricted liquidity amounted to PLN 50,909,000 as at 31 December 2010, (2009: PLN 46,158,000) and primarily comprises the funds deposited in the Mine Closure Fund for the coverage of the costs of liquidation of a mine plant.

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

2010 – 3.6% - 3.7%
2009 – 3.5% - 5.6%

12. Share capital

	Number of shares ('000)	Ordinary shares - par value	Hyperinflation adjustment	Total
As at 1 January 2009	23,014	115,068	131,090	246,158
Increase due to share issue	11,000	55,000	-	55,000
As at 31 December 2009	34,014	170,068	131,090	301,158
As at 1 January 2010	34,014	170,068	131,090	301,158
As at 31 December 2010	34,014	170,068	131,090	301,158

On 22 June 2009, pursuant to the decision of the Polish Financial Supervision Authority, Series A and C Shares and Rights to Series C Shares were admitted to public trading on the WSE main market. On 25 June 2009, the Company made its debut on the WSE by introducing Rights to Series C Shares to trading. The issue price of Series C Shares was PLN 48.00 and the value of the public offering was PLN 528 million. The funds gained by the Company from the new issue carried out in June 2009 were credited to the Company's account on 15 July 2009. The above amount was reduced by the costs of carrying out the offering and disclosed as a capital increase in July 2009. The value of the share issue costs, which reduced the value of other capitals, amounted to PLN 6,949,000. The share capital of the Company was increased by way of an issue of 11 million shares with a value of PLN 55 million and currently amounts to PLN 170,068,000 (PLN 301,158,000 after hyperinflation revaluation). The increase in the share capital was registered on 10 July 2009 by the District Court in Lublin, XI Commercial Division of the National Court Register.

13. Other capitals

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

14. Current income tax liabilities

	31 Dec. 2010	31 Dec. 2009
Trade liabilities	52,471	62,612
Accruals	29,709	26,338
Other liabilities, including:	133,268	51,611
the Company Social Benefits Fund,	5,465	4,772
Liabilities due security deposit	3,849	3,047
Investment liabilities	101,245	35,272
Other liabilities	22,709	8,520
Total financial liabilities	215,448	140,561
Non-financial liabilities – social security and other tax payable	25,510	27,549
Total trade creditors and other liabilities	**240,958**	**168,110**

including:		
Long-term	5,808	7,834
Short-term	235,150	160,276
	240,958	**168,110**

15. Grants

	31 Dec. 2010	31 Dec. 2009
Long-term liabilities		
Grants	19,451	-
	19,451	**-**

Pursuant to the Regulation of the Minister of Economy on a budget subsidy to co-finance initial investments of 10 June 2010, the Company received a grant for the following project:
- "Construction of a mining shaft hoist at shaft 2.1 in the Stefanów Field, in the mining plant of Lubelski Węgiel Bogdanka S.A., in the amount of PLN 19,451,437."
On 8 November 2010, the Company and the Ministry of Economy entered into an agreement for a government grant to subsidise initial investments. The agreement requires the Company to use the grant only for the purposes specified in the agreement. On 30 November 2010, the Company received the grant and expended the grant funds by 31 December 2010.
The grant should be accounted for entirely when the asset financed with the grant is fully depreciated, sold or liquidated.

16. Loans and borrowings

	31 Dec. 2010	31 Dec. 2009
Long-term:		
Bank loans	200,000	250,000
Short-term:		
Working capital bank loans	50,000	-
	250,000	**250,000**

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

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

The Company takes out loans in PLN.

The Company has no unused credit lines.

17. Deferred income tax

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

	31 Dec. 2010	**31 Dec. 2009**
Deferred income tax assets		
- to be realised after 12 months	40,553	35,363
- to be realised within 12 months	2,237	2,097
	42,790	37,460
Deferred income tax liabilities		
- to be realised after 12 months	96,700	95,127
- to be realised within 12 months	2,468	2,236
	99,168	97,363
Deferred income tax liabilities (net)	**56,378**	**59,903**

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

Deferred income tax assets	**Employee benefits and similar liabilities**	**Unpaid remuneration and other benefits**	**Provision for real property tax**	**Other**	**Total**
As at 1 January 2009	22,881	7,436	6,145	1,294	37,756
(Decrease)/increase of the financial result	739	(5,519)	1,355	3,129	(296)
As at 31 December 2009	23,620	1,917	7,500	4,423	37,460
(Decrease)/increase of the financial result	2,506	202	1,545	1,077	5,330
As at 31 December 2010	26,126	2,119	9,045	5,500	42,790

Deferred income tax liabilities	**Valuation of fixed assets**	**Costs of panel strengthening**	**Provision for mine closure**	**Other**	**Total**
As at 1 January 2009	88,342	2,052	5,366	314	96,074
Decrease/(increase) of the financial result	1,772	(130)	(353)	-	1,289
As at 31 December 2009	90,114	1,922	5,013	314	97,363
Decrease/(increase) of the financial result	2,766	(700)	(298)	37	1,805
As at 31 December 2010	92,880	1,222	4,715	351	99,168

18. Long-term third-party capital

	31 Dec. 2010	**31 Dec. 2009**
Liabilities as disclosed in the Statement of Financial Position		
- Retirement and disability benefits	29,676	28,741
- Long service awards	39,909	37,712
- Coal allowances in kind	62,752	52,705
- Other benefits for employees	5,170	5,156
	137,507	**124,314**

	2010	**2009**
Costs as disclosed in the Statement of Comprehensive Income		
- Retirement and disability benefits	3,032	727
- Long service awards	9,875	11,427
- Coal allowances in kind	12,124	299
- Other benefits for employees	3,552	4,054
	28,583	**16,507**

Amounts disclosed in the Statement of Comprehensive Income are as follows:

	2010	**2009**
Liabilities at the beginning of period	124,314	119,848
Costs of current employment	33,930	8,378
Interest expense,	7,804	6,394
Costs of past employment	-	-
Actuarial losses / profits	(13,151)	1,735
Disclosed in total in the employee benefits costs	**28,583**	**16,507**
Benefits paid	(15,390)	(12,041)
Liabilities at end of period	**137,507**	**124,314**
Including:		
- long-term	107,798	97,976
- short-term	29,709	26,338

Amounts disclosed in the Statement of Comprehensive Income in 2010 are as follows:

	Benefits during employment	**Post-employment benefits**	**Total**
Liabilities at the beginning of period	39,349	84,965	124,314
Costs of current employment	6,936	26,994	33,930
Interest expense,	2,232	5,572	7,804
Costs of past employment	-	-	-
Actuarial losses / profits	4,259	(17,410)	(13,151)
Disclosed in total in the employee benefits costs	**13,427**	**15,156**	**28,583**

Amounts disclosed in the Statement of Comprehensive Income in 2009 are as follows:

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

Employee benefits costs are disclosed in the Statement of Comprehensive Income as follows:

	2010	**2009**
Cost of products, goods and materials sold	26,162	15,074
Selling costs	146	93
Administrative costs	2,275	1,340
Disclosed in total in the employee benefits costs	**28,583**	**16,507**

Main actuarial assumptions made:

	2010	**2009**
Discount rate	5.75%	6.00%
Increase in remunerations in the subsequent year	3.50%	4.50%
Increase in remunerations in 2012-2020 / 2011-2019	1.00%	1.00%
Increase in remunerations after 2020	2.50%	2.50%

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

	2010	**2009**
Men	12.69	12.69
Women	22.94	22.94

19. Loans and borrowings

	Mine closure	**Mining damage**	**Legal claims**	**Total**
As at 1 January 2009	**54,337**	**-**	**51,901**	**106,238**
Out of which:				
Long-term	54,337	-	-	54,337
Short-term	-	-	51,901	51,901
Recognition in the Statement of Comprehensive Income				
- Creation of additional provisions	5,784	6,680	15,332	27,796
- Release of an unused provision	-	-	(18,357)	(18,357)
- Interest	-	-	8,040	8,040
- Discount settlement	2,958	-	-	2,958
As at 31 December 2009	**63,079**	**6,680**	**56,916**	**126,675**
Out of which:				
Long-term	63,079	-	-	63,079
Short-term	-	6,680	56,916	63,596
Recognition in the Statement of Comprehensive Income				
- Creation of additional provisions	1,333	3,457	25,455	30,245
- Use of the provision	-	(3,042)	(7,416)	(10,458)
- Release of an unused provision	-	-	(4,252)	(4,252)

- Interest	-	-	4,891	4,891
- Discount settlement	2,902	-	-	2,902
As at 31 December 2010	**67,314**	**7,095**	**75,594**	**150,003**
Out of which:				
Long-term	67,314	-	-	67,314
Short-term	-	7,095	75,594	82,689

Interest costs were disclosed in the Statement of Comprehensive Income under the "cost of products, goods and materials sold" item.

(a) Liquidation of a mine plant and removal of mining damage

The Company establishes a provision for expenses related to closure of a mining plant, as required under applicable provisions.
Given the need of removing mining damage, the Company creates a provision for mining damage. As at 31 December 2010, the estimated value of works necessary for damage removal is: PLN 7,095,000.

(b) Legal and other claims

The amounts disclosed constitute:

– a provision for certain legal claims filed against the Company by customers and suppliers. The amount of the provision is disclosed in the Statement of Comprehensive Income as "administrative expenses". In the Management Board's opinion, supported by an appropriate legal opinion, those claims being filed will not result in significant losses in an amount that would exceed the value of provisions created as at 31 December 2010.

– a provision for real property tax. While preparing statements for real property tax, the Company (like other mining companies in Poland) does not take into account the value of buildings and equipment located in mining excavations for the purpose of calculating this tax. On 24 February 2009 and 17 March 2009 the Local Government Appellate Court in Lublin issued final decisions concerning liabilities on the account of real property tax related to mining excavations for 2003 in the Communes of Cyców and Puchaczów, ruling that the amounts of the tax together with interest paid by the Company to these communes in 2008 should be returned. Although the paid amounts concerning 2003 were returned, the Communes of Cyców and Puchaczów filed complaints to the District Prosecutor in Włodawa and District Prosecutor in Lublin, respectively. As a result, the Provincial Administrative Court in Lublin overturned the decision of the Local Government Appellate Court with respect to the Commune of Puchaczów and suspended the proceedings regarding the real property tax for 2003 with respect to the Commune of Cyców until the Constitutional Tribunal issues decision on Polskie Sieci Elektroenergetyczne S.A. and replies the question posed by the Provincial Administrative Court in Gliwice. The District Prosecutor in Włodawa filed a complaint for the decision on suspended proceedings to the Supreme Administrative Court in Warsaw. By virtue of the decision of 29 June 2010, the Supreme Administrative Court in Warsaw overturned the challenged decision of the Provincial Administrative Court in Lublin on suspending the proceedings. By virtue of a ruling of 22 September 2010, the Provincial Administrative Court in Lublin overturned the challenged decision on the dismissal of the proceedings regarding the tax for 2003. Until now, the Local Government Appellate Court in Lublin has not issued any settlement in the case in question. In the case of Puchaczów Commune, on 23 December 2009 the Company filed an application for suspension of the execution of the decision of the Head of the Puchaczów Commune regarding stipulation of the amount of property tax liability for 2003. By virtue of the decision of 10 March 2010, the Local Government Appellate Court in Lublin suspended the execution of the aforementioned decision of the Head of the Puchaczów Commune until a final decision is issued. On 30 June 2010 the Local Government Appellate Court in Lublin overturned the challenged decision of the Head of the Puchaczów Commune of 23 December 2008 in full and sent the case back for re-examination to

the authority of first instance. By virtue of the decision of 12 January 2011, the Head of the Puchaczów Commune specified for the Company the amount of property tax liability for 2003 in the amount of PLN 8,346,800, including an overdue property tax liability in total for all months of that year in the amount of PLN 3,851,000. The Company filed an appeal of the above decision to the Local Government Appellate Court in Lublin. In 2010, the communes where the Company extracts coal conducted clarification proceedings regarding mining pits released for mining in 2005. Proceedings to determine the amount of property tax liability for 2005 were completed with the issuance of decisions by the Head of the Puchaczów Commune and the Head of the Ludwin Commune on 20 October 2010, and by the Head of the Cyców Commune – on 19 October 2010. On 12 November 2010, the decisions became immediately enforceable. In performance of the above, on 16 November 2010 and 19 November 2010, the Company paid to the bank accounts of three communes the total amount of PLN 7,416,100. The amount comprised: Property tax in the amount of PLN 5,947,600 and interest in the amount of PLN 1,468,500. The decision on specifying the property tax liability for 2005 has been appealed against by the Company to the Local Government Appellate Court in Lublin, currently recognises the cases.

Based on the above, as well as given the fact that other mining communes in Poland have taken actions aimed at charging mining companies such a tax, the Company also calculated an amount of arrears on account of property tax for other periods not covered by statute of limitations and for all communes in which it conducts mining activities. The provision so estimated in the amount of: PLN 62,574,000 is recognised in books as at 31 December 2010 (31 December 2009: PLN 55,217,000).

- a provision for costs of legal consultancy in the process of defending the Company against NWR's call for shares in the Company. The fee due to legal advisors comprises a fixed part (paid) and a variable part. The variable part of the fee is a commission-based fee (at a defined fixed rate) payable within 12 and 24 months of the Offer or a fee that depends on the Company's share price. As of the preparation date of these financial statements, no grounds exist indicating that the condition that the fee is to be determined based on the Company's share price may be fulfilled. The provision covers part of the commission-based fee due and payable upon the expiry of the deadlines specified in the agreement regarding the legal consultancy services referred to above.

20. Revenue on sales

	2010	2009
Sales of coal	1,191,016	1,078,681
Sales of ceramics	7,868	8,528
Other activities	14,265	15,095
Sales of goods and materials	8,391	8,547
Total revenue on sales	**1,221,540**	**1,110,851**

21. Costs by type

	2010	2009
Depreciation and amortisation	134,814	138,268
Materials and energy consumption	351,009	325,026
External services	269,010	201,215
Employee benefits	390,927	398,189
Entertainment and advertising expenses	11,846	9,110
Taxes, fees and charges	21,389	19,784
Other costs by type	18,011	30,646
Total costs by type	**1,197,006**	**1,122,238**

Selling costs	(36,069)	(41,652)
Administrative costs	(67,888)	(64,485)
Activities for the Company's own needs	(275,464)	(259,057)
Change in inventory of products	(10,352)	(9,962)
Cost of products sold	**807,233**	**747,082**
Value of goods and materials sold	8,146	8,119
Cost of products, goods and materials sold	**815,379**	**755,201**

22. Other income

	2010	2009
Compensations and damages received	801	1,657
Other	2,734	4,373
including:		
- Release of unused provisions for liabilities	1,807	3,122
Total other income	**3,535**	**6,030**

23. Other expenses

	2010	2009
Donations	(1,767)	(845)
Enforcement fees and penalties	(256)	(1,053)
Compensation	(1,320)	-
Other	-	(242)
Total other expenses	**(3,343)**	**(2,140)**

24. Other net profits/(losses)

	2010	2009
Profit / (loss) on sale of tangible fixed assets	(1,714)	1,811
Foreign exchange differences	(5,500)	(696)
Revaluation of stock	(1,705)	(963)
Creating revaluation write-offs for tangible fixed assets	(3,809)	(7,190)
Provision for mining damage	(415)	(6,680)
Other	(14,507)	(8,884)
including:		
- Creation of other provisions	(13,192)	(5,060)
Total other net losses	**(27,650)**	**(22,602)**

25. Financial income and expenses

	2010	**2009**
Interest income on short-term bank deposits	23,180	14,747
Other	389	1,255
Total financial income	**23,569**	**16,002**
Interest expenses:		
- bank loans	(9,891)	(3,332)
- settlement of discount on long-term provisions	(2,902)	(2,958)
Commission	(750)	(777)
Total financial expenses	**(13,543)**	**(7,067)**
Net financial income	**10,026**	**8,935**

26. Income tax

	2010	**2009**
Current tax	60,935	46,098
Deferred tax	(3,525)	1,585
	57,410	**47,683**

	2010	**2009**
Profit before taxation	284,772	239,736
Tax calculated at the rate of 19%	54,107	45,550
Non-taxable income	(4,846)	(21,212)
Costs not carried as costs of sales	8,149	23,345
Decrease in financial result by the income tax	**57,410**	**47,683**

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

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

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

Tax and other settlements (e.g. customs or foreign currency settlements) can be inspected by the authorities, which are entitled to impose heavy fines, and additional amounts of liabilities established as a result of an inspection must be paid with high interest. As a result, the tax risk in Poland is greater than that which usually

exists in countries with more advanced tax systems. Tax settlements can be inspected within a five-year period. Amounts disclosed in the financial statements can therefore be changed after their amount has been finally determined by the tax authorities.

27. Earnings per share

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

	2010	2009
Earnings attributable to the Company's shareholders	227,362	192,053
Weighted average number of ordinary shares ('000)	34,014	28,830
Basic earnings per share (in PLN per share)	**6.68**	**6.66**

(b) diluted
Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares as if an exchange was made for potential ordinary shares causing dilution. The Company does not have instruments causing dilution of potential ordinary shares. Diluted earnings per share are therefore equal to basic earnings per share of the Company.
In June 2009, the Company issued series C shares and introduced its shares to public trading on the WSE main market. The increase in capital was registered in July 2009.

28. Dividend per share

In 2010 no dividend was paid to the Company Shareholders. In compliance with Resolution No. 21 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 10 June 2010, the profit for 2009 has been devoted to the reserve capital of the Company. The dividend rate due to shareholders of the Company is presented in the table below.

	2010	2009
Dividend paid	-	88,832
Number of ordinary shares as at the dividend date ('000)	34,014	23,014
Dividend per share (in PLN per share)	**0.00**	**3.86**

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

29. Net operating cash inflow

	2010	2009
Profit before taxation	284,772	239,736
- Depreciation of tangible fixed assets (note 6)	133,253	136,006
- Amortisation of intangible fixed assets (note 7)	1,561	2,262
- Loss on sale of tangible fixed assets (see below)	1,714	1,811
- Net financial income (note 25)	(10,026)	(8,935)
- Change in employee benefits liabilities (note 18)	13,193	4,466
- Changes in provisions (note 19)	23,328	20,437
- Other flows	816	317
- Creating revaluation write-offs		
Tangible fixed assets	3,809	7,190

- Stocks	(9,240)	(15,708)
- Trade debtors and other receivables	(6,645)	18,236
- Current income tax liabilities	5,693	12,266
Operating cash inflow	**442,228**	**418,085**
Balance-sheet change in liabilities	92,299	13,087
Change in investment liabilities	(65,646)	(821)
Grants received	(19,451)	-
Change in interest paid	(1,509)	-
Change in liabilities for the purposes of the cash flow statement	**5,693**	**12,266**
Increase in tangible fixed assets	671,667	369,216
Capitalised borrowing costs	-	(9,353)
Adjustment by income on temporary investments of cash	-	6,852
Change in investment liabilities	(65,646)	(821)
Acquisition of tangible fixed assets	**606,021**	**365,894**

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

	2010	**2009**
Net book value	1,824	1,999
Loss on sale of tangible fixed assets	(1,714)	(1,811)
Inflow from the sale of tangible fixed assets	**110**	**188**

30. Contingent items

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

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

In connection with the conclusion of the long-term loan agreement with PKO Bank Polski S.A. on 27 May 2008, the Company issued a blank promissory note with declaration, covering the amount corresponding to the amount of debt under the loan plus interest and other Bank's costs, for the purpose of securing the repayment of the abovementioned loan. The value of the used portion of the loan as at 31 December 2010 amounted to PLN 250 million and has been disclosed as liability in the Statement of Financial Position of the Company. Further, the loan agreement provides for a collateral in the form of deduction from the Company's bank account and transfer of receivables from the sale of coal up to the amount of liability under the loan plus interest.

31. Future contractual liabilities

Investment liabilities
Contractual investment liabilities incurred as at the balance-sheet date, but still not disclosed in the Statement of Financial Position, amount to:

	2010	**2009**
Tangible fixed assets	346,844	311,028
Intangible fixed assets	-	-

	346,844	**311,028**

32. Transactions with related undertakings

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

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

In years ending on 31 December 2009 and 2010, the value of turnover on account of purchase with the subsidiary Łęczyńska Energetyka Sp. z o.o. in Bogdanka and the total liabilities of the Company towards that related entity for subsequent balance-sheet dates were as follows:

	31 Dec. 2010	**31 Dec. 2009**
Purchases in period	10,959	9,353
Total liabilities at end of period including VAT	1,281	1,355

In the years ending on 31 December 2009 and 2010, the value of turnover on account of sales with the subsidiary Łęczyńska Energetyka Sp. z o.o. in Bogdanka and the total receivables of the Company towards that related entity for subsequent balance-sheet dates were as follows:

	31 Dec. 2010	**31 Dec. 2009**
Sales in period	10,795	9,475
Total receivables at end of period including VAT	2,246	1,681

Information on transactions with undertakings related to the State Treasury

As a result of transactions of disposal of shares effected in 2010 by the State Treasury, represented by the Minister of the State Treasury as well as transfer of shares on the basis of contracts on a free-of-charge disposal of shares for the benefit of eligible persons under the Act on Commercialisation and Privatisation, Lubelski Węgiel Bogdanka Spółka Akcyjna has lost the status of the Company owned by the State Treasury.

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

	2010	**2009**
Remuneration of the Management Board members	**2,785**	**1,850**
Out of which:		
Annual award	481	247
Long-service award	108	110
Additional (incentive) award	-	54
Bonus for innovative projects	36	88
Other employee benefits	29	22
Remuneration of the Supervisory Board members	**299**	**238**

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

33. Events after the balance-sheet date

After the balance-sheet date, to the best of the Company's knowledge, no material event occurred, which could affect the result for 2010 and were not disclosed in the financial statements.

By the publication date of these financial statements, the following material events affecting the Company's operations in 2011 occurred:

- On 4 February 2011 an agreement was concluded with Korporacja Gwarecka S.A. of Bogdanka, concerning the performance of works at the Company connected with production, extraction, mechanical processing, quality control and shipping of hard coal, conducting preparatory works, maintenance and renovation works and other works, specified in the order description, necessary for the performance of the works at LW Bogdanka S.A. (including the Stefanów Field) specified above, on Saturdays, Sundays and holidays which are official holidays within the period of 24 months from 1 February 2011 to 31 January 2013. The maximum net value of the Agreement amounts to approximately PLN 319 million and it will depend on the scope of ordered and performed services.

34. Approval of the financial statements

The Management Board of Lubelski Węgiel Bogdanka S.A. declares that as of 18 March 2011, it approves for publication these financial statements of the Company for the period from 1 January to 31 December 2010.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Mirosław Taras	President of the Management Board
Krystyna Borkowska	Vice-President of the Board for Economic and Financial Affairs – Chief Accountant
Waldemar Bernaciak	Deputy President of the Management Board for Sales and Logistics
Zbigniew Stopa	Vice-President of the Board for Technical Affairs
Lech Tor	Member of the Board elected by employees