



MORE THAN 15 YEARS OF
PARTNERSHIP AND COOPERATION



INTRODUCTION



The Sokolov Region is situated at the ridge of the Krušné Hory Mountains and Slavkovský Forest. From the viewpoint of geology, the region is rich in **brown coal, ore, China clay and clay deposits**. Mining of minerals has a long-standing tradition in the region.

Through its operations, Sokolovská uhelná draws upon the rich **historical tradition of mining** and refining brown coal in the Sokolov region.

The area of the region is **735.6 km²**. The region is subdivided into 38 municipalities, including Sokolov as its natural centre. The town has the population of nearly **25,000**.

Sokolovská uhelná is the region's **most important employer**. As a socially accountable company, it takes an active part in the regional events, contributing to its development and helping to create conditions for high quality of life.

Sokolov and its surroundings have retained their reputation of being predominantly an industrial and mining community. Save for the mining and processing of coal and generating electricity, the region is **characterised by production of glass, china, lace and musical instruments**.

The core business of Sokolovská uhelná is mining and sales of brown coal, and to a lesser extent, other minerals, processing of coal and its **conversion into higher-grade types of energy**.

Natural reforested surfaces with lakes emerge across the extracted and reclaimed dumpsites. Major **reclamation projects** include the newly emerging Medard Lake and its surroundings, offering space for recuperation and active leisure.

Sokolovská uhelná has been striving to generate the conditions needed to minimise the impact of mining upon the ecosystem and population in the region on a long-term basis. The company has systematically been developing valuable **landscaping formations** across the rehabilitated areas.

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DEVELOPMENTS IN SELECTED INDICATORS



Production	Unit	2009	2008	2007	2006	2005
Coal extracted	Kt	8,566.1	9,732.1	10,273.5	10,329.2	10,307.1
Overburden extracted	m ³ thousand	24,603.9	29,433.7	29,572.4	29,230.6	32,684.0
Electric energy – heating plant	GWh	1,530.4	1,642.6	1,688.8	1,607.3	1,698.2
Electric energy – CCPP	GWh	2,006.1	2,099.5	1,804.4	1,821.4	1,899.7
Coal gas	m ³ millions	1,298.5	1,331.0	1,164.1	1,198.8	1,187.9
– Including UGLB	m ³ millions	153.7	62.4	0.0	0.0	0.0
Sales	Unit	2009	2008	2007	2006	2005
Coal	Kt	4,681.3	5,530.6	6,120.8	6,107.3	6,153.2
– Including sorted	Kt	58.6	219.2	204.4	274.1	240.1
Briquettes	Kt	163.5	147.6	235.6	328.8	286.8
Electric energy – heating plant	GWh	949.4	1,027.8	1,104.5	1,018.8	1,007.8
Electric energy – CCPP	GWh	1,997.4	2,088.8	1,797.2	1,838.1	1,891.9
heat	TJ	1,950.9	2,045.5	2,055.5	2,216.6	2,251.5
Economic indicator						
Revenues	CZK millions	9,378.1	9,956.7	9,006.4	8,373.8	7,437.0
Profit after tax	CZK millions	1,924.4	2,271.1	1,558.7	1,168.6	533.3
Capital expenditures	CZK millions	775.8	886.0	839.3	685.3	555.8
Average number of staff	persons	4,582	4,675	4,686	4,739	4,888
Average monthly salary	CZK	30,298	28,225	25,513	23,472	21,125

COMPANY MILESTONES

DURING 2009–2010



2009

- February** – UGLB technology launched (use of liquid by-products) following an accident at the end of 2008
- Minor landslide at the Družba Division
- March** – The 2009 business plan approved
- Auditor assessment of the company's final accounts for 2008 issued with no reservation
- Sorted coal production terminated
- April** – HC Energie Karlovy Vary emerge victorious in the Czech National Hockey League
- A fire breaks out at a tyre pile in the vicinity of the processing plant in Vřesová
- May** – New multipowder production technology product adopted
- Annual general meeting
- June** – Slip of an internal dump at the Jiří Mine
- July** – Scheduled stoppage of production technologies in the Vřesová processing plant
- August** – Major overhaul of the K1 boiler completed
- September** – New opening and extraction preparation plan for the Jiří Mine adopted
- Slip of southern slopes at the Jiří Mine
- Major overhaul of the TG 4 turbo-generator completed
- December** – Appendix to the collective bargaining agreement for 2010 signed
- Accident at a railway siding at the Nové Sedlo railway station

2010

- January** – The 2010 business plan approved
- March** – Auditor assessment of the company's final accounts for 2009 issued with no reservation



THE PAST YEAR AS SEEN BY THE CHAIRMAN OF THE BOARD



Dear business partners and colleagues,

When looking back at the successful year 2008, we had already been aware of the complications that were ahead of us in 2009. Back then, closing the year with an economic result at CZK 1,924 million after tax was a confirmation of the internal consolidation of the company and a high professional potential of our staff. To be certain, the valuable economic result was achieved amidst a general economic recession, which could not but take its toll on us, namely resulting in a reduction in coal production demand. Compared to 2008, when the quantity of 9,732,000 tonnes was extracted, in 2009 the volume of coal extracted amounted to 8,566,000 tonnes. A number of extraordinary measures, having a direct impact upon the costs, necessitated major price fluctuations in the energy market, as well as the landslide at Jiří Mine in June 2009.

Despite these internal problems, our company succeeded in meeting its regional commitments beyond the scope agreed upon, both in the domain of the environment and support of social activities in the municipalities and towns. The aid provided to non-profit organisations supporting a range of social facilities in the region while working on a restricted budget was especially viewed in positive light.

Adhering to this philosophy and strategy of our company was made possible through the mastery of the routine operations of the production capacities as well as the emergencies, such as the above-mentioned landslide at the Jiří Mine, which necessitated a re-assessment of the extraction concepts at the Jiří and Družba Mines.

Our company entered the 2009 year with a signed collective bargaining agreement. Its continuous performance had the effect of sustaining social peace, which undoubtedly constituted one of the major factors in the results achieved in 2009. The correct relationship between the Trade Unions and the company management allowed for the payment of extraordinary bonuses to the staff of the company beyond the conditions agreed upon in the collective bargaining agreement—courtesy of the economic results we generated.

As in previous years, our company has benefited from its well-oriented and consistent application of the concept of human development, adequately responding to the current changes in the Czech Republic's energy mix. The gradual and technically complicated stabilisation of operation of a burner generator, re-evaluation of the coal volumes extracted and production of multipowder and a score of other specific actions contributed to the desired mix of our production and the development of the company, resulting in valuable economic benefits.

In 2009, our company managed to meet all the environmental limits and contributed to further systemic improvement of the environment in the greater region. Forestry and agricultural reclamation and preparation of the hitherto largest hydric reclamation in the former Medard – Libík mine. The launch of its artificial filling is envisaged for the first half of 2010. In this area, we appreciate the support of the state, namely the fact that the state lived up to its commitment to remove the damage caused by the mine operators before the company emerged.

If this report concludes that we had a successful year in 2009, it is our partner companies that must be thanked for their wonderful co-operation and synergy, especially during emergency situations. I firmly believe that our co-operation shall continue at the same level of intensity in the years to come.

It has already been said that the good results for 2009 reflect the quality and skill of our staff. I would hereby like to thank, once again, all those that have contributed to our success and express my firm belief that they will make similar efforts and apply all their skills in order that we may achieve the objectives laid down in the business plan for 2010.



František Štěpánek
Chairman of the Board
Sokolovská uhelná, právní nástupce (legal successor), a.s.



PEOPLE IN THE MANAGEMENT OF SOKOLOVSKÁ UHELNÁ



BOARD OF DIRECTORS

FRANTIŠEK ŠTĚPÁNEK

Chairman of the Board
and Chief Executive Officer

Chairman of the Board of Golf Sokolov a.s.
Graduate of VŠB Ostrava,
Born 1953,
31-year experience, has been with the
company since 1979,

Production Director in 1994–1999, Member
of the Board and CEO of Sokolovská
uhelná, a.s. since 1999, Chairman of the
Board of Directors of Sokolovská těžební,
a.s. in 2002–2005, Chairman of the Board of
Directors of Sokolovská uhelná, a.s. in
2004–2005, Chairman of the Board of
Directors of Sokolovská uhelná, právní
nástupce, a.s. since 2005

JAROSLAV ROKOS, MBA

Vice-chairman of the Board of Directors
and Finance Director

Statutory Representative of Romania s.r.o.,
Chairman of the Supervisory Board of
FK Baník Sokolov a.s.,
Chairman of the Supervisory Board of
Golf Sokolov a.s.,
Chairman of the Supervisory Board of
SATER-CHODOV spol. s r.o.,
Member of the Supervisory Board of
KV Arena, s.r.o.
graduate of University of Economics, Prague,
and Prague International Business School,
born in 1963,
25-year mining experience, with the
Company since 1985,

Finance director of Sokolovská uhelná, a.s.
since 1995, Chairman of the Supervisory Board
of Sokolovská těžební, a.s. in 2002–2005,
Vice Chairman of the Board of Directors of
Sokolovská uhelná, a.s. in 2004–2005,
Vice-chairman of the Board of Directors of
Sokolovská uhelná, právní nástupce, a.s.
since 2005.



JIŘÍ PÖPPERL

Member of the Board of Directors
and Technical Director

Member of the Board of Directors of
Golf Sokolov a.s.,
Member of the Sokolov Municipal Assembly,
Graduate of the Technical University
of Ostrava,
born in 1956,
30-year mining experience, with the
Company since 1980,

Technical Director of Sokolovská
uhelná, a.s. since October 2004, Member of
the Board of Directors of Sokolovská uhelná,
právní nástupce, a.s. since 2005.

JIŘÍ PETERKA

Member of the Board of Directors
and Production Director

Graduate of Technical University of Ostrava,
born in 1949,
35-year mining experience, with the
Company since 1978,

Production Director of Sokolovská
uhelná, a.s. since 1999. Member of the
Supervisory Board of Sokolovská uhelná, a.s.
elected by the employees in 1994–2001.
Member of the Board of Directors of
Sokolovská uhelná, a.s. in 2004–2005,
Member of the Board of Directors of
Sokolovská uhelná, právní nástupce, a.s.
since 2005.

Jiří Radosta was a member of the
Board of Directors until 22 June 2009.



SUPERVISORY BOARD

Miroslav Soral

Chairman of the Supervisory Board
Sales Director of Sokolovská uhelná, právní nástupce, a.s.
born in 1947

Jan Smolka

Vice-chairman of the Supervisory Board
Member of the Supervisory Board elected by the employees
Chairman of the Trade Union Organisations of Sokolovská uhelná,
právní nástupce, a.s.
born in 1949

MEMBERS OF THE SUPERVISORY BOARD

Otokar Sojka

Private entrepreneur
Born in 1947

Josef Michalský

Head of the Office of the CEO of Sokolovská uhelná,
právní nástupce, a.s.
born in 1948

Jiří Selvička

Head of the Legal Department at Sokolovská uhelná,
právní nástupce, a.s.
born in 1948

Jiří Blažek

Member of the Board of Directors elected by the employees
Chairman of the Družba Labour Organization of
Sokolovská uhelná, právní nástupce, a.s.
born in 1967

Radovan Třešňák

Member of the Supervisory Board elected by the employees
Chairman of the Zpracování labour organization of
Sokolovská uhelná, právní nástupce, a.s.
born in 1954

Zbyšek Klapka, MBA

Head of the Accounting Section of Sokolovská uhelná,
právní nástupce, a.s.
born in 1964

Luboš Vaněk

Member of the Supervisory Board until 10 February 2010
Deputy Minister of Industry and Trade of the Czech Republic
Representative of the Ministry of Finance of the Czech Republic
(under obligations resulting from the privatisation of
Sokolovská uhelná, a.s.)
born in 1964

TOP MANAGEMENT

František Štěpánek
CEO

Jaroslav Rokos, MBA
Economic Director

Jiří Pöpperl
Technical Director

Jiří Peterka
Production Director

Miroslav Soral
Sales Director

Miroslav Mertl
Personnel Director

Alojz Neved'al
Head of Jiří Division

František Kastl
Director of Družba Division

Pavel Homola
Director of Division Processing

Jan Smolka
Director of Division Services

The organisational structure chart is available on page 48 of the present report.



COMPANY PROFILE

The first written accounts of coal mining in the Sokolov Region date back to the 16th and 17th centuries (the oldest mention the mining in the Sokolov Region by George Agricola going as far back as 1545, while the annals of Horní Slavkov have 1642 down as the oldest mention of coal mining in the Sokolov Region). The modern history of coal mining and use of brown coal begins in 1955, with the transformation of the mining concept into large-size surface mine technology.

Construction of Vřesová plant was initiated in 1960, the 25 February Vřesová Fuel Plant, an enterprise of the concern, was erected in 1975 within the Hnědouhelné doly a briketárny Sokolov concern, to include, in addition to the Vřesová based processing plant, the Jiří and Družba mining operations. The processing part represented a major source of coal gas at that time. In 1990, following the decommissioning of the Hnědouhelné doly a briketárny Sokolov concern, separate state-owned enterprises Palivový kombinát Vřesová, Hnědouhelné doly Březová and Rekultivace Sokolov were established. As part of the second stage of voucher privatisation, Sokolovská uhelná, a.s., started to exist as of 1 January 1994, with the subsequent sale of the share of the state marking the completion of the privatisation process in 2004.

The successor is now fully private, undertaking business under the trade mark Sokolovská uhelná, právní nástupce, a.s.

The joint-stock company may be characterised as a dynamic energetic organisation which annually extracts around 8.5 million tonnes of brown coal including over 4.6 million tonnes sold in domestic and foreign markets. Moreover, the company annually produces approx. 3,500 GWh of electricity, 164,000 tonnes of briquettes and supplies the adjacent industrial and housing agglomeration with heat at the level of approx. 2,000 TJ a year. With the overall output of 620 MW_e, the joint-stock company is a major producer of electricity in the country where the revenues generated by sales of electric energy and heat systematically exceed half of the overall income of the company.

The company has been engaged, in the long term, in the field of solid fuel management and its energetic and chemical transformation into environmentally clean or acceptable energy and fuel. In this field, the company has received particularly positive feedback on the European and global scale. The company extracts coal roughly in the centre of the triangle formed by the largest Western Bohemian spa resorts. The company greatly respects this very fact, both with regard to the risk of interfering

with the spa thermal springs, in particular those in Karlovy Vary, and with regard to conceptual activities in effacing the consequences of its operations.

The fundamental products of the company include electricity and heat, energy coal, brown coal briquettes and multipowder, sorted aggregates and carbochemical products resulting out of the pressure gassing of coal. The activity of the company is further added to by environmental activities primarily focusing upon reclamation of lands affected by surface mining and upon processing and disposal of wastes.

The outlook of the company is based on a long-term intention to provide efficient extraction of brown coal resources from the Sokolov basin, while a major part of the coal to be extracted is converted in the company's own processing plants into electricity and heat, both in a traditional heating plant, and more importantly, in a modern combined cycle power plant.

The company has a long track record of investments with a view to modernisation and ecologising its mining, and more importantly, its processing technologies, and its achievements in the very field are valued by the regional, state and foreign institutions.



DESCRIPTION OF INDIVIDUAL DIVISIONS

EXTRACTION PART



JÍŘÍ DIVISION

The Antonín seam with the capacity of up to 40 metres has been developed in the Jiří mine field. The mining face of has been moving, since 1950, from the east – namely the village Vintřov – at a speed of approx. 90 metres a year, to the west, towards Sokolov. Since 2000, the mining face of the first coal cut has substantially moved to that part of the seam that had until then been covered by the Marie and Jiří underground mines in Královské Poříčí and Lomnice, respectively. That means that the extraction activity in the Jiří mine will remain within the constraints of the demarcated seam until the end of its life cycle and that the share of re-mined coal will be increasing to the detriment of the so-called “virgin” coal. Therefore, demands become ever more stringent not only for selective extraction of the coal substance from the so-called cave-in fields, but also for the removal of any undesired additions (residual bricks, concrete, wood, timbering, mine rails, etc. as the remnants of the original underground mining) and for removal of infusions and fires in the seam.

The Jiří mine is equipped for the mining of brown coal using five KU 300 type bucket wheel excavators and trunk belt conveyor at a gauge of 1,400 mm. The overall annual output reaches up to 8 million tonnes. The extracted coal is crushed to the required size and shipped to the customers, to the processing part in Vřesová and via the Treatment section based in Citice to the Tisová Heat Plant (ČEZ).

Overburden of the top layer is provided for by two large-sized series 2 (TC 2) technological units consisting of a KU 800 bucket wheel excavator on a mobile undercarriage, a trunk belt conveyor at a gauge of 1,800 mm, a reloading belt conveyance vehicle and a ZP 6600 belt spreader.

Two minor series 1 (TC 1) technological units consisting of a KU 300 type bucket wheel excavator mounted on a crawler undercarriage, a 1,400 and 1,600 mm gauge trunk belt conveyor, a PVZ 1800 type belt vehicle and a ZP 2100 belt stacker also spread the overburden across the internal dump.

The extraction of coal and overburden is secured by a system of drainage ditches routed into inlet boxes distributed in the overburden and dump with an intention to capture and pump away any water before it reaches the bottom of the mine.

The Jiří Division operates a coal crushing plant in Vřesová, including a technological dump, which produces crushed coal for the briquetting plant at a fine crushing plant. The four independent lines of the coarse crushing plants prepare coal for the Energy and Pressure Gasworks sections. The Jiří Division further supplies coal via the Citice treatment plant to the ČEZ power plant in Tisová. In addition to the brown coal mine, the Jiří Division further operates a Horní Rozmyšl stone mine. In 2009, over 1.1 million tonnes of aggregates were extracted in the Horní Rozmyšl stone mine, to be used primarily for road construction, creation of sub-base of roads, sub-base of railway tracks, drainages, etc.

DRUŽBA DIVISION

The present division currently covers extraction of coal and overburden at the Družba mine and railway transport including the railway siding management for the entire Sokolovská uhelná. The Družba mine is situated in the mining area of Nové Sedlo and is located in a protected area of natural healing resources of the Karlovy Vary spa resort, where a number of governmental resolutions have established protective measures with a view of protecting such healing sources. This very fact amounts to a restriction on the technical approaches to mining in the space of the mine's northern slopes. At the Družba mine, two Škoda K 800 type large-sized machines, five KU 300 large-sized machines and two E 2.5 type shovel dredgers are deployed for the extraction of the top earth and the actual coal seam. A 1,435 mm gauge railway track and 1,200 and 1,400 mm gauge belt conveyor are used for transportation of extracted materials. The overburden is extracted almost exclusively using rail technology. In consideration of the geological setting of the coal seam and the capacity of the internal dump of the Družba mine, a combination of the trans-

port technologies are used to move the extracted materials. Four stacking locations are used for the stacking of all top layers of earth and their clearance from the coal seam: the internal dump of the former Medard-Libík mine with a single Z 1650 stacker, an internal dump of the Družba mine with a single Z 1650-type stacker, an external dump of Smolnice with a single ZD 2100-type stacking and two E 2.5 shovel dredgers and the eastern part of the internal dump of the Jiří mine with a single ZD 2100-type stacker.

The Reclamation division which forms a part of the Družba mine has been in existence since 1953. The originally typical agricultural enterprise, which currently operates in large forestry areas, recorded a change in orientation at the end of 1980s towards removing the consequences of mining activity in the form of technical and biological reclamations. Agricultural production became a side benefit complementing the main production programme following the winding up of the substantially loss-making operations. Forestry management currently sees its importance rising once again, and the growing surface area of forests, as a consequence of reclamation, resulted in the emergence of a separate department under the section.

The result of the structural and reclaiming activity for instance involves landscaping that involves the current Michal water lake or a golf course resort and a park near Dolní Rychnov, as well as the Boden lake or comprehensive reclamation of more than four hundred hectares of the Velká loketská dump.

The result of the restructuring of agricultural production is a farm used for breeding cattle – Charolais, established in 1993. The same became a harmonic element of the landscape surrounding Sokolov, and in particular, the reclaimed dump surfaces pertaining to the former brown coal mines of the company. An accompanying activity involves the production of cereals, grass and rape seed as well as operation of a pheasant and fallow-deer preserve.



DESCRIPTION OF INDIVIDUAL DIVISIONS

PROCESSING PART

PROCESSING DIVISION

In 1969–1970, a pressure gasworks was commissioned and gradual commissioning of the processing plant was completed – then named Kombinát pro využití hnědého uhlí Vřesová (Vřesová brown coal utilisation plant). The pressure gasworks in Vřesová supplied an extensive network of town gas in the Czech Republic up to June 1996, when the production and the supply of town gas was terminated. The entire nationwide network was converted into natural gas, which at that time, was only supplied through a gas pipeline from Russia. The pressure gasworks in Vřesová remained the largest producer of this medium up to the phase-out of the town gas subsystem in 1996, with the installed capacity of 240,000 m³(n) of raw gas per hour. In consideration of the fact that the plant had at its disposal major energy resources and relatively modern technological equipment, the concept of its further use as well as the development of the processing part of the company were addressed in advance. It was the conceptual intention to retain the gas production technology through pressure gasification of brown coal, as well as all of the associated technologies related to the production of coal gas; subsequent use of the original technology is envisaged in the newly developed combined cycle power plant (CCPP). Upon replacement of town gas with natural gas, the technology involving gasification of brown coal was not abandoned, but became a corner stone in the production of electric energy in a modern combined cycle power plant at the overall capacity of 400 MW. The first unit of the new combined cycle power plant was commissioned in August 1995, and during the very same year, it was put into trial operation. The two units were put into full commercial operation in 1996. The operation of the processing part of SU thus continued without interruptions using the original technology with new energy outcomes. The plant set-up then allowed a continuous change from production to supply of town gas and the production of gas fuel for the combined cycle power plant. The very approach allowed a new and successful chapter to be put down in the life of the Vřesová-based processing plant.

The cluster of technologies is based on the concept of processing brown coal extracted from the company's own mines, which form





a part of the enterprise. The core production of the processing plant today mainly involves electricity and heat, brown coal briquettes, multipowder and carbochemical products resulting out of pressure gasification of coal.

Then individual technologies have been gradually commissioned since the mid 1960s. The Vřesová-based processing plant today covers pressure gasification of coal and generation of electricity at a combined cycle facility, while other parts of the site are formed by a heat plant, a briquetting shop and a technology used for purification of waste waters and disposal of gaseous emissions.

The existing coal gas production technology and its subsequent use in generation of electricity at the combined cycle power plant already allows for an environmental thermal disposal of poor expansion gases and desulphurisation of rich expansion gases, treatment of waste waters through the removal of phenol, ammonia and biological fine-treatment. The heavy tar sludge, separated by the force of gravity in the process of separation of gas condensates and purification of raw phenol water are sprayed back into the generators for gasification; the same router is used for disposal of waste substances, such as those resulting out of old ecological burdens.

Flue gases generated by the conventional power plant equipped with boilers with powder burners, are desulphurised in a wet lime scrubbing process and the content of NO_x is reduced in the flue gases produced by the combined cycle power plant. Upon coal combustion and desulphurisation of flue gases the products are further used in production of structural materials and earth fill structures.

PRODUCTION TECHNOLOGIES USED AT SU'S PROCESSING PART

The processing part of the Vřesová site involves a fuel energy cluster of technological processes focusing on transformation of brown coal into higher-grade forms of energies within the cluster of the associated chemical/energy processes of preparation

and treatment of fundamental raw materials, steam and power generation at a heat plant, gasification of brown coal, purging of the gas produced, treatment and purification of by-products and wastes, and at the final stage, use of the pure gas-coal gas-in the production of electric and heat energy.

It is the purpose of coal treatment to prepare the coal charge for the production of gas at a pressure gasworks and a traditional heat plant with the use of coal crushing, drying and sorting technologies. Included in the technology is a briquetting plant producing briquettes by pressing low-sulphur coal with no additional bonding. The waste water generated by the crushing, drying and briquetting plants is re-circulated upon purification. The gross volume fractions of coal powder sludge out of the purification process have an energy-related use upon drainage; flocculation-induced fine sludge is collected in special drainage cartridges, from where the set-off product is re-deposited and subsequently used in energy generation.

Coal gas is produced by pressure gasification. The technology involves generation of gas in gasifiers, gas purification in a selective Rectisol scrubber, which includes a desulphurisation technology for rich expansion gases and a backup thermal disposal technology for depleted expansion gases as well as a technology for waste water treatment through removal of phenol, ammonia and biological fine-purification. The technological equipment was added to, contrary to the original concept, by a unit used for gasification of carbochemical products – phenols and tar, falling off at the production of gas through gasification in Lurgi gasifiers. By that way, the option for the use of a gas-making technology is extended and at the same time one of the negative impacts upon the environment is removed in a close vicinity and further away. The electricity and technological steam to be employed under other operations within the processing part are generated at two power plants of the Processing Division. The conventional heat plant combusts an undersized fraction of coal from the preparation of coal charge for the gas plant and the combined cycle power

plant is a source of "clean" electricity, which is generated out of coal gas obtained from coal through pressure gasification. The electricity is partially used to cover the plant's own consumption needs; nevertheless most of it is supplied to the public network. The heat energy generated is used not only in production undertaken at the processing plant, but also in heating the surrounding housing agglomeration. The heat plant is completed with a modern flue gas desulphurisation technology through wet lime scrubbing with the use of energy gypsum used for the production of structural materials. The heat plant is further supplemented by equipment designed to use fly-ash and dross resulting out of coal combustion, which serves the purpose of production of material used in the construction of earth fill structures.

COAL TREATMENT AND PRODUCTION OF BRIQUETTES

The drying plant operation dries the extracted/raw coal out of the entry 38–46% wt. % of water to 12–18% for the conventional heat plant and to 28–32% for the pressure gasification process. The drying process takes place at Schulzte tube driers. The waste vapours rising from the driers are routed to electrostatic precipitators where stripped coal powder is set apart. Coal drying for the briquette plant takes place using a similar device with only the drying stage being deeper (down to 7–12%). The fine-grained brown coal powder (multipowder) is commercially applied in generation of heat in powder burners; it does not, however, emerge in the process of drying coal upon collection at electrostatic precipitators, it is also obtained through milling of dried briquetting coal, briquette shedding and chipping in a vibrating rod mill. The multipowder is a commercially successful product; its sales figures tend to be higher year after year and it has an indispensable position in the plans of the company. Construction of another milling facility was launched in 2009 and it is included in the development plans of the company for the up and coming period. The crushed, milled and dried brown briquettable coal out of se-

lected parts of the Antonín seam is routed through a grain filter < 6 mm into PZA 300 briquetting presses where briquettes are pressed in a bonding-free manner under stamping dies at the pressure of 175 MPa. There are 14 of these presses with a capacity 10.7 t/h each.

The crucial factors in the bonding-free briquetting of brown coal are the physical and chemical properties of the processed coal, in particular the content of capillary water and ashes, hardness, ductility, grain size distribution and petrographic composition (in particular the fraction of huminite). The briquetting is a major form of refine-treatment of the coal extracted. The share of coal worthy of briquetting however tends to decrease as a function of progressing extraction. From the long-term perspective, however, the demand for briquettes used in heating households is decreasing, too.

Waste water produced by the crushing, drying and briquetting plants is re-circulated—upon purification—in the coal powder scrubbing unit. The coarse grained proportions of coal powder sludge coming out of the purification process is energetically used upon drainage, fine-grained sludge from the chemical stage of the scrubbing plant is routed into special drainage cartridges and upon re-deposition, the coal powder is also used in the generation of energy.

TECHNOLOGY OF GASIFICATION OF COAL AND PURIFICATION OF GAS

The crushed brown coal extracted from the company's own mines –Jiří and Družba – is pre-dried and sorted at the coal treatment plant. The sorted out fine-grained fraction (the undersized) is combusted in a heat plant and used in generation of electricity, and first and foremost, heat for the technology and heat insulation. The coarse-grained fraction forms the charge for the pressure gasworks. The coal is gasified at the pressure of 2.7 MPa by a mixture of oxygen and vapours in a sliding bed gasifier (Lurgi). The resulting raw gas is purified by cooled

methanol as part of a scrubbing process at a Rectisol facility. The purified gas (coal gas) constitutes the primary fuel for the combined cycle power plant. Compared to coal gas, it exhibits a lower volume fraction of flammable components and lower heating capacity, the gas is desulphurised and does not contain any nitrogenous compounds.

The raw gas produced through pressure gasification of brown coal consists of hydrogen, methane and CO (flammable components), water and carbon dioxide (inert fractions) and hydrogen sulphide, carbon disulphide, ammonia, benzenes, tars and phenols. The last group constitutes corrosive, poisonous and otherwise harmful substances to be removed at the stage of the scrubbing technologies. Following the primary cooling, the water and tar fractions condense. A proportion of the tar is sold as a raw material to be subjected to further processing, another proportion of it is used as an energy fuel in several heat plants and the largest part of it is used as feedstock for the newly completed gasification unit for the utilisation of liquid by-product resulting out of gasification of brown coal (UGLB). Contrary to what the case is for the gas generated in the sliding bed gasifiers, the gas produced in the present unit is practically free from hydrocarbons. The underlying principle involves gasification of liquid substances in a burner gasifier (gasification technology in an entrained bed). The generated gas is purified along with the gas produced in the Lurgi gasifiers.

Ammonia is obtained from the aqueous phase, namely through extraction by means of butyl-acetate and phenols and waste water are biologically treated through a two-stage oxygen activation process. The purified water is used in the technology, and/or is used for topping up the cooling loops following another finish-purification.

Selective scrubbing in a Rectisol unit is used to remove from the gas any benzenes, all hydrogen sulphide, some organic compounds and small residues of ashes that might have abrasive effects at any of the further treatment stages. As the generated

gas is used as fuel for gas turbines, most of its content of carbon dioxide is retained, as it performs mechanical work in the gas turbine and has favourable effects upon the generation of nitrogen oxides in combustion in a gas turbine.

Sulphuric acid is obtained through oxidation of hydrosulphide contained in the expansion gases generated in the selective scrubbing process into sulphur trioxide (95 wt. %).

The pressure of the purified gas downstream of the purifier at 2.1–2.5 MPa allows use of the gas in the gas turbine with no additional compression; the purified gas is free of sulphur and does not contain any nitrogenous substances. That predetermines it to be used as an environmental fuel for the subsequent technology of the power plant.

GENERATION OF ELECTRICITY IN THE COMBINED CYCLE POWER PLANT

Vřesová combined cycle power plant consists of two identical units, which consist of the following parts:

- gas turbines
- heat recovery steam generator (HRSG)
- steam turbines
- electric equipment used for routing out of the electric power
- control system of the unit
- auxiliary and common equipment.

The coal gas that has been generated through pressure gasification of coal, and/or gasification of tars is used in the technology of the power plant as the primary fuel. The auxiliary fuel that allows for rapid changes in the capacity of the units and the back-up fuel is natural gas.

The steam part of the power plant is closely linked to the heat plant. The steam may be supplied from the CCPP into the steam network of the plant or extracted from the network. The merger of the two technologies resulted in a flexible and operationally reliable unit.



Emissions of harmful substances are minimised by the fuels used and through the very technology employed.

Part of the Processing division involves an extensive water management system which covers supply and treatment of utility, cooling, floating and potable water and provides for discharge of waste water and deposition of solid fuels resulting from coal treatment.

FORECASTS AND PLANS

The company systematically develops and innovates its technologies of energy use of coal. As part for search for further options of positively affecting the environment the research continues into the existing and newly designed technologies leading to environmentally clean energy use of solid and liquid wastes resulting out of the actual undertaking and out of the activities of other entities. The company's technological background has already been supplemented by a UGLB unit (utilisation of liquid by-products) used for gasification of carbochemical products, phenols and tars resulting in the process of generating gas through gasification in Lurgi gasifiers. In that way, conditions are being created for both energy utilisation of some types of wastes and use of renewable sources for generation of electric power.

Construction of the unit used for gasification of liquid by-products resulting from the production by coal gas (UGLB) allows efficient energy use of the substances, which were in the past sold to external partners as fuels, provides for adequate optimisation of sales and the company's own demand for tar. The use of liquid by-products at the Vřesová processing plant helped to mitigate the major environmental impact, which was mainly related to the transport of tars to the customers, and the associated risks related to transport and storage. The chief merit must be identified in the comprehensive technological influence on the option of optimisation the use of raw coal, improved operation and performance-based use of the Lurgi gasifiers, and finally, the fact that the technological merits lead up to the opportunity

to reduce the demand for natural gas within the combined cycle power plant. Construction of the UGLB unit thus constitutes a major technological milestone on the way to economisation of the power generation process and clean coal technologies. Further development of the company—in particular the operation of its power and gas generation parts, needs to be consistently linked with its ecologisation and use of clean coal technologies. Such an approach shall allow operating the brown coal gasification technology up to the exhaustion of the coal reserves in the Sokolov basin. The technological process of gasification through a mixture of oxygen and steam in a sliding bed is a procedure which offers a number of environmental strengths compared to the combustion methods, no matter whether the use of coal or joint gasification of wastes is concerned.

By completing the project of gasification of solid fuels in sliding bed gasifiers and liquid wastes in a burner generator, the Vřesová gas plant shall conclude its integral fuel processing cycle though the gasification processes. In this regard, the use of the joint gasification technology with coal has a long way to go. Gasification of brown coal at the gasworks and generation of electricity in the combine cycle power plant in Vřesová represent an intriguing and globally unique example a merger of the traditional coal technology with a modern approach to generation of electricity. As a result, an efficient unit emerged allowing utilisation of brown coal in the production of environmental, clean electric energy and heat.

SUPPORT SECTION



SERVICE DIVISION

The Service division covers most of the support processes as part of the operations undertaken, which have a major effect on the achievement of the objectives set to the production divisions.

The activity of the division therefore concentrates on the following fields:

- maintenance of production equipment and technologies
- material/technical coverage
- technological transport and passenger transport, including maintenance of vehicles and transport services
- telecommunication services
- acts associated with administration of buildings
- guarding services for the assets of the company
- company fire brigade.

The clear task to be served by the division is to optimise use of its own capacities in the domain of maintenance in the processing part of the company (including operational maintenance), and for other support processes, in particular technological transport. A major proportion of the activities undertaken by the division are formed by material/technical coverage for the entire company – ranging from purchase, through storage up to the actual delivery for use to the individual departments.

An integral part of the activities of the division are the activities associated with the administration, repairs and maintenance of sites and surfaces of the company, including a remaining part of housing stock in Vřesová.

With a view to protecting its assets, the company has established its own professional fire brigade covering the needs for the operation and maintenance of the electronic fire detection for the entire processing part of the company.

ADMINISTRATION

All administrative/technical activities are concentrated into the Administration section headed by section directors.

The section of the CEO covers activities in the domain of legal services, asset management, informatics and organisation of the company.

The section of the technical director mainly governs the activities in the domain of developing the production baseline, mining development and ecology. It covers tendering for and evaluation of public contracts, deals with investment construction projects and coordinates the sanitary and reclamation work.

The section of the production director coordinates production and maintenance of property. The competence of the section also includes provision of services in the field of measurement, geology and operation of central laboratories. In addition, it covers safety at work and fire protection.

The section of the economy director is responsible for the company's economy. The task of the section is to keep the books, registration of assets, taxation and controlling. The section further covers administration of financial assets, running of the company savings bank and financial planning.

The section of the personnel director governs the human resources-related and salary agenda and labour economy. The training department and the welding school cover the needs for training the company's own and staff of other firms.

The section of the sales director covers sales of solid fuels, energy and chemical products and co-ordinates all sales and economy related activity including marketing and promotion.



PRESENTING THE SUBSIDIARY COMPANIES

Companies under decisive and substantial control



Romania s.r.o.

The company operates the Hotel Romania in the centre of Karlovy Vary, at the juncture of the commercial and spa zones. The hotel offers accommodation in single to three-bed rooms and all-day Café Romania restaurant services. The company also operates the Malé Versailles restaurant situated at the edge of the spa zone in Karlovy Vary, which is leased.

Golf Sokolov a.s.

The company commenced its activities in 2004, from the beginning it was tightly bound to the construction and subsequent operation of a golf resort in the territory of the former Silvestr mine in Dolní Rychnov. The company consists of two divisions: Golf and Zpracování (Processing).

The Golf division runs an 18-hole golf course with all accessories (a club house and a restaurant and a golf simulator, a training field with sheltered teeing grounds, etc.).

The Processing division covers activities associated with reception, processing and sales of fly ashes and desulphurisation products.

REO-SUAS s.r.o.

The company was established towards the end of 1995. Along with Sokolovská uhelná it owns a so-called mixing centre in Svatava. The centre processes the reverse received material (fly-ash) into a granulation product which may be used to stabilise the dumps. The activity of the centre will be terminated on 30 June 2010 in the context of the progress in the construction of the western bypass of Sokolov and filling of the future Medard lake.

The company provides for the planting of trees at dumps. In addition to the planting, it also provides for other operations in the framework of forestry reclamation, such as cleaning, mowing, etc.

FK Baník Sokolov a.s.

The establishment of the company in 2006 is associated with the acquisition of a Division 2 football licence and with the vision of creating a football centre for the Karlovy Vary Region in Sokolov. The company provides funding for the entire activity of a football club of the same name. At the time being, it runs fifteen football teams in all age categories.

SUAS - stavební, s.r.o.

The company was established in 1995 and in 2005 Sokolovská uhelná became its sole owner. The emergence of a capital-strong owner allowed the company to grow, both in terms of technology and human resources. A dynamic company has grown on the foundations of a small company originating in Svatava, today offering implementation of not only traditional civil engineering constructions including the related or auxiliary activities (locksmith, roofing, tinsmith, painting, plumbing and carpentry services), but also a range of specialised activities such as construction of fuel stations or welding of pipes up to the cross section of 600 millimetres. Since 2009, the company has been offering scaffolding works as well.

Presently, the company is mostly (90%) dealing with contracts assigned by Sokolovská uhelná. Moreover, it provides for construction of detached houses and their reconstructions.

Under comprehensive project implementations, the company collaborates with a number of specialised suppliers who cover such work as insulation, scaffolding, mechanisation and wiring.

SOKOREST, s.r.o.

The company was established in 2007 and its original mission was to provide plant catering for the staff of Sokolovská uhelná. Presently, the offer of the company is much broader. In addition to the supply of meals to other customers, it offers comprehen-

sive catering services ranging from simple preparation of snacks and cold plates up to comprehensive coverage of refreshment, banquets, wedding or large balls.

Since mid-2009, the company has also been dealing with the catering services at the KV Arena in Karlovy Vary.

SOKOREST – zařízení školního stravování, s.r.o.

The company was established with a view to providing catering services to schools in the region. The company is yet to launch its operations.

Koupaliště Michal s.r.o.

The company operates a water resort which emerged upon reclamation of a former brown coal mine. It is a natural water park with a number of attractions and facilities for the visitors. In addition to more than 500 m long sandy beaches, the site also has a giant chute and a toboggan, which is, with its length of 190 metres the largest attraction of its kind in the Czech Republic.

The visitors may also make use of a jumping castle, playgrounds, and a padding pool for children, a large and small iceberg, a water trampoline, treadles and other water attractions.

To the more active visitors the resort offers beach-volleyball playgrounds, a tennis court, mini-golf, a skittle, a Russian skittle and table tennis.

Safety of the visitors, both in water and in the entire site, is overseen by a water rescue squad.

SATER-CHODOV spol. s r.o.

The company which was established in 1994 operates a waste dump which can take around 40,000 tonnes of wastes a year, including approx. 60% of municipal waste from the surrounding towns and villages. Prior to deposition, the waste is sorted. With

regard to separation, from the waste are removed all tyres, metals or hazardous products. The dump site also operates a biogas collection facility with the subsequent processing of the collected gas in a co-generation electricity unit.

The company also enlarged its competence by an internal transport department, leasing of large-capacity containers and operation of a collection yard in Chodov.

Zahradní a parková spol. s r.o.

The company was established in 1997. Today, it is present in the entire Czech Republic and its centres offer a broad range of services – ranging from landscaping design up to retail sales of gardening tools. The gradual development of the commercial activity gave rise to a gardening centre in Mariánské Lázně, a landscaping centre present in the entire Czech Republic and a design landscaping studio with a broad range of issues covered.

EKOSOLARIS, a.s.

The company was established in 1998. It deals with production and assembly and installation of solar energy utilisation units. The company portfolio covers a broad range of solar installations, systems and components, ranging from the simplest up to large systems based on individual designs determined for daily preparation of thousands of litres of hot service water or generation of electricity.

In 2009, the company used the boom in the field of construction of photovoltaic power plants focusing on large-volume supplies and assembly of such power plants.



BOARD OF DIRECTORS' REPORT ON COMPANY FINANCIAL PERFORMANCE IN 2009

BUSINESS ENVIRONMENT

COAL INDUSTRY

The overall sales-related extraction of brown coal in the Czech Republic in 2009 amounting to 45.2 million was lower compared to the 2008 figure where it amounted to 47.1 million tonnes.

In 2009, Sokolovská uhelná retained its market position in the market for solid fuels, in its powder type subdomain. Sorted grades ceased to be produced in the first half of 2009.

ČEZ, with its consumption accounting for almost 40% of the overall coal sales, belongs to the main customers for Sokolov coal. Other major customers mainly involve heat plants from all over the Czech Republic. Sokolovská uhelná thus supplies fuel to cover the needs of central heating of a number of Czech towns, Plzeň, Sokolov, České Budějovice, Písek, to name but a few. In 2009, despite the increasing demand on the part of the customers for Sokolov brown coal, a targeted process of application of a quantity range of the supplies contracted under the purchase contracts concluded was applied to reduce the supplies down to the level of minimum values. That is a consequence of the corporate business policy where provision of a sufficient quantity of fuel for its own processing capacities until 2027 is preferred to the actual sales.

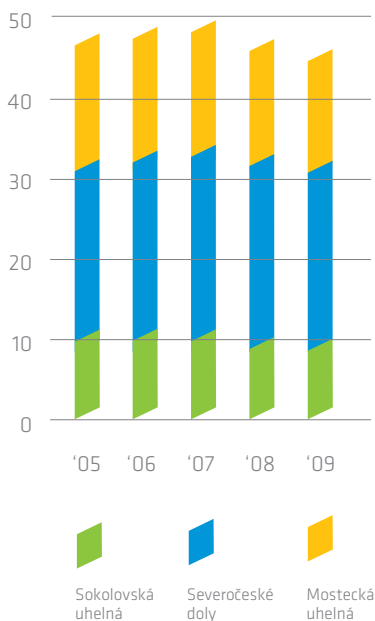
The coal price is driven by several factors. The price of coal for heat generation operations is mainly affected by the quality of the coal where the major issue involves shortage of coal with a low sulphur content. The price of brown coal for the energy sector is determined by the trends in prices of power electricity in Europe and the Czech Republic. Most purchase contracts contain a certain escalation formula to determine the price of the coal in connection with the cost of electricity.

In 2009, a phase-out of the production of brown coal briquettes was considered. Following the assessment of all aspects, a decision was taken to extend the operation up to the commissioning of the investment into production of brown coal powder in 2010. That helped to cover the increased demand for briquettes, mainly in neighbouring Germany. In consideration of the fact that a proportion of the briquette output is intended for export, the overall sales of briquettes and the prices were, inter alia, affected by the competitive struggle in the German market between the main producers of the commodity, which led to the increase in the output of all types of briquettes in the second half of 2009.

"The growing demand in the energy market for brown coal drying powder as an alternative fuel in 2009 only served to reinforce the previous considerations regarding the potential increase in the production."

Miroslav Soural
Sales Director

Extraction of brown coal
in the Czech Republic (mil. tonnes)





The growing demand in the energy market for brown coal drying powder as an alternative fuel in 2009 only served to reinforce the previous considerations regarding the potential increase in the production. An investment project started to be prepared for the intensification of production of brown coal powder. That investment shall be commissioned towards the end of 2010, in order to replace production of brown coal briquettes. The production capacities will then cover the demand up to 300,000 tonnes a year. In the domain of transport logistics of solid fuels to the customers, no major changes occurred in 2009. The geographical position of Sokolovská uhelná in the Czech Republic and mainly, within the system of transport infrastructure of the railway, is still causing problems in the supply chain, especially during the peak months when the supply of coal for heat appliances needs to be increased.

ENERGY

In 2009, major property shifts occurred in the Czech energy sector. Ownership changes occur in the Ústí nad Labem heat plant, where the original owner, Dalkia Česká republika, was replaced by a new owner, ČEZ. During the year, the multinational company International Power left Elektrárny Opatovice and the Czech energy sector. The new owner of Elektrárny Opatovice including the other business operations became East Bohemia Energy Holding starting in 2010. An agreement was concluded concerning the sale of a major interest in Pražská teplárenská between J&T and ČEZ. The effect of the global economic recession has been moved to the upcoming years with regard to the issue of substantial electricity availability in the form of long-term contracts. The decline in prices had the most pronounced effect on term contracts for energy commodities with the delivery period in 2010. The price shock was not avoided by the major entity in the Czech energy market, Moravia Energo. During February, upon resolution of the Energy Regulatory Authority, Moravia Energo was withdrawn from the electricity market and subsequently, this major electricity trader petitioned for bankruptcy. The immediate effect of the economic recession was reduced performance and production, in particular in the industrial sectors, bringing about a fall in energy consumption, as a consequence, which resulted in lower prices in short-term markets. From the viewpoint of legislative rules, the Czech energy sector has already been liberalised. The changes brought about by legislative processes respond to recommendations for optimisation with the objective being to improve the addressing of issues created by everyday operations and they do not have a conceptual character. Last year saw a more pronounced effect of the ill-fated policy of support to renewable sources, in particular for the category of photovoltaic resources, where the non-mar-





ket guaranteed price brought about an unprecedented boom in construction of such sources. Some positive changes that need to be mentioned here include the connection of the spot market in the Czech Republic and Slovakia for power electricity with automatic assignment of cross-border capacities between transmission networks of the two participating countries. The connection of the two markets helped to increase the liquidity of the markets, although the price fluctuation effects have not been removed completely. The connection of the markets is a major promise for the future which shall see establishment of a Central European power electricity market.

CHEMICAL PRODUCTS

During the process of brown coal gasification, where the ultimate end product is coal gas, the primary fuel used in the generation of electric energy within the combined cycle, carbochemical products emerge. These involve phenol concentrate which serves as feedstock in production of clean phenolic substances and brown coal gasifier tar which is applied in the market as fuel, and at the same time, reduction agent in production of steel in blast furnaces. Such products are unique on both Czech and European scale, by their origin, and by inference, their composition. Similar products are elsewhere exclusively produced on the basis of black coal and oil.

The company also produces—in small volumes—two purely chemical products, namely the sulphuric acid and liquid ammonia. In the sector for these commodities, it has to face the strong competitive pressures applied by domestic and foreign producers, which is being accomplished by achieving solid quality parameters.

In 2009, the European market suffered a mighty blow as a result of the economic crisis, which was reflected in all segments of the economy, chemical products included. The above uniqueness of the phenol concentrate and tar as well as the operative price policy for sulphuric acid and ammonia led to sustained sales levels for the said products although the business environment was clearly hostile when it came to business transactions in the first half of the year.

The business partners for sales of carbochemical products, ammonia and sulphuric acid were Czech and foreign companies (in particular those from Germany and Austria). The very good business relations are maintained by the provision of high-quality services and adherence to product quality.



PRODUCTION AND SALES

SOLID FUELS

Sokolovská uhelná sells three basic types of fossil fuel; namely, brown coal, briquettes and brown coal dust.

Sokolovská uhelná has the lowest market share on the Czech market of all the three coal companies that operate in the Czech Republic. Despite this fact, due to their specific quality, the demand for these kinds of coal is steadily high. In 2008 the process of directed decrease of the level of coal extraction was started, which has influenced the volume of sales. In 2009 we sold a total of 4.7 million tonnes of coal. The decrease that was recorded in the past two years will continue in the upcoming years, which will mean that the portfolio of customers will narrow analogically. In order to make this decrease less dramatic, the sale of sorted coal was terminated in 2009, which made available approximately 200,000 tonnes of dust coal for sales.

The second group of products is brown coal briquettes of which 164,000 tonnes were sold in 2009. The production of briquettes was to have been terminated in 2009. Due to the increased demand for this kind of fuel, however, the decision was made to terminate its production towards the end of 2010, when the investment into intensifying the production of brown coal dust will be launched, which will partly make use of the current technology of the briquetting plant.

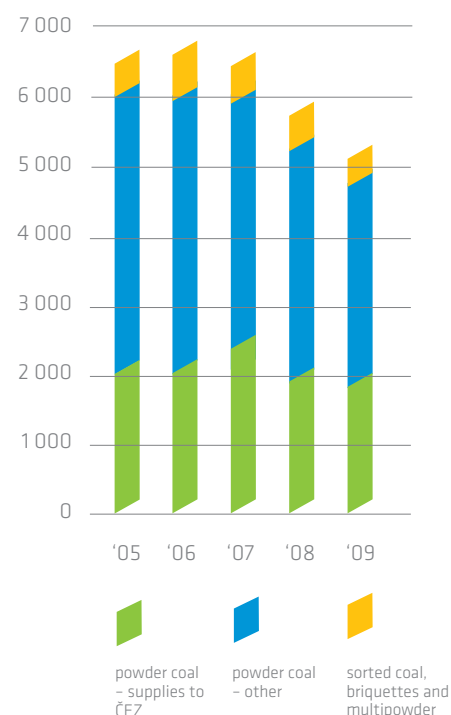
Brown coal dust, as a third major solid fuel product, prior to 2009 had been only a by-product of the production of brown coal briquettes and electricity. Due to the ever-increasing demand for this alternative fuel, the preparation and implementation of investments into intensifying the production of brown coal dust was approved in 2009. The implementation of this investment is scheduled to be launched at the end of 2010. This project will facilitate a smooth transition from the production of briquettes to the production of brown coal dust. After this investment has been launched, it will be possible to increase sales from 85,000 tonnes that were recorded in 2009 to 200,000 – 300,000 tonnes by 2011.



“In 2008 the process of directed decrease of the level of coal extraction was started, which has influenced the volume of sales. In 2009 we sold a total of 4.7 million tonnes of coal.”

Jiří Peterka
Production Director

Sales of solid fuels (thousand tonnes)





ELECTRICITY PRODUCTION

Last year, 2,006 GWh were produced using CCPP technology and 1,530 GWh of electricity were produced by the power and heating plant.

ELECTRICITY SUPPLY

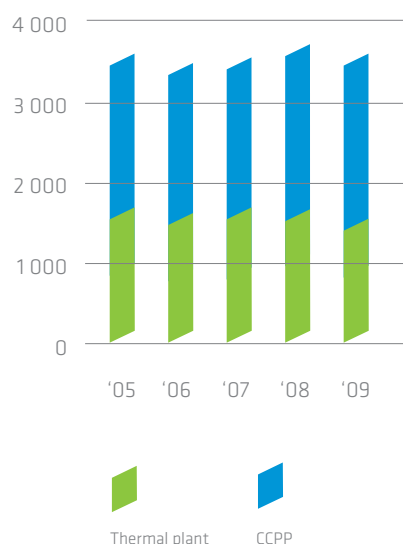
In 2009 electricity produced by the resources of Sokolovská uhelná was delivered in the form of several electro-energetic trade commodities. The supply from the CCPP was carried out together with the larger part of the supply from the power and heating plant, within the wholesale market under the “seller responsible for deviation” regime and under the duty to register the concluded contracts in the information system of the market operator in the Czech Republic. Regulation energy solely from the CCPP was supplied as support services for ČEPS. Within the framework of using the regulatory work, regulation energy was supplied to the grid or taken from it that was accounted for by the Czech market operator. Part of the electricity produced in the power and heating plant was, under the “buyer responsible for deviation” regime, supplied by means of our own local distribution grid to end users.

The basic diagram of electricity supply was compiled with view of the production capacities of our own sources under economical operation, using our own fuel resources and taking into account the demand on the market for standard energy products.

In the case of possible supply of regulatory work, which is supplied to the electric grid when positive regulated power is activated, we assumed that the bulk production would come from gas supplied by an external supplier.

Supplies of electric power are based on annual bilateral contracts, whose volume and structure are determined on the one hand by production economics, and on the other hand by efforts to limit potential purchasing expenses by creating in-house reserve capacity to offset fluctuations in Sokolovská uhelná in-house consumption, eliminating errors in predicting in-house consumption by individual divisions, and by determining available power for supply given considerable variability in heat

Electricity Production (GWh)



generation capacity. In contrast, in assembling the basic electrical power supply package we planned to purchase electric power to fully cover the diagram of these supplies, so as to approach standard traded products (e.g. one-month base-load), making our product more marketable and enabling it to command a higher price while at the same time increasing the variability of corrections with the option of making a given correction at the most advantageous time economically (in cooperation with the production division). An incomparably smaller part of the electricity supply is carried out by means of short-term bilateral contracts and sales on spot markets organized by the Czech market operator, and after the day-to-day markets of the Czech Republic and Slovakia have been merged, also by the Slovak electricity distribution grid.

Wholesale supplies under long-term bilateral contracts accounted for nearly 86.8% of the total volume of electrical work sold. Direct supplies to end consumers through the Company's own local distribution grid accounted for 8.3%. The total volume of short-term contracts was 4.9% of the total volume of electricity sold.

In total, 3,043.3 GWh of electrical work was supplied to customers. Of this amount, 1,997.4 GWh was generated in the CCPP. Another 949.4 GWh was supplied to outside customers from the heat/power plant and 96.5 GWh of electric power supplies were sourced by purchasing from outside suppliers, on spot markets for the most part.

Regulated power was supplied solely to ČEPS (regulator of electricity distribution grid appointed by the state) by means of the supply of ancillary services. The core of the ancillary services supply was formed after successful tenders for supplies between 2008 and 2010 and an annual tender for supplies for 2009. The volume of contracted regulated power that arose from the tenders mentioned above accounted for 91.4% of the total volume of regulated power. The remaining 8.6% were recorded on the day-to-day market support services operated by ČEPS. Due to the fact that the corporate strategy is based on annual contracts, the effects of the economic depression were felt only with commodities that are sold on the spot markets and with the supply of regulatory work.





PRODUCTION AND SALES OF HEAT

During the production of electricity in a thermal power plant, heat is produced as a by-product, and apart from its being used in other technological units of the Vřesová combine, it is further sold as thermal energy for central heating of other industrial plants as well as households in nearby towns and villages. The volume of thermal energy sold is obviously completely dependent of climatic conditions. As result of energy-saving measures such as progressive heat insulation of large apartment buildings, etc. there is a continuous annual decrease of the volume of energy sold. In 2009, another factor that drove the decrease even deeper was the very long period of summer-like weather conditions – due to that we supplied only 1.95 million GJ of thermal energy, which meant an annual decrease of 5%.

COAL GAS AND CARBOCHEMICAL PRODUCTS

Coal gas is the base fuel used at the combined cycle power plant to generate electricity. It is produced primarily by gasifying brown coal extracted from the Company's mines. In 2009, more than 1,298 million m³ was produced. However, raw gas for producing coal gas was not made only from coal, but also in burner generator that gasifies chemical by-products. The combined-cycle power plant's fuel requirement to reach the above volume of electricity production and sale was met fully by in-house produced coal gas.

In the 1st half of 2009, coal gas was supplied to external customers as well. Almost 2 million m³ of coal gas was supplied to meet the energetic needs of external customers.

Production of carbochemical products is tightly dependent on the production of coal gas. In terms of their origin (from brown coal at the beginning of the technological process), our carbochemical products are unique not only within the context of the Czech Republic, but throughout Europe as well.

In 2009, however, almost all commodity markets (including that of chemical products) were affected by the economic crisis. The sales targets were met, but at the expense of lower sales revenue.

Brown coal gasifier tar, which is our principal carbochemical product, was shipped in the volume of more than 42,600 tonnes.

In 2009 we supplied a little less than 13,000 tonnes of phenol concentrate and more than 7,600 tonnes of liquid ammonium.

Apart from the products mentioned above, we also produce a purely chemical product – sulfuric acid. In 2009 we supplied almost 23,900 tonnes of this commodity.

EARNINGS ANALYSIS



In 2009, Sokolovská uhelná recorded a net income of CZK 1,924 million. Income before tax was CZK 2,403 million. Corporate income tax due in 2009 was CZK 461 million and deferred tax totalled CZK 18 million. The before-tax result was achieved on revenues of CZK 11.8 billion and expenses of CZK 9.4 billion.

REVENUES

Sales revenues for own goods and services at the level of CZK 9.4 billion accounted for more than 79% of overall revenues. The most substantial part of these revenues was energy sales at the level of CZK 5.8 billion. Sales revenues for solid fuels (including transportation) reached the level of CZK 3.0 billion. The data mentioned above clearly shows that we have been successful in meeting the target we defined – to process a substantial part of the coal into value-added energy at the place of its extraction. Sales revenues for goods were almost CZK 0.2 billion.

The greatest part of the sales revenues from the energy sales was formed by sales revenues from the sales of electricity (including electricity-related services) and other related services at the level of CZK 5.5 billion and the sales revenues from the sales of heat at CZK 0.3 billion. In the case of the sales revenues that were recorded for electricity, the major part was accounted for by the sales of electricity produced in the CCPP (59%) and electricity produced in the thermal power plant (27.3%). The remaining 13.7% came from the sales of electricity-related services. Sales revenues from the sales of coal at the level of CZK 2.3 billion formed the largest part of the sales of solid fuels. The sales of briquettes brought in CZK 0.3 billion.

The Company further recorded CZK 0.1 billion in sales revenues for chemical products and CZK 73 million for other products (agricultural products, stone etc.).

Sales revenues for services (not including electricity-related services) in the total amount of CZK 0.6 billion consist mainly of revenues for the transportation of solid fuels, for the clean-up of environmental damage and also for in-plant catering services.

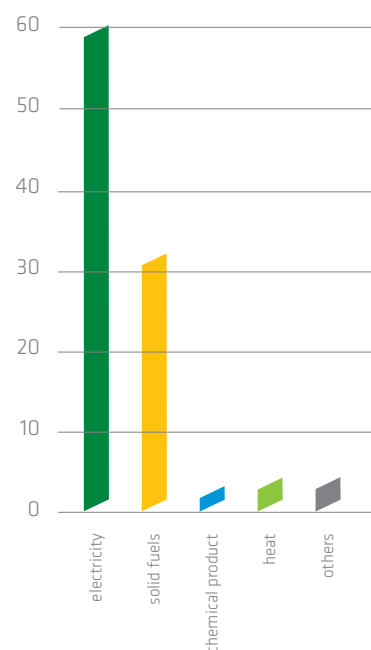
Other revenues include the capitalization of raw materials, fixed assets and intra-company services in the amount of CZK 0.1 billion. The capitalization of refurbished spare parts for production facilities and technologies accounted for a significant portion of this. The Company also sold some of its assets and material inventories – primarily surplus real estate, machinery and equipment. These sales generated proceeds of CZK 106 million.



“Sales revenues for own goods and services at the level of CZK 9.4 billion accounted for more than 79% of overall revenues. The most substantial part of these revenues was energy sales at the level of CZK 5.8 billion.”

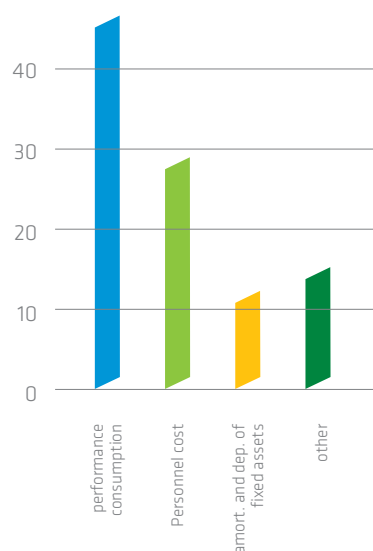
Jaroslav Rokos, MBA
Finance Director

Sales revenues structure for own products, services and goods in 2009 (in %)





Running cost structure in 2009
(in %)



Financial revenues of CZK 0.8 billion consisted of revenues from the sales of securities, interest earned on deposits made with banks and revenues from short-term financial assets.

EXPENSES

The most significant part of expenses was formed by costs of material, energy and services provided by external companies (CZK 3.9 billion), personnel expenses (CZK 2.4 billion) and amortization and depreciation charges (CZK 1.0 billion).

Consumption of energy and gases totalled CZK 0.4 billion. This figure was influenced in particular by the consumption of other gases (oxygen, nitrogen, and air) at CZK 0.2 billion as well as the consumption of natural gas in the amount of CZK 0.1 billion. Purchase of electricity for resale totalled CZK 32.1 million.

Consumption of materials at CZK 1.0 billion includes mainly spare parts for machinery and fuel used for operations.

Costs of implemented repairs were CZK 0.8 billion. They include mainly the repairs of Collator ZP 2500/2 in the Jiří Division, steam engines and LH vehicles in the Družba Division and a turbo-generator and a boiler in the Zpracování Division.

Transportation expenses and expenses related to other services totalled CZK 1.7 billion. The height of these expenses is influenced to a large extent by solid fuels transportation fees at CZK 0.7 billion. Other important items in terms of expenses are services related to the purchase of technical gases, rent, promotion and advertising costs, in-plant catering costs, clean-up and reclamation costs and security costs.

Personnel costs amounted to more than CZK 2.4 billion, with salaries accounting for CZK 1.8 billion. Related costs on social and health-care insurance reached the level of CZK 0.6 billion. The average monthly salary rose to CZK 30,298.

Taxes and other fees amounted to almost CZK 0.1 billion. This figure includes mainly fees charged on extracted raw materials and extraction sites, real-estate tax, water and air pollution fees and fees paid for land bought. Other operating expenses in the given period totalled CZK 1.3 billion (CZK 1.2 for CO₂ allowances and CZK 0.1 billion for insurance premium). Depreciation and amortization charges on fixed assets totalled CZK 1.0 billion.

Use/clearance of provisions and impairment allowances in 2009 exceeded the creation thereof by CZK 0.2 billion. The most significant items were: (a) creation and use/clearance of statutory provisions for repairs, clean-up and reclamation; and (b) creation and reversal of impairment charges on assets.

The Company's financial expenses totalled CZK 0.7 billion. These consisted primarily of the acquisition cost of securities sold, and interest expenses.

STRUCTURE OF THE COMPANY'S ASSETS AND SOURCES OF FINANCING

The Company's assets (as of 31 December 2009, in billion CZK):

Fixed assets	9.6
Circulating assets and accruals	9.6
Total	19.2

Fixed assets consist primarily of property, plant and equipment with a book value of CZK 9.1 billion. The most significant components of property, plant and equipment are machinery and equipment (CZK 4.7 billion), buildings and structures (CZK 3.7 billion), land (CZK 0.4 billion) and capital projects in the course of construction, including advance payments (CZK 0.2 billion).

The company managed CZK 0.3 billion in long-term financial assets, including nine subsidiary companies and controlling interest in two other companies (see Notes to Financial statements).

Current assets consist of inventory, long and short-term receivables, and short-term financial assets.

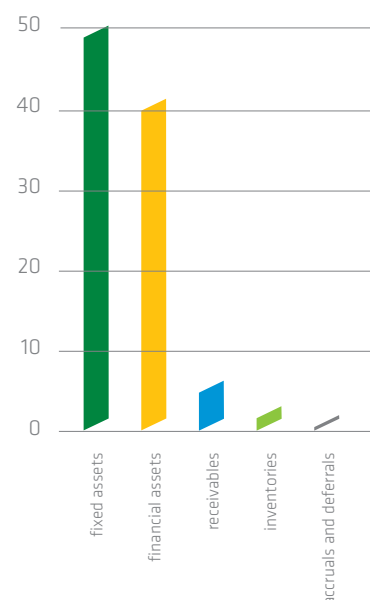
At the end of 2009, inventory totalled CZK 0.5 billion and it consisted primarily of materials and spare parts necessary to keep mining and production plant in working order, as well as inventories of the Company's own products (in particular, coal and rock dumps and agricultural products stored pending sale).

Receivables (gross) as of 31 December 2009 totalled more than CZK 1.3 billion. Allowance for overdue receivables of CZK 48 million, or 3.6% of the total nominal value of receivables and 86% of the nominal value of overdue receivables. In particular, the allowances for receivables from companies in bankruptcy or undergoing insolvency proceedings, and receivables on which court proceedings are pending.

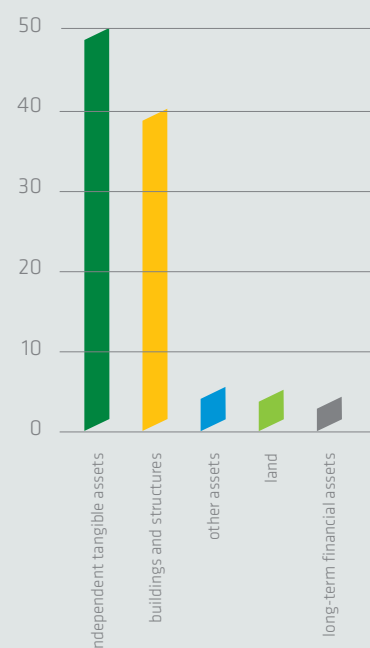
Short-term financial assets (including financial assets on blocked accounts) totalled CZK 7.8 billion, and during 2009, served to finance the Company's operating and capital expenditure needs and meet its financial obligations.

Accruals and deferrals include mainly deferred expenses.

Structure of assets as of 31 December 2009 (in %)

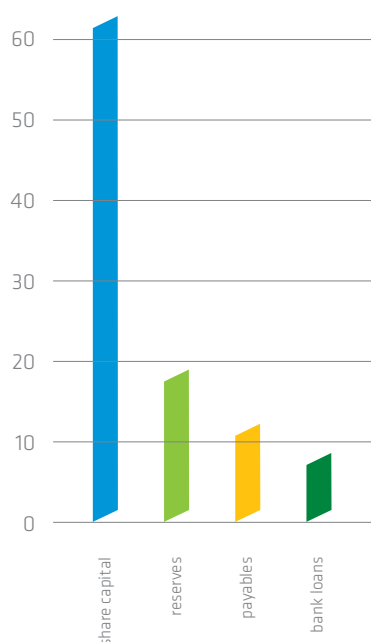


Fixed assets structure as of 31 December 2009 (in %)





Structure of liabilities as of
31 December 2009 (in %)



The Company's liabilities (as of 31 December 2009, in billion CZK)

Equity capital	12.0
Liabilities and deferred incomes	7.2
Total	19.2

(See financial statements on pages 46–47)

As of 31 December 2009, the Company's share capital was CZK 2 million and consisted of 20 registered shares in documentary form, each with the face value of CZK 100,000. The shares are transferable only with the prior consent of the Board of Directors. Share transferability is further limited in that the Company's other shareholders have the right of first refusal.

As of 31 December 2009, the statutory reserve fund had a balance of CZK 0.4 million. The fund is set up and maintained in accordance with the Articles of Association. The Company contributed CZK 30 million to the social fund. The fund's year-end balance was CZK 7.5 million. Employees utilize the fund to help cover the costs of meals at Company cafeterias, recreation, healthcare equipment not covered by health insurance, children's recreation, and cultural and social events.

Profit brought forward reached CZK 10.0 billion. Earnings for the current accounting period totalled more than CZK 1.9 billion.

As of 31 December 2009, the Company carried provisions totalling CZK 3.5 billion. Statutory provisions form a substantial portion – these are provisions for clean-up and reclamation of land affected by mining as well as provisions for repairs of plant and equipment extensive enough that, should this provision not be made, they would have a material impact on the Company's earnings in the year they are formed.

Long-term payables, at more than CZK 0.7 billion, consist almost exclusively of deferred tax liability. Short-term payables totalled almost CZK 1.4 billion and included trade payables (CZK 0.6 billion) among other items. None of the trade payables were overdue. Other material items include December wages payable to employees; related social security levies payable and employee deposits in the Company savings bank.

Throughout 2009, Sokolovská uhelná met all its obligations to the State, banks, employees, and business partners on time and in full.

Bank loans as of 31 December 2009 had an aggregate balance of CZK 1.6 billion. They consisted of a restructuring loan which matures at the end of 2013. No new loans were drawn during the year.



CAPITAL CONSTRUCTION

The year 2009 saw the execution of a number of projects to develop both the Processing and Extraction Sections. The total amount invested was CZK 0.8 billion.

The Utilization of Fine Coal Matter from the Settling Pond went on to be a significant project in the Processing Section. The implementation of this project was started in 2006 and concluded in 2009 by putting the 3rd settling pond into operation.

Another important project is Gas Cooling Innovation which tries to find ways of innovation of gas cooling which would ensure lower malfunction rate, and lower repair costs. The whole project was concluded in 2009. 2009 also saw the completion of the 3rd phase of the Rectisol Intensification Project. The aim of this project is to increase the production of coal gas by 40,000 m³(n)/h by intensifying the rectisol lines. When this project has been implemented, the production of coal gas will be increased, which will enable decreasing the level of consumption of natural gas and increasing the production of electricity at the CCPP.

Another significant project in the Processing Section is Modernization of Technology in Gashouse II, initiated by the need to replace the information system Energis and the need to modernize the operation of the Gashouse, where the first pilot gasifier was launched, and Turning Pressure Reduction and Modernization of Switch-room at VS II, where two turbines that operate using left-over steam have been launched, each at 0.7 MW.

In terms of the Extraction Section of the Company, the most significant project was the Addition of mining plant equipment – KU 300/19, concluded in 2009. Within the scope of the project was the launching of a excavator purchased and transported from the Ležáky-Most mine. Within the project Extension of Belt Conveyor – III Phase, the regular annual extension of the fixed conveyor belts was continued. The aim of the Družba Sediment Pond project is to reach the levels of undissolved matter in mine waters discharged into the reservoir as prescribed by the decision of the water management body. Both projects are to be completed in 2010. Furthermore, actions were taken in the Družba and Jiří Divisions that ensure the extension of conveyor belts, supply lines, railway tracks and trolley wires. Another area of capital expenditure significant for implementing Company tasks was small-scale machinery and vehicles, with expenditures of nearly CZK 0.2 billion.



“2009 also saw the completion of the 3rd phase of the Rectisol Intensification Project. The aim of this project is to increase the production of coal gas by 40,000 m³(n)/h by intensifying the rectisol lines.”

Jiří Pöpperl
Technical Director



"The Company fulfilled all its obligations arising from the collective contract concluded between the Company and its employees. From the point of view of the employees, the most important piece of information is that regarding the fulfilment of targets in the area of the average salary,"

*Miroslav Mertl
Personnel Director*



WORKFORCE

In 2009 the Company adapted its personnel policies to the planned reduction of coal extraction by means of reducing the hiring of new employees. The headcount decreased by 182, as 248 employees left the company and only 66 new employees were hired. By hiring 22 graduates from the Sokolov Integrated Secondary School of Technology and Economics, the Company fulfilled its obligation of long-term cooperation with this school. With 14 employees coming back from non-registered status. The remaining 30 new employees were assigned to machine operator positions which would otherwise have remained vacant and whose work would have had to be substituted by means of out-sourcing (especially in transportation).

During the course of the year the personnel situation of the employees assigned to solid fuels sorting line for small consumers, the operation of which was terminated, was taken care of using standard methods. Upon mutual agreement, all the employees who used to work with this technology were reassigned to new workplaces of the company according to their qualification, work experience, as well as travel accessibility.

The Company fulfilled all its obligations arising from the collective contract concluded between the Company and its employees. From the point of view of the employees, the most important piece of information is that regarding the fulfilment of targets in the area of the average salary, which rose to CZK 30,298. The figure prescribed by the collective contract was again exceeded by means of a special bonus awarded to the employees by the Board of Directors of the Company. This bonus was made possible by the fact that the targets defined in the corporate business plan were met and even exceeded. Contributions of the Company into the Social Fund were also fulfilled in due manner. This fact helped enable the full operation of the recreational program for the children of employees in the form of summer camps, as well as social events for the employees and retired employees on the Company. The main area of drawing funds from the social fund remained the personal account, which the employees use to cover their individual social costs from the offer made available by the provisions of the Income Tax Act. What could be considered a downside of 2009 is the fact that the increase in the level of the average salary was not accompanied by corresponding increase in the productivity of work. This indicator dropped by 2.8%, while the average salary rose by 7.3% as compared to the previous year.

Another important aspect of personnel policy is employee training. The Company uses its own resources to ensure that its workforce is composed of highly qualified professionals. In 2009 an engine driver qualification course was concluded which provided this important qualification to 18 employees of the Company. The Company uses its own accredited training facility to provide education and training aimed at increasing the professional qualification of drivers. Thus, 575 in-house and 177 external drivers received this kind of training. Unused capacity of training facilities is offered on the market to drivers, as well as in the welding school and in professional training seminars that deal with current issues and challenges. Specialized mining education that is prescribed by legislation was received by 23 employees in the subject of mining and mining geology at the Secondary Industrial School and College of Further Education in Příbram (the Company takes part in running this school) – those employees received qualification that is necessary for working in mining professions. In order to increase employee mobility within the company, a preparation course aimed at providing the qualification of a locksmith was organized by the Company in cooperation with Sokolov Integrated Secondary School of Technology and Economics. A total of 19 employees completed this course in 2009. Now 21 employees are registered for the school year 2009/2010. The course was designed for employees without a formal qualification or for those who have a qualification in a different subject.

Year 2009 did not mark a deviation from the previous development in terms of a decreasing sick rate. Only 3.35% of the man-hour fund was lost due to sickness, which marks a continuation of the effect of the guard period of three days at the beginning of the illness. In-plant prevention care and the provision of inoculations is undoubtedly a factor that significantly contributes to this fact. That all employees are provided with personal protective equipment goes without saying. What also contributes to prevention is the high level of quality of the food served in the in-plant cafeteria.





RESPONSIBILITY TOWARDS THE ENVIRONMENT

In 2009, the 2nd change of the Integrated Permit from 2007 was made. In terms of atmosphere, the Emission Reduction and Emission Limits Plan for the Thermal Plant Section was incorporated into the Integrated Permit (IPPC). This plan was passed by means of the Decision of the Regional Office of the Karlovy Vary Region, Department of Environment and Agriculture, in 2004. The Company expects to meet all emission limits, and in the case of SO₂ in particular with a significant reserve. The implementation in 2007 of the “Flue Gases Desulphurization Unit Intensification” project will play the decisive part in meeting the emission limits prescribed by legislation.

Furthermore, the Permission for the Permanent Operation of the “Utilization of Liquid By-Products” Facility was incorporated into the Integrated Permit, which overrules the original Decision of the Regional Office of the Karlovy Vary Region, Department of Environment and Agriculture, dated 2008, which enabled the permanent operation of a large-scale air-polluting facility.

The flooding of the remaining hollow of the Medard – Libík quarry with mine waters continued in 2009, and a filling canal was build which will bring water from the Ohře River.

The second sedimentation and accumulation mine water pond was built in the Družba quarry. Its purpose is to increase the retention and leaning efficiency particularly during extreme climatic conditions. Its capacity is currently available in case of a sudden melting of snow or heavy rains. It can, therefore, be assumed that Sokolovská uhelná will meet the qualitative requirements on mine water also under these conditions.

At the end of 2009 the project of cleaning the Vřesová Secondary Treatment Pond that started in spring 2008 was completed. Here, a temporary change to the Integrated Permit was negotiated with the water management authority. The objective is to renew the pond's retaining and treatment capabilities, which will improve water quality in the Chodov Stream. In the area of waste management, Sokolovská uhelná strives to prevent the creation of waste, to reduce the amount of waste created, and thus to minimize the negative effect of waste on the environment. The production of waste is formed and influenced mainly by the operation of

the processing and extraction sections, within the scope of development plants and Capital construction projects and their implementation, including demolition works and the dismantling of original parts of machinery and equipment. Reclamation activities after the termination of coal extraction also play a part in waste creation. Handling waste is subject to the legislation in force.

During the course of year 2009, the extraction and gasifying of heavy tar sludge took place within the scope of dealing with left-over ecological burdens (Stará Chodovská pit). We also conducted monitoring operations in the scope ordered by a decision of the Karlovy Vary office of the Czech Environment Inspectorate. A total of 5,000 tonnes of heavy tar sludge was extracted and gasified in 2009, bringing the overall total to 25,000 tonnes since the beginning of the project (June 2006). Also during the year, 6,000 m³ of phenol-bearing wastewater was pumped out of the pit and treated, bringing the total to 22,000 m³. Monitoring of bores in the vicinity of the pit showed no contamination of underground sediments or groundwater in excess of stipulated limits.

Intensive brown coal mining and industrial activities have a significant negative environmental impact in the Sokolov Region. For this reason, Government Directive of the Czech Republic No. 490/91 set forth a program for restoring the district's environment to health, part of which was a long-term Master Plan for Cleaning Up and Reclaiming Land Affected by Coal Mining in Sokolov District. This plan focuses on landscape reclamation and the conditions for ensuring its ecological stability, creating a diverse landscape related to surrounding untouched nature, complex solutions of water circulation a defining the method and scope of the subsequent use of the land affected by mining (agricultural and forest land, water surfaces and other).

The Master Plan also serves as the basis for the following overview of the reclamation work carried out by Sokolovská uhelná from the beginning of coal extraction to the end of the life cycle of the mines.

Summary of reclamation work carried out by Sokolovská uhelná (end 2009):

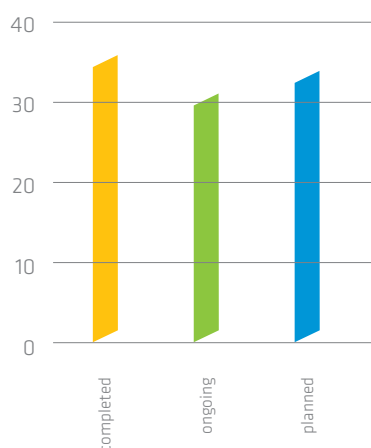
Land affected by coal mining

1.	completed		3,350.10 ha	(36.22%)
	of which	agriculture	1,108.36 ha	(33.08%)
		forest	2,046.07 ha	(61.08%)
		man-made lakes	77.75 ha	(2.32%)
		other	117.92 ha	(3.52%)
2.	on-going		2,794.53 ha	(30.21%)
	of which	agriculture	190.04 ha	(6.80%)
		forest	2,019.48 ha	(72.27%)
		man-made lakes	512.9 ha	(18.35%)
		other	72.11 ha	(2.58%)
3.	planned		3,105.81 ha	(33.57%)





Share of reclamation projects on land affected by coal, rock and sand mining; 31 December 2009 (in %)



A total of 9,250.44 hectares of land affected by coal mining will be reclaimed by the Company.

2009 saw the completion of reclamation on 169.94 hectares funded from the reserves on clean-up and reclamation and 0.83 hectares funded by means of state funds of the Ministry of Finance of the Czech Republic. 116.80 hectares of reclamation were started funded by the Ministry of Finance of the CR and 0.92 hectares of reclamation funded from the reserves for clean-up and reclamation.

Land affected by rock mining

1.	completed	(forest)	9.04 ha	(44.77%)
2.	ongoing		11.15 ha	(55.23%)
	of which	agriculture	0.88 ha	(7.89%)
		forest	4.08 ha	(36.59%)
		man-made lakes	1.83 ha	(16.41%)
		other	4.36 ha	(39.11%)

A total of 20.19 hectares of land affected by rock mining will be reclaimed by the Company.

Land affected by sand mining

planned	29.76 ha	(100,00%)
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The Company will reclaim a total of 29.76 hectares of land affected by sand mining, of which 11.10 hectares is land where mining operations are under way and 18.66 hectares is land that has not yet been affected.

Since the start of reclamation works in the Sokolov Region in the 1950's, reclamation has been completed on 3,359.14 hectares, of which agricultural land is 1,108.36 hectares, forest land 2,055.11 hectares, man-made lakes 77.75 hectares and other land 117.92 hectares.

LANDSCAPE RECLAMATION UNDER WAY

Družba area located west of the town of Nové Sedlo. Forest reclamation of OLP Pískovec completed (4.41 hectares).

Jiří area (Marie, Lomnice) situated between Vintřův, Lomnice and Sokolov. Forest reclamation of “Marie protective belt” completed – 1.45 hectares.

Lítov – Boden area situated between Habartov, Chlum sv. Máří and Lítov. Reclamation of the Lítov mine dump continued – re-layering (38.13 hectares). Forestry care in the forest reclamation project Lítov North II. and III. stage (total of 9740 hectares).

Medard – Libík area located between Citice, Bukovany, Habartov, Svatava and the town of Sokolov. Continuation of the Medard Lake project – monitoring of the surface/underground water ratio, penetration probes on the mine dump with the aim to update geo-mechanical data. Continuation of agricultural land reclamation – northern part I. stage and agriculture, forest and water reclamation – VI. stage (total of 122.73 hectares). Completion of the construction of collecting work with the inlet canal (0.83 hectares) for filling the lake from the Ohře river and continuation of building of the bank line. Technological and biological reclamations in the area surrounding the future lake continued – I. to V. stage of forest care (total of 469.16 hectares).

Silvestr area that spreads south of the town of Sokolov. Agricultural reclamation completed – II. B stage (13.5 hectares). Forest reclamation continued – III/1 stage of 25.32 hectares and II. A stage of 96.66 hectares.

Podkrušnohorská mine dump area located north of the town of Sokolov – water reclamation started (IV. stage – 0.62 hectares); forest reclamation continued (II. stage – 110.60 hectares). Forest reclamations of Boučí horizon 480 m.a.s.l. (II. stage; 13.77 hectares), Dolní Nivy (11.21 hectares) and Vintřův mine dump (I. stage; 121.44 hectares) were completed by means of cleaning. PV reclamation XII. stage (116.80 hectares) started and recultivation work on III. to VI., IX. and XI. stage continued (total of 806.16 hectares).

Smolnice mine dump area located between the towns of Chodov and Božíčany. Technical and forest reclamation III. stage/1 (57.70 hectares) carried out in 2009.

Královské Poříčí in the vicinity of the Bernard Farm. Forest reclamation called “Protective belt Marie” completed by means of cleaning (4.16 hectares). All work in other areas according to the Master Plan for Recultivation after Coal Extraction in the Sokolov District were thus concluded.





PUBLIC RELATIONS

2009 was a year of great success for Sokolovská uhelná. After the Company has recorded a number of similar results in the past, many people may be taking it for granted.

In reality, however, it is a very valuable result of concentrated efforts of the employees of the Company combined with the actual situation on the market and the previous decision of the company to concentrate not only on mere extraction of coal, but on turning it into value-added energy in its own CCPP.

The result of this joint efforts is profit for the employees of Sokolovská uhelná as well as for the whole region, and moreover, the region's economic and social stability despite the present economic crisis. None of this, then, is a mere coincidence. Not even the good economic results the company recorded in the past few years.

In terms of the history of Sokolovská uhelná, year 2009 marked a breaking point. For the first time in its history the volume of coal extraction in its mines started to decrease on purpose. The coal that was not delivered to the open market was supplied to the Company's own power plants in Vřesová. As a result of this fact, Sokolovská uhelná terminated, after more than 50 years, the production of sorted coal in the Central Sorting Plant in Tisová.

The Company's corporate philosophy is based on maximum possible valorisation of brown coal by using their own processing technologies, and on transforming it into value-added kinds of energy. To carry out this goal, it is necessary to ensure a sufficient amount of coal for the whole period of future operation of the combine plant – i.e. until year 2027. The present business policy of Sokolovská uhelná is based on these assumptions. Even though it is obvious from the developments on the solid fuels market that it would be possible to increase the sales of coal with view of a short-term effect, from the long-term perspective it would be a very short-sighted decision, which would, in the long run, be harmful to the interests and performance of the company. The efficiency of the Company's operation is based on the effect of interconnectedness of coal extraction and its processing "on the spot", and it would be quite unwise to disturb this precious symbiosis by "looting" the mines.

The reduction of extraction itself followed by a reduction in the volume of sales of coal would not be sufficient to ensure the operation of quarries without appropriate executive orders. That concerns especially the Jiří quarry, which can continue its operation based on the decision issued by the District Mining Authority in Sokolov. This decision allows mining

operations in the quarry – i.e. opening, preparing and extracting from the new coal deposit in the coal mining areas of Albertov, Lomnice, Královské Poříčí and Nové Sedlo.

In practice, this means that, according to the pace at which the mine will spread, the quarry can function approximately until 2020 when it will become necessary to apply for a new permission for the period until the end of the life expectancy of the quarry. This is essential, not only from the perspective of extraction, but also from the point of view of preserving several thousand jobs, which are in the region directly related to the operation of the Jiří quarry. Obtaining the permission itself is, from both the legal and the administrative perspective, a rather complicated process. Just preparing the documentation, the structure of which is prescribed by legislation, took more than a year and a half to complete. This documentation contains a description of the deposit in terms of materials, methods of extraction, but also technical matters such as the way of draining the quarry, exploration, transportation schemes, as well as work safety regulations.

An evaluation of the effect of the extraction on the environment is an integral part of the documentation, including specific protection of sources of spa mineral water in Karlovy Vary, or chapters regarding clean-up and reclamation of land, including guidelines regarding the creation of financial reserves dedicated to these activities.

The documentation for the new plan is specific in that it takes a more detailed look at the effects of extraction on the nearby town of Lomnice, which is a town the Jiří quarry gradually spreads towards. The fact that the edge of the quarry is moving ever closer towards the town will mean, on the one hand, that it will gain access to financial compensation prescribed by law to make up for the fact of coal extraction in the cadastral area of the town; on the other hand, it will bring along a number of negative effects that cannot be avoided.

Nevertheless, thanks to a long history of good cooperation between Sokolovská uhelná and the neighbouring towns and villages, most of the measures that are taken are above the level prescribed by law. Not only are less noisy technologies employed,

or sprinkling machines installed that decrease the level of dust present in the quarry, but these measures also often include the cleaning of streets, water sources, various measurements of air pollution, technical support etc. This, also, was one of the reasons why the company, in this rather complicated administrative process, managed to obtain positive statements from all state administration authorities, town councils, land owner and other entities involved

Sokolovská uhelná spent almost CZK 0.8 billion on Capital construction. The same as in previous years, a considerable part of these funds was allocated to projects that will help continually improve the environment in the Sokolov Region. The remaining part went to traditional investments related to production or the spreading of extraction technologies.

At the same time, a large-scale project of ecological innovation of the thermal plant in Vřesová was launched which is scheduled to be concluded approximately in 2014. The implementation of this project entails the gradual adjustment of the fuel process in all 5 boilers of the plant. The result will be lower emissions of hydrogen oxide and higher efficiency of the plant.

What will also have a positive effect on the environment is the construction of a new operation system for the tank area in Vřesová, the construction of a new biological water treatment plant for the Jiří plant in Vintřov, or the completion of the construction of sediment ponds of the Družba quarry, which will improve the quality of water that is discharged to the Novosedelský brook. Ecological investments will also be implemented at the Company's cattle ranch in Staré Sedlo, where a new sewer system will be built connected to that of the nearby town.

In autumn the second phase of emptying water ponds in the foreground of the Jiří quarry took place. While last year, this event affected mainly smaller animals, this year it affected particularly fish and shells from both ponds called Břizák.

Last year and during the course of this spring, amphibians were moved, in cooperation with biologists from South Bohemia, to ponds that had been prepared in the Podkrušnohorská spoil dump. Compared to the previous year, the catching of animals



was less complicated this year, as the area moved from a forest area to a forest free area covered with bushes.

As the emptied ponds used to be fishing areas that were gradually destroyed as the mining progressed, the fish that were caught were moved to other fishing areas of the Ohře river.

In 2009, the construction of the filling canal for the future Lake Medard was almost completed which will bring water from the nearby Ohře river. The filling is scheduled to commence in the first half of 2010 and it will be controlled so that the spreading of blue-green algae could be prevented. Depending on the level of water in the river, it will take approximately three years. When finished, Lake Medard will offer far better conditions for recreation than people can find today in Jesenice, Skalka and other large bodies of water in the area.

For the broad public, the most significant efforts continued to be the financial support in the area of sponsorship and advertising activities, which totalled CZK 89 million and which contributed significantly to the development of sport, cultural and social activities of towns and villages in the region.

Sokolovská uhelná took a considerable part in supporting health and social care facilities, and in the education of youth by means of supporting their talents. We did not fail to remember culture, sport and physical education as well. Let us mention the traditional Moto-cross World Championship in Loket, Cyclo-cross Czech Republic Championship in Březová, folk music concerts, or Christmas concerts in Sokolov and many other events. Sokolovská uhelná continued to support the ice-hockey team in Karlovy Vary ("A" team of HC Energie won the Extraliga pennant) and the football team in Sokolov (which competes in the second-highest league).

The maximum extension of the life expectancy of the mines as well as the procession section in Vřesová is top priority for the Company, as well as finding the best possible way of transforming coal into value. Another priority is to ensure the supply of heat in the Karlovy Vary Region and to dispatch the supply to other long-term partners.

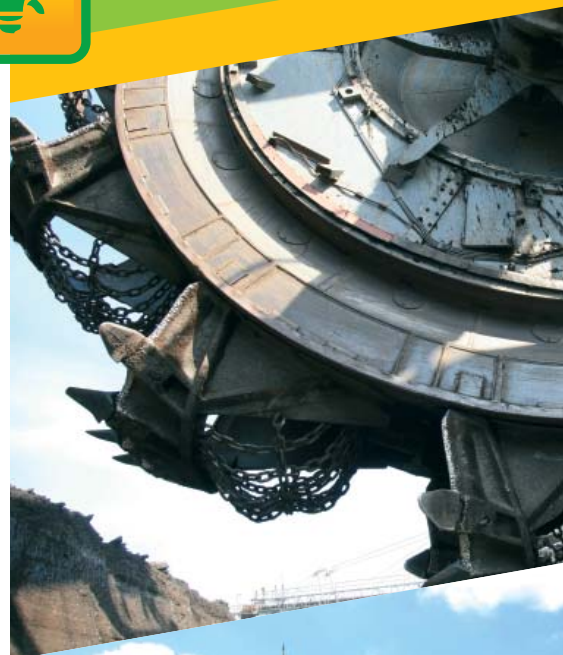
Sokolovská uhelná continues to be the most important employer in the Karlovy Vary Region.

CORPORATE BUSINESS STRATEGY

The importance of Sokolovská uhelná in the context of the Karlovy Vary Region is irreplaceable. Due to its size, the Company influences the life in the region in all its aspects. Sokolovská uhelná will continue to play a significant role in the near future as well, as it will continue to be the strongest economic player in the whole area of North-West Bohemia. This position brings along immense responsibility not only towards employees and their families, but towards other business entities, institutions and organizations.

The focal point of the operation of Sokolovská uhelná focuses on the area of energy production striving for most efficient utilization of the individual extraction and processing technologies that were built in the previous years and that are designed for the purposes of coal extraction and transforming of coal into value-added kinds of energy, in particular electricity and heat. The corner-stone of the operation of the Company is coal extraction. However, the time when the extraction of coal will be terminated is, from the perspective of the necessary restructuring of business activities, relatively at hand. Nowadays this time horizon is approximately 20 years and we have to bear in mind the fact that towards the end of the life cycle of the coal deposits, the level of coal extraction will gradually decrease.

The management of the Company is well aware of the importance and significance of the Company for the life in the region. We are preparing new activities in advance. These activities are designed to ensure that the termination of coal extraction will not cause undesirable effects on quality of life in the region, be it from the perspective of a dramatic increase in unemployment or in terms of an abrupt reduction of the present support of the Company towards the region. With view of the fact that the entire operation of the company takes place within the so-called "spa triangle," there is the opportunity to direct future activities in the direction of services related to tourism, recreation and the spa industry. The management of the Company has, therefore, already started taking steps that will secure the whole region in terms of employment, as well as in all aspects of living conditions of the inhabitants and visitors of the region. The fundamental basis of these considerations is the emphasis that is put on the reclamation and recultivation of the whole area affected by coal extraction. The target strategy is to carry out hydrological reclamation, which can already be seen in the already-finished Michal area, and mainly in terms of Lake Medard, which is currently being prepared. The negative effects of the world-wide economic crisis have not yet affected the current results of the Company. On the one hand, this is thanks to the responsible decisions taken by the management of the Company, but, on the other hand, it is also related to the character of the business



sector in which Sokolovská uhelná operates. In general, the energy production industry recorded a decrease in performance only in the second wave of the depression. The first blow was received by producers of products and services with a direct connection to the end-consumers, who, in relation to the deteriorating living conditions, may reduce consumption in the short-run. This has a negative effect on the car industry, construction, china production etc. In terms of the energy production industry, the effects of the depression become visible with a slight delay, as the individual customers reduce their production. This brings about a domino effect. This delay gives the Company the opportunity and advantage of gaining some time to implement rationalizing measures. Therefore, there is some space for maximum possible elimination of the effects of the economic depression on the performance of the Company. These facts have a positive effect not only on Sokolovská uhelná, but they are immensely important for all business partners of the Company. A large number of companies in the region are completely dependent on Sokolovská uhelná, and any serious problem (a reduction in the volume of mutual business, deterioration of payment discipline etc.) could have fatal effects for these companies. At the same time, this could cause a considerable increase in unemployment in the region, which would affect all aspects of life in the region. The management of the Company is fully aware of all these risks. The corporate business plan for 2010 aims at producing half pre-tax profit compared to 2009. In spite of this, all obligations in relation to the employees or to the environment of the Company will be met in full.

In parallel with the main production activity of the Company, Sokolovská uhelná will continue to meet its obligations in the area of cleaning-up the consequences of coal extraction. At the same time, it will continue to invest its resources into environment protection. Emphasis will be put on lowering the ecological burden on the environment by means of keeping the low levels of emissions to surface waters and air, as well as on improving the environment by means of reclaiming mine dumps and other areas that have been affected by the mining activities of the Company and its predecessors.

Mining operations will be negatively affected by the deteriorating mining conditions in both quarries of Sokolovská uhelná. The Jiří quarry is spreading to the so-called caved grounds, i.e. areas that are affected by previous deep mining. Coal extraction from

these areas is, and will continue to be, ever more complicated and costly. The Družba quarry is approaching areas where coal extraction must be done carefully with respect to the sources of spa mineral water. If anything should happen to these sources, it would have a fatal effect on the whole spa industry in the region, mainly in Karlovy Vary. Moreover, mining engineers have to deal with the issue of mining dump areas. The inner mining dump of the Jiří quarry displays a certain level of instability and based on the latest research it cannot take the previously planned amount of land from the Družba quarry. This is a limiting factor for the quarry and it will have a negative effect on its coal extraction capacity. At the moment the whole mining strategy is being updated and it should be finished during 2010. This strategy will outline the future steps in coal extraction and their division between the two active quarries of Sokolovská uhelná. However, it can be said at this moment that the proposed coal extraction operations of Sokolovská uhelná is in full compliance with the Executive Order of the Government of the Czech Republic no. 490/91 dated 27th November 1991 that set the ecological limits on brown coal extraction in the Sokolov Region. As opposed to the other brown coal mining companies that operate in North Bohemia, there is no legislative threat to the process provided that all defined obligations are met.

The Company will continue to strengthen its position as the largest independent producer of electricity in the Czech Republic. Emphasis is put on providing system support services on the electricity market. These services form an indispensable part of sales revenues for electricity.

Sokolovská uhelná meets all conditions necessary to overcome the present period of economic depression which is not only in the Czech Republic, which, from the perspective of the Company's life cycle, is only short-term in its nature. The market segment in which the Company operates meets all requirements necessary to ensure future operation of Sokolovská uhelná in the next few years, as well as in distant future. The management of the company is fully aware of the irreplaceable part Sokolovská uhelná plays in the region. All subsequent steps regarding the development of the company will be taken with view of the fact that the Company not only is the strongest economic entity, but that it is the largest employer in the Karlovy Vary region as well.





BALANCE SHEET

(THOUSAND CZK)
SHORT FORM



	Gross	Provisions	31 December 2009 Net	31 December 2008 Net
Fixed assets	26,879,826	(17,297,682)	9,582,144	9,803,611
Intangible assets	332,379	(131,890)	200,489	188,299
Property, plant and equipment	26,239,166	(17,165,792)	9,073,374	9,329,651
Long-term financial investments	308,281	0	308,281	285,661
Current assets	9,701,650	(113,107)	9,588,543	8,402,130
Inventories	522,183	(64,587)	457,596	452,436
Long-term receivables	45,869	0	45,869	41,737
Short-term receivables	1,294,245	(48,520)	1,245,725	1,192,861
Short-term financial assets	7,839,353	0	7,839,353	6,715,096
Accruals and deferred income	50,976	0	50,976	50,922
TOTAL ASSETS	36,632,452	(17,410,789)	19,221,663	18,256,663

	31 December 2009	31 December 2008
Equity	11,997,381	10,283,305
Share capital	2,000	2,000
Capital contributions	88,433	66,413
Reserves and other funds created from profits	7,875	10,208
Profit brought forward	9,974,684	7,933,624
Earnings for the current accounting period	1,924,389	2,271,060
Liabilities	7,223,007	7,969,992
Provisions	3,516,505	3,813,431
Long-term payables	745,860	733,075
Short-term payables	1,360,642	1,423,486
Bank loans and advances	1,600,000	2,000,000
Accruals and deferred income	1,275	3,366
TOTAL EQUITY AND LIABILITIES	19,221,663	18,256,663

PROFIT AND LOSS ACCOUNT

(THOUSAND CZK)
SHORT FORM

	Year ended 31 Dec. 2009	Year ended 31 Dec. 2008
I. Sale of merchandise	170,820	192,565
A. Cost of merchandise sold	32,134	55,669
+ Gross profits on goods for resale	138,686	136,896
II. Sale of own products and services	9,490,278	10,063,145
B. Cost of materials, energy and external services	3,875,558	4,026,162
+ Value added	5,753,406	6,173,879
C. Personnel costs	2,438,716	2,315,703
D. Taxes and charges	98,360	105,908
E. Depreciation and amortization	1,036,733	987,259
III. Revenues from sales of fixed assets and materials	106,023	71,493
F. Net book value of fixed assets and materials sold	74,732	39,968
G. Increase (+) in provisions and impairment allowances	(186,139)	(86,968)
IV. Other operating revenues	1,204,458	2,589,922
H. Other operating costs	1,313,222	2,703,558
* Operating profit	2,288,263	2,769,866
VI. Income from sale of securities and interests	603,321	1,103,728
J. Cost of securities and interests sold	608,687	1,098,621
VII. Income from long-term financial investments	9,658	9,000
VIII. Income from short-term financial assets	126,629	76,512
K. Expenses from financial assets	29,667	47,539
IX. Revenues from revaluation of securities and derivatives	5,057	300
L. Expenses from revaluation of securities and derivatives	4,104	4,948
X. Interests received	76,799	151,097
N. Interests paid	59,216	105,396
XI. Other financial revenues	18,794	27,027
O. Other financial costs	23,860	29,243
* Profit on financing activities	114,724	81,917
Q. Corporate income tax on ordinary activities	478,598	580,723
** Net profit on ordinary activities	1,924,389	2,271,060
*** Net profit for the accounting period	1,924,389	2,271,060
Profit before tax	2,402,987	2,851,783

ORGANIZATIONAL CHART

AS OF 31 DECEMBER 2009



GENERAL MEETING				
SUPERVISORY BOARD				
BOARD OF DIRECTORS				
CHIEF EXECUTIVE OFFICER CEO's Office Property Management Information Technologies Legal Department Organization and Management				
TECHNICAL DIRECTOR	PRODUCTION DIRECTOR	SALES DIRECTOR	FINANCE DIRECTOR	PERSONNEL DIRECTOR
Environmental Capital Expenditure Public Contracts and Business Activities Production Base Development Clean-up and Reclamation Coordination	Production Coordination and Management Production Preparation Coordination Property Maintenance Coordination Energy Flow Management Surveying and Geology Laboratories Occupational Safety and Fire Prevention	Energy Sales Chemical Product Sales Solid Fuel Sales Sales Economics	Accounting Finance Financial Planning	Personnel Activities Labor Economics Social Affairs Education
DIVISION JIŘÍ	DIVISION DRUŽBA	DIVISION ZPRACOVÁNÍ	DIVISION SLUŽBY	
Coal Extration and Processing Overburden Extraction Rock Extraction Mine Rescue Services	Coal Extraction Overburden Extraction Coal and Overburden Conveyence, Rail Spur Extraction of Clay for Production of Liapor Cleanup and Reclamation Agriculture and Forestry	Power Generation Heat Generation Water Treatment Coal Drying Production of Briquettes and Multipowder Coal Gasification Gas Desulfurization Carbochemical Products	Extraction and Processing Section Maintenance Road Freight Haulage Stocking and Supply Telecommunications Measurement and Regulation Fire and Rescue Properly Management	

Sokolovská uhelná, právní nástupce, a.s., has no organizational units outside the Czech Republic.

CONTACTS



CONTACT INFORMATION

COMPANY:

Sokolovská uhelná, právní nástupce, a.s.

REGISTERED OFFICE:

Sokolov, Staré náměstí 69, postal code 356 00

IDENTIFICATION NO.: 26348349

TAX IDENTIFICATION

NO.: CZ699001005

ENTRY IN COMMERCIAL

REGISTER:

Regional Court in Plzeň,

Part B, Entry 980

BANK CONNECTION:

Account no. 17331033/0300, ČSOB Praha

E-MAIL: info@suas.cz

epodatelna@suas.cz

INTERNET: <http://www.suas.cz>

Telephone and fax numbers:

	telephone:	fax:
Switchboard	+420 352 461 111	
Office of the CEO	352 462 103	352 621 052
Office of Technical Director	352 462 113	352 621 038
Office of Production Director	352 462 123	352 621 038
Office of Finance Director	352 462 133	352 462 132
Office of Sales Director	352 462 143	352 621 032
Office of HR Director	352 462 153	352 462 132
Office of the Director, Jiří Division	352 463 001	352 675 139
Office of the Director, Družba Division	352 463 501	352 669 457
Office of the Director, Division Processing	352 465 001	352 465 002
Office of the Director, Division Services	352 465 801	352 465 802

Sales contacts:

	telephone:	fax:
Brown coal, briquettes, multi-powder	352 462 142	352 621 032
	352 462 272	352 624 541
	352 462 273	352 603 266
Electricity, heat	352 465 210	352 465 212
	352 462 260	
Carbochemical products		
and sulfuric acid	352 464 480	352 464 481
	352 464 482	
	352 464 492	
	352 464 493	
Rock/gravel	352 465 911	352 465 910
Secondary materials (expansion clays, adsorption and zeolitic claystones, etc.)	352 462 232	352 462 231
Laboratory	352 465 650	352 465 670
Stocking	352 465 340	352 465 350
Capital construction	352 465 622	352 465 620
Road transportation	352 463 207	352 463 211

The present report is not the full annual report as specified by the Accountancy Act,
Commercial Code, Securities Act and the Capital Markets Act.
The full annual report is available at the headquarters of the company and in the collection of documents
in the Commercial Register.

