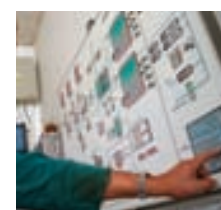
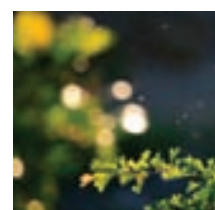
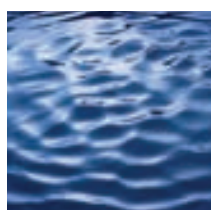
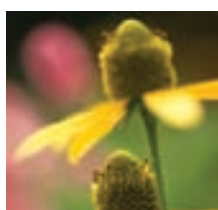
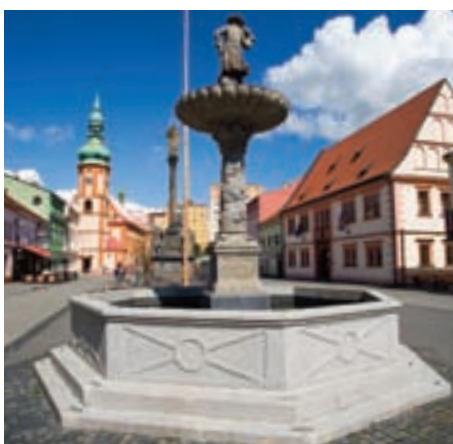




Performance
Report 2008

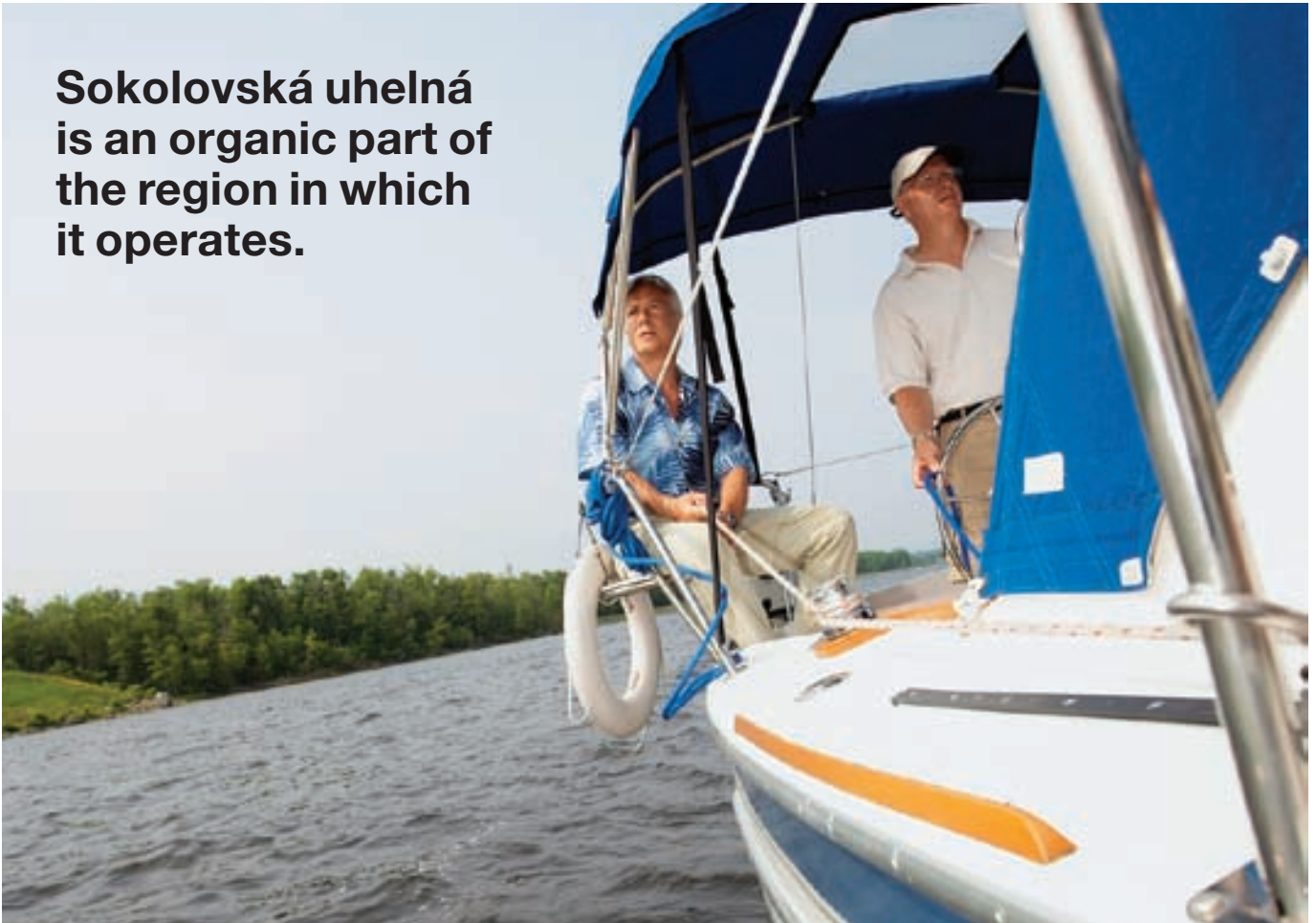
**Sokolovská
uhelná**

www.suas.cz






**Sokolovská uhelná
is an organic part of
the region in which
it operates.**



**As the region's largest
employer, we are dedicated
to its development.**



A low-angle photograph showing two people holding hands. The person on the right is wearing a light-colored, textured dress and a dark headband. The person on the left is wearing a light blue shirt and a white headband. They are standing in a green field under a bright, clear sky. The text is overlaid on the lower left of the image.

**Through a number of projects,
we take part in regional life
and each year we spend
significant sums to address
the region's needs.**

Year after year, Sokolovská uhelná has achieved very good financial performance results

The Company's good financial performance is driven primarily by the strategic decision to build the combined cycle power plant. Sokolovská uhelná has increased in-house production of coal gas for its combined cycle power plant primarily by commissioning the Utilization of Gasworks Liquid By-products installation, which reduces consumption of natural gas. A third factor in the Company's viability is adoption of a new strategy in the maintenance area.





Contents



Results at a Glance	4
Important Moments for the Company in 2008–2009	5
Letter from the Chairman	7
People in the Management of Sokolovská uhelná	8
Company Profile	12
Descriptions of the Divisions	14
Board of Directors' Report on Financial Performance in 2008	23
Business Environment	23
Production and Sales	25
Earnings Analysis	28
Structure of Assets and Sources of Financing	30
Capital Construction	32
Work Force	33
Environmental Stewardship	34
Public Relations	38
Business Strategy	43
Organization Chart of Sokolovská uhelná as of 31 December 2008	47
Financial Statements	48
Contacts	52

Results at a Glance

Production	Units	2008	2007	2006	2005
Coal extracted	kt	9,732.1	10,273.5	10,329.2	10,307.1
Overburden extracted	m³ thousands	29,433.7	29,572.4	29,230.6	32,684.0
Electricity – heat/power plant	GWh	1,642.6	1,688.8	1,607.3	1,698.2
Electricity – combined cycle power plant	GWh	2,099.5	1,804.4	1,821.4	1,899.7
Coal gas	m³ millions	1,331.0	1,164.1	1,198.8	1,187.9
of which: UGLB	m³ millions	62.4	0.0	0.0	0.0
Sales	Units	2008	2007	2006	2005
Coal	kt	5,530.6	6,120.8	6,107.3	6,153.2
of which: sorted	kt	219.2	204.4	274.1	240.1
Briquettes	kt	147.6	235.6	328.8	286.8
Electricity – heat/power plant	GWh	1,027.8	1,104.5	1,018.8	1,007.8
Electricity – combined cycle power plant	GWh	2,088.8	1,797.2	1,838.1	1,891.9
Heat	TJ	2,045.5	2,055.5	2,216.6	2,251.5
Financial indicators	Units	2008	2007	2006	2005
Revenues	CZK millions	9,956.7	9,006.4	8,373.8	7,437.0
Net income	CZK millions	2,271.1	1,558.7	1,168.6	533.3
Capital expenditure	CZK millions	886	839.3	685.3	555.8
Average number of employees	persons	4,675	4,686	4,739	4,888
Average monthly wage	CZK	28,225	25,513	23,472	21,125

Important Moments for the Company in 2008–2009

2008	
January	Business plan for 2008 approved
March	Auditors issue unqualified opinion on the Company's 2007 financial statements
April	Short circuit on a power line on Unit 2 of the combined cycle power plant
	Equity stake in EMULZ a.s. sold
May	Burner lit on Utilization of Gasworks Liquid By-products (UGLB) installation
	Intensification of Multipowder Production capital project completed
June	Annual General Meeting
	Pumping of water from the newly built Medard lake completed, natural filling of lake begins
July	Processing Section operates without Company-wide shutdown
	Healthy Company project commences
August	Accident forces shutdown of UGLB (increased amount of water in the fuel)
September	Faults on combined cycle power plant and Turbogenerator 2 (TG2)
	Equity stake in PRODECO, a.s. sold
October	Trial operation of UGLB begins
	Minor landslide at Division Družba
	Repairs of KU 300/5 at Division Jiří and of TG2 at Division Zpracování completed
December	Amendment to the Collective Agreement for 2009 signed
	UGLB passes final inspection
	Group VAT registration and related change of Tax ID to CZ699001005 effective 1 January 2009
	Accident on UGLB
2009	
February	UGLB returned to operation after accident
	Minor landslide at Division Družba
March	Auditors issue unqualified opinion on the Company's 2008 financial statements
	Production of sorted coal terminated



Letter from the Chairman

Dear business and regional partners of our Company, dear co-workers:

In 2008, the 15th year in our Company's existence and modern history, we achieved the best pre-tax earnings result yet: CZK 2,852 million. This result is all the more valuable for the fact that it was achieved while respecting regional interests both in respect of the environment and social issues.

For the first time, as we evaluate the past year we find ourselves in a situation when a major change is taking place in the external conditions in which our Company, our country's power industry, and the European Union itself operate. A sea change in these conditions is underway and will continue, directly in the energy infrastructure, indirectly through the markets and through our business partners – and it will affect sales of our products as well as the scope of our needs. And all that will also be influenced by ongoing changes in legislation.

In this respect, and particularly in making forecasts concerning our future business performance, our current position in our country's energy infrastructure and economy as a whole is becoming more and more important. It is necessary to watch very closely and analyze the factors that, in the past, have operated as strong points of our business and realistically assess their potential future roles. During the last two years our Company has posted its best performance results ever. It is a pleasure and a privilege to report that, once again, we built successfully on this performance in 2008.

No doubt, this success has been based on prudent allocation of our capacities and funds between routine production operations and investment. The finances generated have enabled us to develop the Company proportionally. Most importantly, we

have increased the weighting of combined production of pure forms of energy by applying cutting-edge technology. The past year has brought more qualitative improvements in this area with the beginning of operational testing of the entrained flow gasifier, which in a way represents the culmination of high-pressure coal gasification technology.

In addition to our own internal information, our forecasts for the period to come are also based on the annual Analyses of the Czech Republic Energy Complex, which are based on statistical data from all segments of the energy industry, including our own performance figures, as well as on the work of international institutions and companies. Which parts of these analyses are most critical is the subject of detailed consideration. In particular, dramatic volatility in oil and natural gas prices and, as a result, in the prices of all forms of energy, is one of the decisive factors that needs to be estimated as well as possible in models of the next few years. In this respect, issues of energy security, including how to secure the Czech Republic's fuel base, are coming to the forefront. In addition, trading in emission allowances is a specific factor impacting prices in the Czech and European electricity markets and, through them, our Company as well.

Marginally, it is also necessary to take into account changes in gas sales and distribution companies, economic return forecasts of nuclear power generation technologies in Europe, and issues of territorial and environmental limits on coal mining, which in our Company's case have already been resolved in the past.

Our analysis includes the results and capabilities of our Company and evaluates its position in individual segments. In summary, we can state that it does not run coun-

ter to the focus and business concept of our Company, or to the development and potential state of our qualified employees, or to the effective utilization of specific natural conditions in the space in which our Company operates. In and of itself, however, this is not enough to eliminate negative influences such as, for example, natural anomalies and the generational "changing of the guard" in the Company's qualified work force, which will continue in 2009 and require unflagging attention and effort on our part. As early as 2008, we began the process of limiting certain operations in order to extend the useful lifetime of the Sokolov coal belt. This process will continue to have a significant impact on our operations in 2009 and beyond.

Even in the difficult conditions of 2009, our Company intends to continue to be a positive influence on the region in areas that have become a Company tradition. Our cooperation with partner organizations has been very good and we are pleased to be able to continue in the constructive collaboration that will be a constant priority for us in 2009 as well.

The excellent results of 2008 are a result of the hard work and dedication of our employees – something for which I am grateful to them! I am confident that the same dedication and quality work will bear more fruit in the year to come.



František Štěpánek
Chairman of the Board of Directors

People in the Management of Sokolovská uhelná

Board of Directors



František Štěpánek

Chairman of the Board of Directors
and Chief Executive Officer

Chairman of the Board of Directors
of Golf Sokolov a.s.,

Member of the Supervisory Board
of Coal Energy, a.s.,

graduate of Technical University
of Ostrava,

born in 1953,

29 years' mining experience,
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.,
graduate of University of Economics,
Prague, and Prague International
Business School,
born in 1963,

24 years' 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 Technology 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,

29 years' mining experience,
with the Company since 1980,

Technology 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,

34 years' 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

Member of the Board of Directors
and Personnel Director

Member of the Board of Directors
of the Ohře River Valley Regional
Economic Chamber,
graduate of University of Transport,
Žilina,

born in 1948,

36 years' mining experience,
with the Company since 1972,

Personnel Director of Sokolovská
uhelná, a.s. in 1994–2008, Member
of the Board of Directors of Sokol-
ovská uhelná, a.s. in 2004–2005,
Member of the Board of Directors
of Sokolovská uhelná, právní
nástupce, a.s. since 2005.

Supervisory Board

Miroslav Soural

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 Association of Labor
Organizations 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 Section
of Sokolovská uhelná,
právní nástupce, a.s.
Born in 1948

Jiří Blažek

Member of the Supervisory Board
elected by the employees
Chairman of the Družba labor
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 labor
organization of Sokolovská uhelná,
právní nástupce, a.s.
Born in 1954

Zbyšek Klapka

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

Luboš Vaněk

Deputy Minister of Industry and Trade
of the Czech Republic
Representative of the Ministry
of Finance of the Czech Republic
(under obligations from privatization
of Sokolovská uhelná, a.s.)
Born in 1964





Senior Management

František Štěpánek
Chief Executive Officer

Jaroslav Rokos
Finance Director

Jiří Pöpperl
Technology Director

Jiří Peterka
Production Director

Miroslav Sural
Sales Director

Jiří Radosta
Personnel Director
until 31 December 2008

Miroslav Mertl
Personnel Director
since 1 January 2009

Alojz Nevedál
Director, Division Jiří

František Kastl
Director, Division Družba

Pavel Homola
Director, Division Zpracování

Jan Smolka
Director, Division Služby

The organization chart appears
on page 47 of this report.

Company Profile

Since the 1960s, in the center of the three largest spas in West Bohemia, which form the Spa Triangle, a processing plant has operated using brown coal extracted from deposits in the Podkrušnohorský brown coal belt, located along the German border.

Sokolovská uhelná, právní nástupce, a.s. is the smallest brown coal mining company in the Czech Republic. Thus, at the European level it is a rather small company. The Company extracts approximately 10 million tons of brown coal per year. Of this amount, it sells approximately 6 million tons in the Czech Republic and abroad. From the rest, the Company produces annually approximately 3 TWh of electricity and supplies approximately 2,000 TJ of heat to the surrounding region.

The gasworks in Vřesová supplied town gas through an extensive network up until June 1996, when production and supply of town gas was terminated in conjunction with the migration of the Czech Republic's town gas infrastructure to natural gas. Since the gasworks had important energy resources and relatively modern technology, a plan was worked out in advance for the further utilization and development of the Processing Section of Sokolovská uhelná. The crux of the plan was to preserve the brown coal gasification process and utilize the gas so obtained in a newly built combined cycle power plant generating both electricity and heat. The new plant was commissioned as early as 1996. The Processing Section carried on its operations using the existing plant and equipment but with new energy inputs.

Sokolovská uhelná, a.s. was established by the National Property Fund (NPF) and first recorded in the Commercial Register on 1 January 1994. Based on a Government resolution, in June 2005 Sokolovská těžební, a.s. purchased shares in Sokolovská uhelná, a.s. from the NPF and PAL a.s., and later shares were purchased

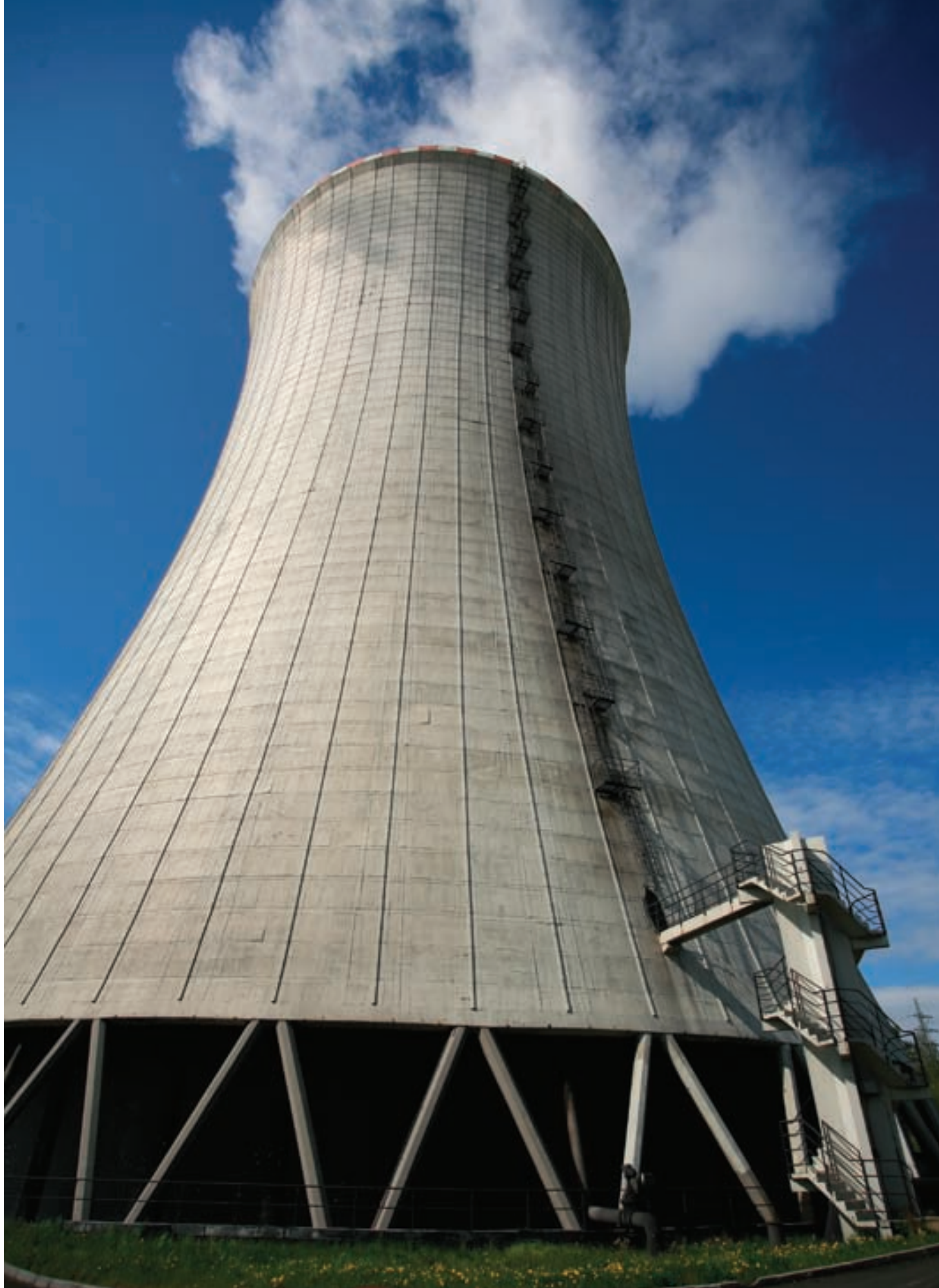
from other minority shareholders as well. The takeover of the assets and liabilities of Sokolovská uhelná, a.s. pursuant to Section 220p and related provisions of the Commercial Code was recorded in the Commercial Register in June 2005 (retroactively as of 1 January 2005). At the same time, the Company's name was changed to Sokolovská uhelná, právní nástupce, a.s., and the Company's seat was changed as well. Today, the Company is fully in private hands.

The Company's core products are electricity and heat, sorted and power generation coal, brown coal briquettes, and carbochemical products from the gasification of coal. As a complement to these core businesses, the Company engages in environmental activities focused primarily on reclaiming land affected by surface mining and waste processing and disposal.

The completion of the combined cycle power plant, which generates "peak" electricity and fills out the plant portfolio of the Czech Republic Power System, represented a fundamental diversification of the Company's production program. Coal and electricity revenues are stable, making the Company resistant to market volatility.

For a long time now, the Company has been investing in upgrading its extraction processes and processing technologies and making them more environmentally friendly. In our operations, we give the utmost respect to the surrounding area, both in view of the danger that our operations could adversely impact the thermal springs in spas, especially Karlovy Vary's, and in planning and implementing clean-up and reclamation operations.





Modern Excavator at Družba Mine



The purchase of the KU 300/19 excavator is an upcoming investment at Družba Mine. The total cost of acquiring and refurbishing an older excavator will reach CZK 221 million. The bucket-wheel excavator is undergoing innovative modifications that will enable it to operate under harsher conditions.

The machine will get a new control system, the wheel drive power will be increased to 520 kW, and the installation of variable-frequency drives will give the driver more control over the wheel's rotational speed. This will make the excavator less expensive to operate and expand its range of applications.

Descriptions of the Divisions

Extraction Section

Division Jiří

The Jiří Mine operates in the Alberov mining area and, to a lesser extent, in the Královské Poříčí and Lomnice mining areas. It extracts coal using surface-mining techniques from the youngest Sokolov brown coal seam, the "Antonín", which has an average thickness of 40 meters in the Jiří mine area. Since 1960, the mining operation has been moving in a westward direction from the village of Vintřov toward the road that connects the City of Sokolov with the village of Lomnice, where the Jiří mine is to terminate its operation in or around the year 2027 when, given the current rate of coal extraction, the deposit will be mined out. The mining operation moves forward at a rate of 90–120 meters per year. Currently the coal cut is in a portion of the seam that historically had been worked by the now-defunct underground mines Marie in Královské Poříčí and Jiří in Lomnice. The fact

that the coal seam has already been partially mined in legacy "long-wall" operations brings with it increased demands in terms of selective extraction, extinguishing spontaneous fires that arise in the seam, dismantling and removal of foreign matter such as rails, mine cars, timbering, concrete and masonry structures, and reinforcements, as well as removal of overburden material that has collapsed into the mined-out spaces formed by the long-wall process.

The mine is equipped with five KU 300 bucket-wheel excavators and a 1,400 mm-gauge trunk belt conveyor. Extracted coal matter is pulverized to the required grade and shipped to the Processing Section in Vřesová, through the Tisová processing and sorting facility in Citice to the Tisová Power Station (ČEZ, a. s.), and to other customers. Overburden is extracted using TC-1 and TC-2 machinery complexes, consisting of a KU 800





bucket-wheel extractor, a 1,800 mm-gauge trunk belt conveyor, and a ZP 6600 re-loading track vehicle. The two smaller TC-1 machinery complexes consist of a KU 300 bucket-wheel extractor, 1,400 mm- and 1,600 mm-gauge belt conveyors, and a ZP 2500 re-loading track vehicle. All overburden matter is dumped on Jiří in-mine spoilbanks.

Division Jiří also operates the Horní Rozmyšl Rock Quarry. In 2008 this operation extracted nearly 1 million tons of granite, which is used mostly to build roads, railways, and drain fields.

Division Družba

At present, the division is involved in extracting coal and overburden at the Družba mine. In addition, it operates all rail infrastructure and manages all rolling stock at Sokolovská uhelná.

The Družba mine extracts coal in the Nové Sedlo extraction area. Coal reserves in the Nové Sedlo extraction area will be mined out sometime after 2030. The mine is located in the protective zone of the Karlovy Vary spa natural curative springs. A number of Government ordinances are in effect to protect these springs and this restricts how mining processes can be effected on the north banks of the Družba mine. In 2009 the mine will reach its deepest location of 250 meters above sea level. The highest overburden cut, which is in the southern side of the mine, is 480 meters above sea level. Thus, at its most lowlying point the mine will be 230 meters deep.

For extraction of overburden and coal, the mine is equipped with two K 800

bucket-wheel excavators, five KU 300 bucket-wheel excavators, and three E 2.5 shovel excavators. Extracted materials are conveyed using 1,435 mm-gauge rail and 1,200 mm- and 1,400 mm-gauge belt conveyors. Almost all overburden is conveyed by rail. Due to the geological location of the coal seam and the limited capacity of Družba mine's internal spoilbank, various combinations of technologies are used to convey extracted materials. All overburden and debris from the coal seam is dumped at one of four locations: the internal spoilbank of the former Medard – Libík mine using one Z 1650 re-loading vehicle, the internal spoilbank of the Družba mine using one Z 1650 re-loading vehicle, the external Smolnice spoilbank using one ZD 2100 re-loading vehicle and one E 2.5 shovel excavator, and the eastern portion of the Jiří mine's internal spoilbank using one ZD 2100 re-loading vehicle.

The Rekultivace (Reclamation) section, now part of Division Družba, has existed since 1953. Originally a typical agricultural enterprise with extensive forestry operations, in the late 1980s the section changed its focus to mine reclamation using both technical and biological reclamation techniques. Following the shutdown of significantly loss-making opera-

tions, agriculture became a mere adjunct to the Company's main production program.

Forestry is again gaining in importance. As reclamation work has progressed, forests have grown in area, leading to the establishment of a separate organizational unit within the section.

Large-scale construction/reclamation operations have yielded results such as modifications to the area now occupied by the Michal Reservoir, a golf course and forest park near Dolní Rychnov, the Boden Reservoir, and the complete reclamation of the over 400-acre Velký Loket spoilbank.

One result of the restructuring of agricultural production is a Charolais beef cattle breeding program, established in 1993, which has become a harmonious part of the landscape around Sokolov and especially on land reclaimed from spoilbanks of our Company's former brown-coal mines. In 2008, we received a visit from the delegates of the 35th World Charolais Congress, which we co-organized. In addition to cattle breeding, we also grow various grain, grass seed, and sugar beet crops, as well as operating pheasant and fallow-deer game preserves.





Processing Section

Division Zpracování

The core products of the processing plant in Vřesová are electricity and heat, briquettes, multipowder, and carbochemical products generated in the coal gasification process.

A gasworks, part of an extensive complex of production facilities designed to convert brown coal from the Company's own mines into coal gas, has been in operation since 1969. The various processes were commissioned gradually, starting in the mid-1960s. After 1989, in conjunction with the phase-out of the town gas network and following the country's wholesale conversion to natural gas from Russia, a decision was taken to undertake a fundamental change in the production program and to add to the processing plant in Vřesová a power plant that would

generate electricity and heat from syngas (also referred to as coal gas) produced by gasifying brown coal. Until the town gas network was phased out in 1996, the gasworks in Vřesová was the largest producer of this commodity in the Czech Republic with installed capacity of 240,000 m³(n) of raw gas per hour. After town gas was replaced by natural gas, the brown coal gasification installation was not abandoned; on the contrary, it became the basis for generation of electricity in a modern combined cycle power plant with a total output of 400 MW_e. In addition to the gasworks, the processing facility in Vřesová also includes the heat/power plant, a briquette plant, a wastewater treatment facility, and a facility for neutralizing emissions of various gases. In addition to the plant's social and demographic importance, it has environmental and economic advantages as well.



Today, following the last reorganization, the Processing Section consists of a single division – entitled Division Zpracování (Processing), which is subdivided into sections. Various services are provided to Division Zpracování by units run by the various directors, as well as by Division Služby (Services).

Coal Gas Production – Coal Gasification and Gas Purification Processes

Brown coal extracted from the Company's mines is pulverized, dried, and sorted. The finer grains of coal are burned in the conventional heat/power plant, while the rougher component, consisting of pieces from 5 to 40 mm in diameter, is used as coal charge in the gasworks. Here, pressurized to 2.7 MPa, the coal is gasified using a mixture of oxygen and steam in sliding bed gasifier (Lurgi). The resulting raw gas is purified using a cooled-methanol scrubbing process in a Rectisol unit. The purified gas – now called syngas – serves as the primary fuel for the combined cycle power plant. The primary difference distinguishing the syngas production process from the legacy town gas process is that syngas undergoes less carbon dioxide scrubbing.



Control System Upgrade on Gasification System

The installation that produces over one billion cubic meters of coal gas for the combined cycle power plant is being upgraded.

At Vřesová, a new, cutting-edge control system will be installed. Implementation of the project will optimize the coal gas production process. Emphasis is being placed on increasing process safety to comply with standards stipulated by legislation.

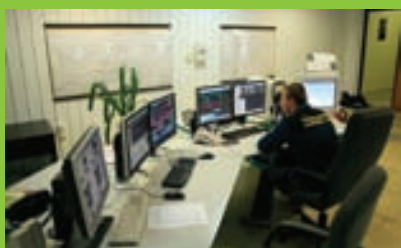


The water and tar components condense following primary cooling. Tar is subjected to further processing. Dewatered tars are sold as a certified fuel for heat/power plants and as a fuel with reductive characteristics for use in blast furnaces in the production of iron. Phenol concentrate is supplied for further chemical processing. 2008 saw the completion and commissioning of a new gasification unit that uses tars as a raw material for the production of gas. From the water phase, ammonia is obtained by distilling, phenols are obtained by extraction via butyl acetate, and wastewater is treated biologically by oxygen activation in two stages. Treated water is further used in the gasworks process, and surplus water undergoes a second round of treatment before being discharged into the waterway.

2008 saw the completion and commissioning of the gasification unit entitled UGLB – Utilization of Gasworks Liquid Byproducts – which uses some of the tars and phenols produced by the gasworks as fuel to make syngas for power production. Unlike the gas produced in sliding bed gasifiers, however, this gas contains practically no hydrocarbons. The installation operates on the principle of gasifying liquid substances in an en-

trained flow gasifier. The gas produced is cleaned together with the gas produced in the Lurgi gasifiers.

Raw gas, from which condensing contents have already been largely removed, is further purified in a Rectisol selective scrubbing process. This process removes from the gas benzines, 100% of hydrogen sulfide, certain organic compounds, and also vestiges of ash matter that could have an abrasive effect further in the process. Since the syngas is used as fuel in gas turbines, most of the carbon dioxide content is preserved, because it performs mechanical work in the turbine. As an inert compound, the carbon dioxide has a positive influence on the formation of nitrogen oxides during the combustion process in the turbine. Sulfuric acid is obtained by desulfurizing expansion gases from the selective scrubbing process. After passing through the cleaning process, the gas is at a pressure of 2.1–2.5 MPa, enabling it to be utilized in the gas turbine without any additional compression. After cleaning, the gas is practically sulfur-free and contains no nitrogen-bearing substances. This makes it very suitable as an environmentally-friendly fuel for firing in the power plant.





Generation of Electricity and Heat

At the processing facility in Vřesová, electricity and heat are produced in two plants: the heat/power plant and the combined cycle power plant.

The Vřesová combined cycle power plant consists of two identical generating units, each consisting of a FRAME 9E (9171 E) gas turbine, a waste heat boiler, a PP 60–71 steam turbine, electrical equipment, an control system, ancillary and shared equipment (gas feeder line with reduction station, cooling water pump station with cooling tower, and infrastructure connecting the unit to other processes at the compound).

The base fuel used at the plant is coal gas obtained from the gasification process. Natural gas, which enables generating unit output to be changed quickly, is used as a supplemental and back-up fuel. Natural gas is supplied to the Vřesová power plant via a spur from the main transit gas pipeline that supplies the Czech Republic with natural gas from Russia.

Sulfur dioxide emissions originate only from residual hydrogen sulfide left in the coal gas following the scrubbing process. Under normal operating conditions, hydrogen sulfide concentrations are less than 10 mg per m³ of gas.

Nitrogen oxide emissions originate primarily from the NO_x formation mechanism.

During the gasification process, nitrogen-bearing substances contained in the coal give rise to ammonia, which is removed in the cleaning processes. The gas used as fuel, then, does not contain any nitrogen-bearing compounds; nitrogen oxides are formed via oxidation of airborne nitrogen only. The carbon dioxide content in coal gas, then, is very useful for reducing NO_x emissions. The guaranteed level of nitrogen oxides content is 92 mg/m³ at 15% oxygen in the flue gas. This level meets clean air standards by a wide margin and protects the environment surrounding the plant from harmful ground-level concentrations.

The heat/power plant in Vřesová is equipped with four turbines with name-plate capacity of 55 MW_e and five dry bottom boilers capable of generating 325 tons of steam per hour. Steam at high pressure (13.5 MPa) and a temperature of 540 °C is produced by combusting coal ground to < 5 mm. The steam is used to generate electricity. Some of the steam, diverted from the turbines at pressures of 3.5 and 0.5 MPa, is used to dry and gasify coal. It is also a source of heat not only for the Company's operations, but also for district heating networks in the vicinity of Vřesová (including the spa city of Karlovy Vary).





The heat/power plant has been fitted with modern flue gas desulfurization technology based on a wet limestone scrubbing process and, today, following all upgrades, it meets all applicable clean air requirements.

Coal Processing and Production of Briquettes

In the coal drying facility, mined/raw coal which contains 38–46% water by mass is dried down to 12–18% for use in the heat/power plant and to 28–32% for gasification. The drying process takes place in Schulz steam pipe driers. Waste steam from the driers is diverted into electrostatic filters, which capture coal dust. Coal drying for the briquette plant takes place in a similar facility, but the coal is dried even more, down to 7–12% water content. Fine brown-coal powder (multipowder) is utilized commercially to generate heat in powder burners. Multipowder does not come only from the electrostatic filters used in the coal drying process, however; it is also obtained by grinding dried briquette coal along with briquette chips and attrition in a vibrating rod mill. Multipowder is a commercially success-

ful product; its sales grow every year and it has a key place in the Company's business plans. In 2008, its sales exceeded 100,000 tons.

Brown briquettable coal from select parts of the Antonín seam is first pulverized, ground, and dried to a grade of < 6 mm, at which point it is fed into PZA 300 presses, in which it is pressed into the form of briquettes at a pressure of 175 MPa without the use of adhesives. The Company has installed a total of 14 presses, each with a capacity of 10.7 tons per hour.

When converting brown coal into briquettes without adhesives, the decisive factors are the physical and chemical qualities of the coal used: in particular, capillary water and ash content, hardness, plasticity, and petrographical composition (esp. huminite content). Manufacture of briquettes is an important method of adding value to coal. However, as the mining operation progresses, the amount of coal suitable for conversion into briquettes is steadily declining. At the same time, demand for this once very popular fuel is declining as well.

Wastewater from the crushing plant, drying facility, and briquette plant is treated and recycled in the processes. The rougher coal sludges from the treatment process are dried and used as fuel, while the finer sludges resulting from flocculation are landfilled.

Forecasts and Plans

The Company's further development and operations, and the power- and gas-generation operations in particular, must be accompanied by systematic environmental improvements and utilization of clean coal technologies. That will enable the coal gasification process to continue until the Sokolov Basin's coal reserves are exhausted. Today, the Company's plant and equipment has been expanded to include a UGLB unit for gasifying carbochemical products – phenols and tars that are waste products from the process of making coal gas in Lurgi gasifiers. The potential for using other forms of waste to generate energy is being explored as well.

Support Section

Division Služby

Division Služby is the second youngest Company division. Its various departments are responsible for the majority of service processes, each of which is important in some way for meeting the targets set for the production divisions. Most importantly, the division is tasked with optimizing the utilization of the Company's capacities in maintenance and all other support processes as well.

The division's operations are focused primarily on the following areas:

- maintenance of production equipment and technologies,
- stocking of materials and spare parts,
- process conveyance and personnel transport, including vehicle maintenance and shipping services,
- telecommunication services,
- building and facilities administration,
- property security,
- fire and rescue brigade.

The Mining Maintenance Department provides repair and maintenance services for production plant and equipment and all process technologies in the Company's Extraction Section. This includes machinery complexes, trunk belt conveyors, diesel and electric locomotives, as well as certain categories of mine rolling stock and ancillary mechanization. The Department plays a fundamental role in managing and carrying out overhauls of electric locomotives and logistical functions related to this activity.

The Processing Maintenance Department centralized maintenance capacities from the entire Processing Section into a single,

compact whole which sees to the maintenance of production plant and equipment from coal processing, through the process of gasifying coal for the CCPP, to the heat/power plant and the CCPP themselves.

The organizational unit into which the Company's wheeled transport capacities were concentrated is the Truck Transport Department. It provides both process conveyance and transport of personnel to and from the mine areas. One of its key tasks in 2008 was to meet increased transport volume requirements, particularly in conjunction with out-transport of ash containers, without any substantial increase in outsourcing. The Department also includes truck maintenance facilities, a truck wash, and an in-house tire repair shop.

The Stocking Department, as the name would indicate, is charged with providing logistical services within the Company, to both production and non-production functions. This includes running warehouses, managing inventory, and operating the Company's in-house vehicle fueling stations. A major accomplishment of 2008 was the very successful launch of an electronic B2B platform including an RFP process and electronic bidding.

The smallest unit of the Division – in terms of the number of employees, but not scope of services – is the Telecommunications unit, which operates and maintains the Company's telecommunication networks and telecommunication technology services, including radio networks. This department's key task in 2008 was to prepare an investment plan for upgrading the Company's telephone exchanges.

First Locomotive to Roll Out of New Shop

2008 saw the completion of the overhaul of the first of two 27E2 electric mine locomotives out of a total of twenty slated to undergo the overhaul process, which includes a partial upgrade. The two overhauled locomotives were put into trial operation in late 2008. The overhaul process takes place in workshops in Nové Sedlo, which have been specially equipped for this purpose.



The Measurement & Regulation (M&R) unit sees to the operation, maintenance, and repair of all M&R devices and equipment, as well as operation of I&C systems in the Processing Section. Its key task in 2008 was to secure the operation of newly completed capital projects and processes ancillary to them, i.e. mainly the Utilization of Gasification Liquid By-products installation.

Another integral part of the division's operations is Building and Facilities Administration, which includes managing, repairing and maintaining buildings and other Company facilities, including recreational parks, boarding houses, and remaining Company apartments. In 2008, this unit began managing the Company's cafeteria facilities and the entire Přátelství (Friendship) compound.

In order to protect its property, the Company has established an in-house Fire and Rescue Brigade, whose facilities were upgraded last year to improve the Brigade's action potential. Since 2008, the Brigade maintains and services electronic fire prevention equipment throughout the Processing Section.

Corporate

All white-collar activities of the Company take place in the various sections of Corporate, each of which is headed by one of the Company's directors.

In addition to its own affairs, the CEO's section looks after Company legal matters, oversees property management, IT, and the organization & management section.



The Technology Director's section is primarily involved in developing the production base, mine development, environmental issues, public tenders, and capital projects.

The Production Director's section coordinates production preparation and maintenance of plant and equipment. It's purview also includes responsibilities and services in the areas of measurement, geology, operation of laboratories, occupational health and safety, fire safety, and management of energy flows.

The Finance Director's section is responsible for all financial aspects of the operations of the Company and its sub-

sidiaries. This includes bookkeeping and taxes, management of financial assets, operation of the Company savings bank, and financial planning.

The Personnel Director's section is in charge of personnel-related activities, payroll and labor economy. The Training Department provides training services for the Company's own employees and those of other companies as well.

The Sales Director's section coordinates all commercial activities and provides for the sale of solid fuels, energy, and chemical products, as well as dealing with marketing and promotion.

Board of Directors' Report on Company Financial Performance in 2008

Business Environment



"In 2008, Sokolovská uhelná maintained its position in the solid fuels market with an overall market share of 22.66%."

Miroslav Soural
Sales Director

powdered coal grades, and 7.72% in sort-ed coal grades.

ČEZ, a.s. continues to be our largest business partner, with brown coal purchasing volume of 2 million tons. We continued to take an individualized approach to key contractual partners, and prices were negotiated primarily on the basis of purchasing volume and long-term contracts.

In spite of increased demand for Sokolov brown coal, supplies in 2008 were purposefully curtailed to minimum levels under one-year contracts. This was done primarily due to two aspects: first, the future shortage of brown coal in the Czech Republic caused by a lack of clarity surrounding the possible extension of extraction limits in North Bohemia and, second, the ongoing new calculation of remaining coal reserves, which will influence decisions on how to maintain Sokolovská uhelná's mining operations.

Coal prices are influenced by the rising prices of oil and natural gas. The price of brown coal for power generation is to a large extent determined by prices of electric power in Europe and the Czech Republic. Escalation formulas, if any, for determining coal prices in purchase contracts give the electricity price index an 80% weighting.

Since a portion of our briquette production volume is exported, total briquette sales (and their prices) were influenced, among other factors, by competitive pressures in the Germany market among the key producers of this commodity.

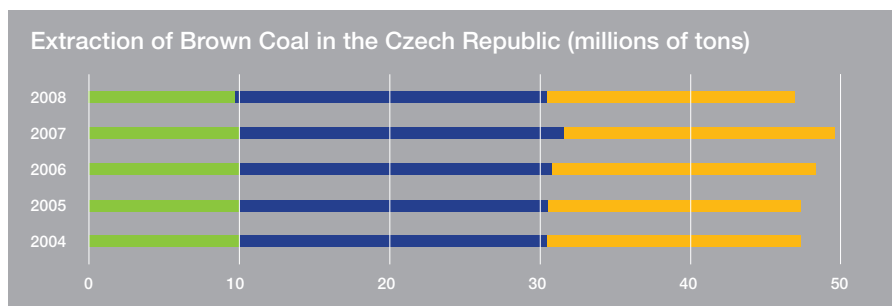
Because energy prices (oil, gas, electricity) have been rising over the long term, more and more customers are migrating to dried brown coal powder, which Sokolovská uhelná manufactures for commercial sale. It is obtained by capturing coal powder in electrostatic filters during the coal drying process. In 2008, demand for this type of fuel exceeded the Company's capacity to produce it, and the trend is one of continued growth.

Due to Sokolovská uhelná's geographic position within the Czech Republic and major, extensive Czech Rail track shutdowns led to uneven availability of empty freight cars and imposed time limits on the operation of tracks leading out of the Sokolov Basin, mainly those leading to regions in the southwest of the Czech Republic. To varying degrees, this situation disrupted sales and contractual supplies of solid fuels to certain customers, primarily in the period when customers are preparing their heating appliances for the winter.

The Coal Industry

Total brown coal extraction volume in the Czech Republic was 47.1 million tons in 2008, a decline from 2007's figure of 48.9 million tons.

In 2008, Sokolovská uhelná maintained its position in the solid fuels market with market shares of 20.66% overall, 21.49% in



Intensification of Multipowder Production, Phase III

This project is designed to exploit the coal drier's full potential for multipowder production, including an expansion of multipowder storage capacity with the ability to separate product into different quality grades and ship individual grades to customers.

This represents an improvement in the quality of multipowder loading and shipping operations. The new hoppers can hold up to a total of 775 m³ of multipowder. To enable selling of different grades of product in the volumes required by customers, a new loading facility was built. The separation of multipowder into quality grades solved the problem of uneven sales requirements.



The Power Sector

No material ownership changes took place in the power sector last year. Stabilized ownership relations kept ČEZ, a.s. in a dominant position in generation and distribution, thereby making it the dominant player in the entire domestic power market as well.

In terms of legislation, the fully liberalized market environment experienced problems similar to those seen in the power markets of other European Union Member States with a similar structure, i.e. markets that have a single player dominating both generation and distribution. This dominance led to a division of spheres of influence among principal market players. Price development was determined by demand for electricity in southeastern markets (Slovakia, Hungary, and the Balkan States) and by specific changes in oil prices, not by competition among electricity suppliers. Price movements on the Prague Energy Exchange (PXE) copied those seen in Leipzig. In addition to major domestic players, i.e. producers and traders, foreign entities also trade on the PXE, which plays a major role in integrating the Central European power market. Legislative changes in how the deviation clearing price is set, with a new rule tying the deviation's price progressively in relation to its size, continued to exert an influence on short-term and spot markets with subsequent price growth. The new method for determining the deviation clearing price partially prevented speculative export of the deviation.

Chemical Products

Carbochemical products sold by Sokolovská uhelná arise from the process of gasifying brown coal to produce syngas, the base fuel used to generate electricity in the combined cycle power plant. They include phenol concentrate, which is a raw material for production of pure phenolic substances, and brown coal gasifier tar, which is sold in the Czech Republic as fuel and also as a reducing agent in the production of steel in blast furnaces. In terms of their origin and composition, our carbochemical products are unique in both the internal Czech Republic market and in other European countries as well. Elsewhere, similar products are produced exclusively from black coal and crude oil.

In smaller volumes, the Company also produces two purely chemical products – sulfuric acid and liquid ammonia. In these commodities, the Company has continued to hold up under heavy competitive pressure from domestic and foreign producers alike, thanks to the very good qualitative parameters of these products.

Our business partners for sale of carbochemical products, ammonia, and sulfuric acid included both Czech and foreign firms (the latter primarily from Germany and Austria). Commercial relations with these partners are long-term in nature and at very good level, primarily thanks to our customer services and compliance with quality standards.



"Sokolovská uhelná is a major supplier of brown coal-based fuels to power and district heating companies in the Czech Republic."

Jiří Peterka
Production Director

Production and Sales

Solid Fuels

Sokolovská uhelná is a major supplier of brown coal-based fuels to power and district heating companies in the Czech Republic. Demand for this type of fuel is relatively stable and overall consumption of brown coal in the Czech Republic is largely constant. Unfortunately, however, brown coal resources are limited. In 2008, more than in previous years, there is talk of an impending shortage in this difficult-to-replace fuel, especially in the district heating industry. Following a clarification of extractable reserves, 2008 brought a substantial revision to the long-term solid fuel sales plan. To ensure that the fuel base for the Vřesová power plant is not threatened, volumes of brown coal earmarked for sale will gradually decline in the years to come.

For 2008, the business plan called for solid fuel sales volume of nearly 6 million tons. During the year, the goal was not to exceed this plan, but rather to reduce sales volume by another approximately 5%. At the same time, this situation sent a message to customers that, due to limited

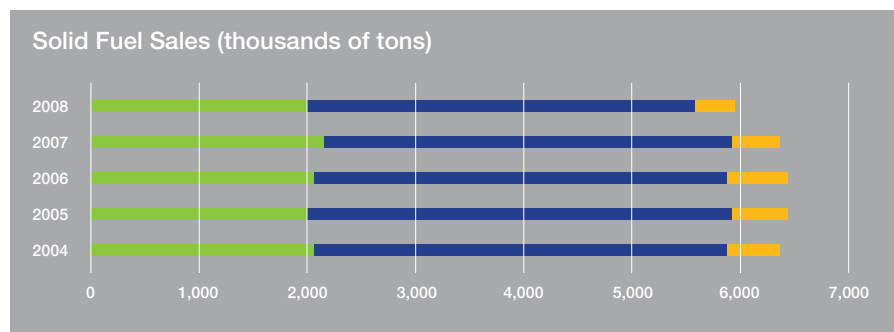
coal supplies in the years to come, they will have to address the issue of finding alternative sources to fully meet their energy needs. In 2008, 5.3 million tons of powdered coal was sold, down 600,000 tons from 2007. These numbers demonstrate the above mentioned trend of gradually limiting brown coal sales.

Sorted coal accounts for 4% of total brown coal sales volume. Starting from around mid-year, sales of sorted coal were limited due to lower availability of coal suitable for sorting. Despite an increase in the price of sorted coal from October of last year, Sokolovská uhelná was forced for the above reason to curtail supplies to both domestic and export customers, since demand exceeded production capacity by a wide margin. In the end, over 200,000 tons of sorted coal was sold, i.e. approximately the same level as in 2007. In early 2009, it was decided that Sokolovská uhelná would terminate production of sorted coal as of 31 March 2009.

In briquettes, there was a continuation of the declining sales trend seen in past years. This situation is caused by several concurrent factors. First, briquettes are a solid fuel targeted mainly for retail end customers. As of 1 January 2008, these customers in the Czech Republic had to pay

a solid fuels tax, entitled the environmental tax, which significantly increased the end price for consumers. Another cause of decreased briquette sales was substantially lower export volume due to movements in Czech Koruna-to-Euro exchange rates. Finally, there is the ongoing price war being waged by two large companies that sell briquettes in Germany. This caused selling prices in the German market to fall below the cost of production. All of these developments resulted in the final briquette sales figure of under 150,000 tons in 2008, down nearly 40% from the volume sold in the previous year.

The last commodity in the solid fuels category is brown coal powder, called "multi-powder". This is a solid fuel that is capable, under certain conditions, of replacing liquid fuels such as heating oil. Thanks to new loading equipment and logistical infrastructure, multipowder sales grew substantially in 2008, to over 100,000 tons from 80,000 tons in 2007 – an increase of over 25%. Despite this, demand for multipowder is growing rapidly and so, in 2008, the Company conducted a study of its multipowder production operation and possibilities for increasing sales to up to 400,000 tons. In 2009, the study will be assessed in the context of the Company's overall production plans.



Generation of Electricity

The CCPP produced 2,100 GWh of power last year. Compared to 2007, this represents an increase of 295 GWh.

The heat/power plant produced a total of 1,643 GWh in 2008. This represents a year-on-year decrease of 3%.

Supplies of Electricity

Supplies of electricity from both Sokolovská uhelná power plants in 2008 took place under the “seller responsible for deviation” regime (ID RUT 123). In terms of structure, supplies fell under one of three categories:

- Electric power supplied to other players in the wholesale market (supplies subject to registration in the information system run by the Czech Republic's market operator), accounting for 76% of electricity sales revenues.

- Regulation energy and regulation work supplied and/or used to activate these supplies. Regulation work was supplied exclusively to ČEPS a. s. in the form of ancillary services. These services accounted for 17.5% of electricity sales revenues.

- Supplies to end consumers who are supplied with electricity through the Company's own local distribution grid, accounting for 6.5% of electricity sales revenues.

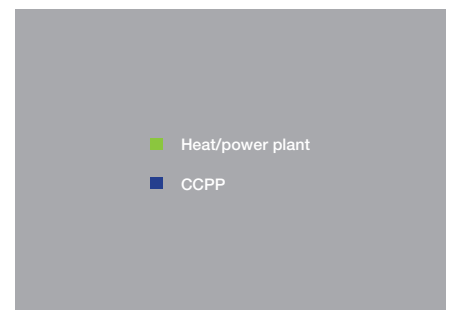
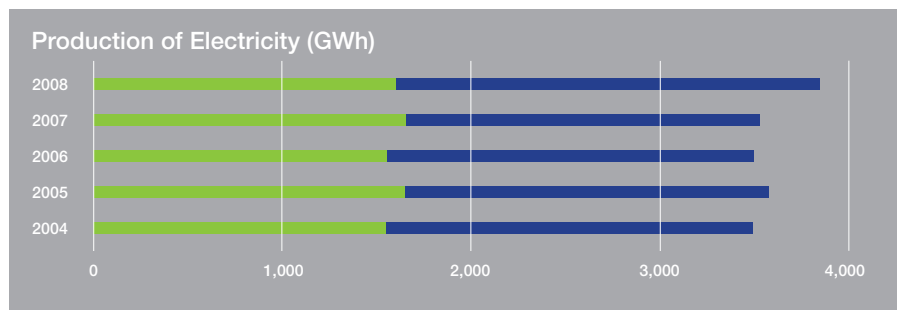
The resulting electric power supply diagram was optimized for maximum utilization of the Company's own fuel resources. Low levels of utilization of reserved regulation capacity and higher prices for regulation work led us to assume that the bulk of regulation energy would be produced from fuel obtained from an outside supplier.



Supplies of electric power are based on long-term bilateral contracts, whose volume and structure are determined on one hand by production economics, and on the other 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 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 baseload), 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).

Wholesale supplies under long-term bilateral contracts accounted for nearly 85% of the total volume of electrical work sold. Direct supplies to end consumers through the Company's own local distribution grid accounted for just under 9%. Surplus reserve capacity was traded through short-term contracts and in spot markets organized by the Czech Republic market operator, i.e. on the daily hourly market, the block market, and the intraday market. The total volume of short-term contracts was 5%, which correlates with the error in predicting available production capacity and Sokolovská uhelná's in-house consumption.

In total, 3,229.9 GWh of electrical work was supplied to customers. Of this amount, 2,088.8 GWh was generated in the CCPP. Another 1,027.8 GW was supplied to outside customers from the heat/power plant and 113.2 GWh of electric power supplies were sourced by purchasing from outside suppliers, on spot markets for the most part.





Supplies of ancillary services were based on a contract signed after holding a successful tender for supplies in the period 2008–2010. Through one one-year and two medium-term tenders, we lined up sufficient contracting volume to cover supplies of CCPP surplus generating capacity in natural gas-fired mode, thereby minimizing the need to sell ancillary services on the spot market (DT PpS) organized by ČEPS where, due to limited demand and an oversupply of generation capacity, prices are highly volatile and the long-term trend is toward lower price levels.

Production and Sales of Heat

The district heat industry – i.e. both production and distribution – continues to be State-regulated with regard to the natural monopoly of distribution with very limited potential for a market environment. In addition to being used in production processes, thermal energy or heat – a by-product of electricity generation – is also sold to outside customers and to the populace to heat buildings. In 2008, heat generation volume was in line with the previous year's at 29,921 TJ. A large portion of this output, however, was utilized within the Processing Section of Sokolovská uhelná. As a result, sales to outside customers in 2008 totaled 2,046 TJ. The selling price of heat is subject to regulation by the Energy Regulatory Authority.

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 2008, 1,331 million m³ was produced, nearly 170 million m³ more than the quantity produced in 2007. In 2008, however, raw gas for producing coal gas was not made only from coal. Approximately 4% of the total gas volume was produced in a entrained flow gasifier 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.

Production of carbochemical products is dependent on 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 Czech Republic, but throughout Europe, since other comparable products are obtained from black coal (or from crude oil) and have a different chemical composition. Therefore, they have their place in the market (phenol concentrate in particular) and they are in demand among outside industrial customers. In 2008, the sales plan was met in full for all commodities.

Brown coal gasifier tar, our principal carbochemical product, was shipped in a volume of nearly 84,000 tons. Compared to 2007, this figure is down by nearly 8,500 tons. The difference is due to consumption of tar in the Company's own production facility (the entrained flow

gasifier) to produce coal gas, which generated a higher economic return than if the same amount had been sold. Thus, tar sales in 2008 were commensurate with overall production and in-house consumption.

Phenol concentrate production and sales volume in 2008 was 14,600 tons, which is comparable with the past year's level. The entire amount produced was shipped to customers – mostly (11,000 tons) in Germany. The remainder was sold in the domestic market.

Sales of liquid ammonium were higher than in 2007 (by over 1,000 tons). In total we shipped over 8,000 tons to customers, mainly in the Czech Republic. Production volume is in line with the amount of coal gas produced.

The volume of sulfuric acid shipped in 2008 (22,300 tons) was much higher than the amount shipped in 2007 (17,300 tons). Production of this commodity is not directly linked to production of coal gas; it depends more on the sulfur content in the coal that is gasified. The increase, then, is related to the processing of higher sulfur-content coal in the Company's gasworks.



Earnings Analysis



“Sokolovská uhelná posted record earnings. Profit before income tax was CZK 2,852 million.”

Jaroslav Rokos, MBA
Finance Director

In 2008, Sokolovská uhelná posted record net income of CZK 2,271 million. Income before tax was CZK 2,852 million. Corporate income tax due in 2008 was CZK 518 million and deferred tax totaled CZK 63 million.

The before-tax result was achieved on revenues of CZK 14.3 billion and expenses of CZK 11.4 billion.

Revenues

Sales of the Company's own goods and services, at nearly CZK 10 billion, accounted for 70% of overall revenues. In 2007, these revenues totaled CZK 9 billion. The largest components in revenues were sales of energy, at CZK 5.5 billion (not including sales of purchased electricity), and sales of solid fuels, including transportation fees, at CZK 3.4 billion. Thus, our revenues are diversified into two relatively independent sources, allowing the Company to meet its goal of converting a substantial portion of our coal into value-added forms of energy, at or near the extraction sites. Revenues from sales of merchandise totaled CZK 0.2 billion.

Sales of energy can be broken down as follows: sales of electricity (including electricity-related services), CZK 5.2 billion (2007: CZK 4.1 billion) and sales of heat, CZK 0.3 billion. Of the overall electricity sales figure, the combined cycle power plant accounted for 57.3%, the heat/pow-

er plant 27.4%, and the rest came from sales of electricity-related services.

Sales of solid fuels included sales of coal (CZK 2.7 billion) and sales of briquettes (CZK 0.2 billion). Compared to the previous year there was a 5.8% decrease in sales.

Other revenues included CZK 0.6 billion in sales of chemical products and CZK 64 million from other products (rock, agricultural products, etc.). The Company's total proceeds from these activities in 2007 was CZK 80 million.

Service revenues, not including electricity-related services, consist in particular of solid fuel transportation fees, clean-up of environmental damage, cafeteria

services, and hazardous waste disposal services, and their total was CZK 0.8 billion. The analogous figure for 2007 was CZK 0.7 billion.

Other revenues included CZK 0.1 billion for capitalization of materials, fixed assets and intracompany services, with capitalization of refurbished spare parts accounting for a significant portion thereof. The Company also sold some of its assets and materials inventories – primarily surplus real estate, machinery and equipment. These sales generated proceeds of CZK 71.5 million.

Financial revenues totaled CZK 1.4 billion and consisted of sales of securities, interest on deposits, and revenues from short-term financial assets.



Expenses

The principal components of expenses are: cost of materials, energy and externally purchased services (CZK 4.0 billion), personnel costs (CZK 2.3 billion), and depreciation and amortization (CZK 1.0 billion).

Consumption of materials totaled CZK 0.9 billion, down CZK 0.1 billion from the previous year. The main types of material consumed were spare parts and materials (such as diesel fuel) used in equipment operation.

Consumption of energy and gases totaled CZK 0.4 billion in 2008. This figure was influenced in particular by consumption of other gases (oxygen, nitrogen, and air) at CZK 0.2 billion as well as consumption of natural gas in the amount of CZK 0.2 billion. Purchase of electricity for resale totaled CZK 55.7 million.

Repair expenses in 2008 totaled CZK 0.9 billion. Repairs included, in particular, that of the KU 300/5 bucket-wheel excavator and re-loading vehicle at Division Jiří, repairs of locomotives and LH cars at Division Družba, and repairs of steam turbines at Division Zpracování. Operating expenses of the Processing Section were positively impacted in 2008 by the fact that there was no Company-wide shutdown of production plant and equipment in the summer.



Cost of transportation and other services totaled CZK 1.8 billion. This figure consists predominantly of solid fuel transportation expenses (CZK 0.8 billion). Other significant items include expenses related to process gas purchasing, rent, marketing and advertising expenses, cafeteria expenses, clean-up and reclamation expenses, and security guard expenses.

Personnel expenses exceeded CZK 2.3 billion, with wages accounting for CZK 1.7 billion of the total figure. Related social security and health insurance expenses reached CZK 0.6 billion. The average monthly wage grew to CZK 28,225.

Taxes and fees reached CZK 0.1 billion. These include primarily amounts paid on minerals extracted and mining areas used, real property taxes, water and air pollution fees, and land appropriation fees.



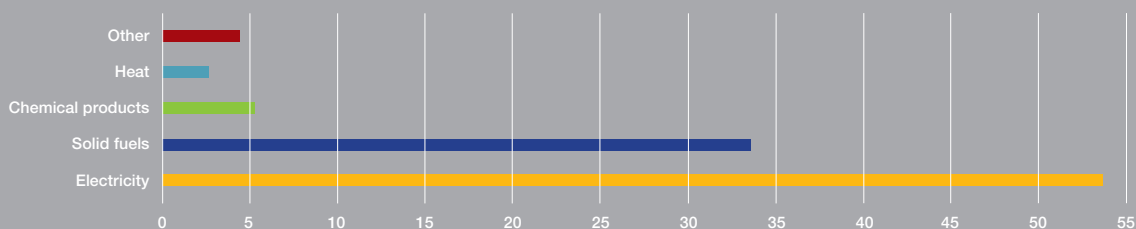
Other operating expenses totaled CZK 2.7 billion in the year in question, with CO₂ emission allowances accounting for nearly 95%. Insurance premiums totaled CZK 0.1 billion.

CZK 1 billion in depreciation and amortization charges were included in the Company's 2008 expenses.

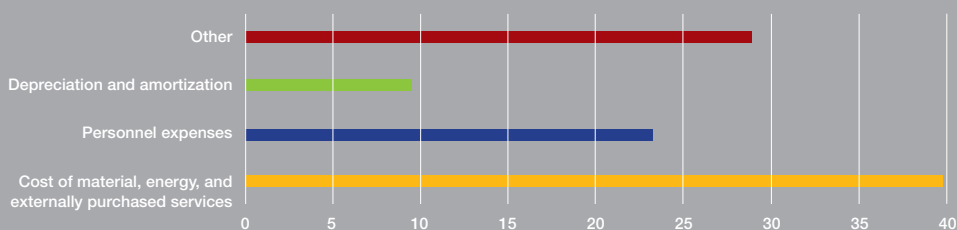
Use/clearance of provisions and impairment allowances in 2008 exceeded creation thereof by CZK 0.1 billion. The most significant items were: (a) creation and use/clearance of statutory provisions for repairs, clean-up and reclamation; and (b) creation and reversal of impairment charges on assets.

The Company's financial expenses totaled CZK 1.3 billion. These consisted primarily of the acquisition cost of securities sold, and interest expenses.

Sales of Products, Services and Merchandise in 2008 (%)



Operating Expenses in 2008 (%)



Structure of Assets and Sources of Financing

Company Assets at 31 December 2008 (CZK billions):

Fixed assets	9.8
Current assets, prepayments and accruals	8.5
Total	18.3

Equity and Liabilities at 31 December 2008 (CZK billions):

Equity	10.3
Liabilities and deferred income	8.0
Total	18.3

Fixed assets consist primarily of property, plant and equipment with a book value of CZK 9.3 billion. The most significant components of property, plant and equipment are machinery and equipment (CZK 4.7 billion), buildings and structures (CZK 3.9 billion), land (CZK 0.4 billion) and capital projects in course of construction, including advance payments (CZK 0.3 billion).

The Company holds CZK 0.3 billion in long-term financial assets, including nine subsidiaries and three associates (see Notes to Financial Statements).

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

At year end 2008, inventory totaled 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 2008 totaled CZK 1.3 billion. These were subject to impairment allowances of CZK 79 million, or 6% of the total receivables face value and 95% of the face value of overdue receivables. In particular, the allowances relate to older receivables for coal sales before the year 2000, receivables from companies in bankruptcy, and

receivables on which court proceedings are pending.

Short-term financial assets totaled CZK 6.7 billion and, during 2008, served to finance the Company's operating and capital expenditure needs and meet its financial obligations.

Prepayments and accruals consist primarily of estimated items and other items recognized to implement the revenue recognition principle.

As of 31 December 2008, the Company's share capital was CZK 2 million and consisted of 20 registered shares in documentary form, each with a 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 2008, 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. Like in 2007, the Company contributed CZK 30 million to the social fund. The fund's year-end balance was CZK 9.8 million. Employees utilize the fund to help defray costs of meals at Company cafeterias, recreational sojourns, healthcare devices not covered by health insurance, children's recreation, and cultural and social events.

Profit brought forward reached CZK 7.9 billion. Earnings for the current accounting period totaled CZK 2.3 billion.

As of 31 December 2008, the Company carried provisions totaling CZK 3.8 billion. Statutory provisions (CZK 3.6 billion) form a substantial portion – these are provisions for clean-up and reclamation of land affected by mining as well as a provision 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 effected.

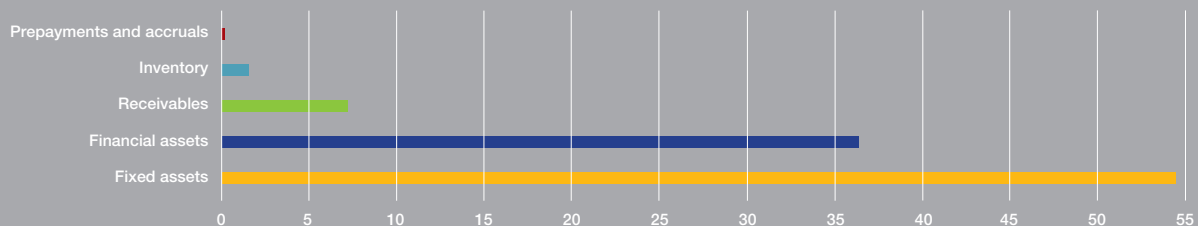
Long-term payables, at CZK 0.7 billion, consist almost exclusively of deferred tax liability. Short-term payables totaled CZK 1.4 billion and included trade payables (CZK 0.7 billion) among other items. None of the trade payables were overdue. Other material items include December wages payable to employees,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

Throughout 2008, Sokolovská uhelná met all its obligations to the State, banks, employees, and business partners on time and in full.

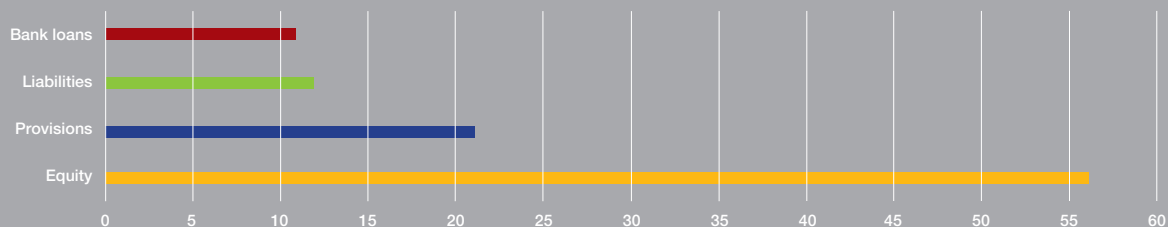
Bank loans at 31 December 2008 had an aggregate balance of CZK 2 billion. They consisted of a restructuring loan which matures at the end of 2013. No new loans were drawn during the year.



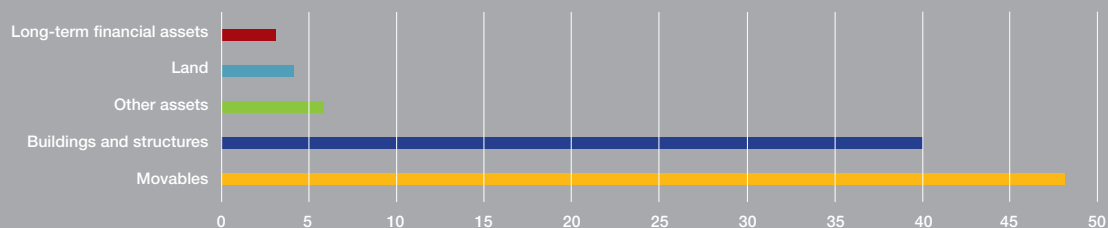
Structure of Assets at 31 December 2008 (%)



Structure of Equity and Liabilities at 31 December 2008 (%)



Structure of Fixed Assets at 31 December 2008 (%)



Investing in the Environment

Emissions data are signaling a major new shift in the environment of the Sokolov region. Most importantly, the data confirm the effectiveness of the “Intensification of Flue Gas Desulfurization” project at Sokolovská uhelná’s heat/power plant in Vřesová. Another environmental investment at Sokolovská uhelná is aimed at protecting surface water. Cleaning up legacy mine-related environmental burdens is a no less important area.

Capital Construction



“In 2008, a number of projects were implemented to develop both the Processing and Extraction Sections of the Company. The total amount invested in these projects was CZK 0.9 billion.”

Jiří Pöpperl
Technology Director

Like every year, 2008 saw the execution of a number of capital expenditure projects, in accordance with the assets renewal plan, to develop both the Processing and Extraction Sections. The total amount invested in these projects was CZK 0.9 billion.

The Utilization of Gasworks Liquid By-products (UGLB) continued to be a significant project in the Processing Section. In cooperation with key subcontractors and the licensor, a team of Sokolovská uhelná employees continued working to commission the new installation. During comprehensive testing, the installation’s design capacity was achieved and on 27 November 2008 the project successfully underwent a final inspection, after which ownership of it passed to the Company.

Other significant projects at the Processing Section included “Intensification of Multipowder Production”, which increased our multipowder storage capacity and made the loading process more flexible, as well as a series of projects implementing a change in how gasifier slag, power generation fly ash, and fine coal matter are disposed of. These projects include “Re-depositing of Electricity Generation By-products, Phases I – IV”, which were completed in 2008 and passed final inspection, as well as “Utilization of Fine Coal Matter from the Settling Pond”, where work began on two pond sections.

The Processing Section also implemented Phase IV of the “Innovation of Gas

Cooling” project, completion of which is planned in 2009, and Phase II of “Rectisol Innovation”, the last part of which will be completed in 2010. Also, two major projects were commenced: “Upgrade of Gasifier Process II” and “Rotating Reduction and Upgrade of Substations at Heat Exchanger Station II”.

Key projects at the Company’s Extraction Section in 2008 included “Extension of Coal Belt Conveyor – Jiří, Phase III” and “Addition to Mining Plant and Equipment – KU 300/19”, which will be completed in 2009. Work began on the “Settling Pond – Družba” project.

Furthermore, Divisions Družba and Jiří implemented belt conveyor, power line, track, and catenary extension projects that are repeated every year.

Another area of capital expenditure significant for implementing Company tasks was small-scale machinery and vehicles, with expenditures of nearly CZK 0.2 billion for the year.



Work Force



"The sick leave rate in 2008 was just 4.2% of the number of man-hours available. This was the lowest level yet in Company history."

Miroslav Mertl
Personnel Director

In 2008 we were once again successful in growing labor productivity in terms of revenues from sales of the Company's products and services (less transportation fees) by more (+13.61%) than the average wage grew (+10.63%). The average monthly wage reached CZK 28,225. Employees' real wages also grew, by 4.3%, thanks primarily to an extraordinary Company-wide performance bonus. This met and exceeded the part of the Collective Agreement that employees perceive as the most fundamental.

The average adjusted number of employees last year was 4,675, which is roughly comparable to the previous year (a decrease of 11 employees). The decrease resulted from natural attrition – most departures were retirements – and, most importantly, replacements were found for departures in key blue-collar professions. Like in years past, we continued in our long-term cooperation with the Sokolov Integrated Secondary School. After the summer vacation, 13 of the school's graduates were hired after having been selected earlier – during the internships they served with us. Caring for employee job qualifications is standard at the Company, and we arrange for specialized training in-house.

The sick-leave results were very valuable. Sick leave expressed in terms of the overall number of man-hours available was just 4.2% – the lowest figure in Company history. This was attributable to a combination of external factors such as a

new "delayed onset" policy in sick-leave insurance benefits. An extraordinary bonus linked to hours worked was an internal factor contributing to the low sick-leave rate. Finally, there were targeted prevention initiatives such as preventive vaccination against tick-borne encephalitis, which was expanded in the year in question (1,531 employees vaccinated) and traditional flu vaccination (817 employees vaccinated).

Increased utilization by the Company's employees was also seen in cafeteria meals. Here we cannot evaluate the entire year, because our subsidiary SOKO-REST, s.r.o. was only set up in mid-2007. However, in the second half of 2008, the Company's employees consumed 5,061 meals more (+2.5%) than they did in the same period of 2007. Meal production for outside customers was also up – by 18%.





Environmental Stewardship

Since 8 August 2008, an internal document has been in effect, which on the basis of the Company's integrated permit (issued by the Karlovy Vary Regional Office in October 2007) stipulates tasks and accountability for meeting binding conditions of operation of plant and equipment in Sokolovská uhelná's Processing Section, including procedures and measures to ensure that these conditions are met in all areas of environmental protection and protection of human and animal health, including monitoring of emissions and other discharges, and the procedure for evaluating fulfillment of these conditions.

2008 saw a major reduction in SO₂ emissions, brought by completion of the capital project entitled "Intensification of Heat/Power Plant Flue Gas Desulfurization" in 2007. As of 1 January 2008, the Company is required to meet an emission limit of 400 mg/m³ under the binding conditions of the integrated permit for Sokolovská uhelná (which entered into legal force on 29 November 2007). This limit is met with a wide margin of safety.

The aim of waste management is to limit the production of waste, including waste generated by day-to-day ancillary operations at the Extraction and Processing Sections, and construction waste including demolition detritus and equipment parts dismantled in the course of capital projects. Waste management also includes activities relating to the reclamation and landscaping of land following mine decommissioning. Waste management is governed by applicable legislation.

During the past year, minewater pumping was completed and we began filling the residual Medard–Libík pit with this water. We

also began preparations for building an inlet canal which will allow the lake to be topped off with water from the Ohře River starting in 2010.

At the Družba mine, modifications to the settling pond continued with the goal of increasing its capacity and improving the system's settling capabilities to ensure that the minewater taken from the pond meets quality requirements even during extreme weather conditions.

September 2008 saw the commencement of the "Vřesová Secondary Treatment Pond Clean-up" project. 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.

By way of cleaning up legacy environmental burdens (the Stará Chodovská Heavy Tar Sludge Pit), the Company continued to extract and gasify heavy tar sludge throughout 2008. We also conducted monitoring operations in the scope ordered by a decision of the Karlovy Vary office of the Czech Inspectorate of the Environment. A total of 8,730.22 tons of heavy tar sludge was extracted and gasified in 2008, bringing the overall total to 19,882 tons since the beginning of the

project (June 2006). Also during the year, 6,819 m³ of phenol-bearing wastewater was pumped out of the pit and treated, bringing the total to 15,890 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 is a significant negative environmental impact in the Sokolov region. For this reason, Government Directive 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 restoring lakes and water management in the reclaimed areas with the objective of achieving maximum variety and esthetic value of the resulting landscape.

Based on this is the following overall summary of Sokolovská uhelná clean-up and reclamation work from the beginning of mining until the end of the mines' operating lives. Each year, the Company applies to the District Mining Office in Sokolov for approval of year's draw-down of reclamation funds from the Sokolovská uhelná provision for clean-up and reclamation of land affected by mining of selected brown coal and rock (or sand) deposits.



Summary of Sokolovská uhelná clean-up and reclamation work from beginning of mining until the end of 2008:

Land affected by coal mining		
1. Completed	3,179.33 hectares	(34.37%)
of which: agriculture	1,094.86 hectares	(34.44%)
forest	1,897.06 hectares	(59.67%)
man-made lakes	77.75 hectares	(2.45%)
other	109.66 hectares	(3.44%)
2. Ongoing	2,847.88 hectares	(30.79%)
of which: agriculture	203.54 hectares	(7.15%)
forest	2,051.69 hectares	(72.04%)
man-made lakes	513.11 hectares	(18.02%)
other	79.54 hectares	(2.79%)
3. Planned	3,223.23 hectares	(34.84%)

In total, then, the Company will reclaim 9,250.44 hectares of land affected by coal mining.

2008 saw the completion of reclamation work on 86.64 hectares of land paid for out of the clean-up and reclamation provision and the commencement of reclamation work on 278.01 hectares paid for by the Ministry of Finance of the Czech Republic out of State funds.

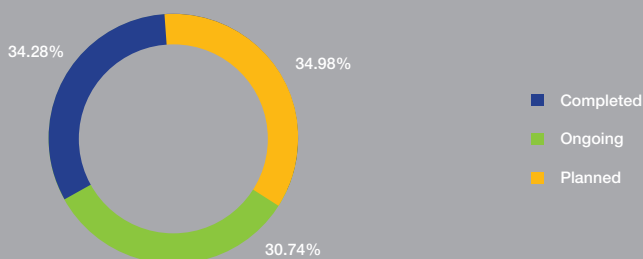
Land affected by rock mining		
1. Completed (forest)	9.04 hectares	(44.77%)
2. Ongoing	11.15 hectares	(55.23%)
of which: agriculture	0.88 hectares	(7.89%)
forest	4.08 hectares	(36.59%)
man-made lakes	1.83 hectares	(16.41%)
other	4.36 hectares	(39.11%)

In total, then, the Company will reclaim 20.19 hectares of land affected by rock mining.

Land affected by sand mining		
1. Planned	29.76 hectares	(100.00%)

In total, then, the Company will reclaim 29.76 hectares of land affected by sand mining. Of this amount, mining is currently ongoing on 11.10 hectares of land and has yet to begin on the remaining 18.66 hectares.

The following graph illustrates ongoing, completed, and planned reclamation work as of 31 December 2008 following mining of coal, rock and sand



Since the beginning of clean-up and reclamation work in the Sokolov area in the 1950s, a total of 3,188.37 hectares has been reclaimed. Of this amount, 1,094.86 hectares is now devoted to agriculture, 1,906.10 hectares are forests, 77.75 hectares have been turned into man-made lakes, and 109.66 hectares serve other purposes.

In 2008, the projects Podkrušnohorská Spoilbank Phase VII, VIII, X and XIII with a total area of 352.60 hectares were submitted to the inter-Ministry committee organized by the Ministry of Industry and Trade of the Czech republic for full financing.

Of funding requests approved by the inter-Ministry commission in past year, 2008 saw the commencement of the following reclamation projects – Silvestr III/1, Podkrušnohorská Spoilbank, Phase IX and XI, and Lítov Spoilbank – overlayment with a total area of 315.31 hectares.

One approved project that has not yet been commenced is Clean-up of Railroad Pillar and Revitalization of Adjoining Area – Boží Požehnaní Mine between Chlum Sv. Máří and Kynšperk nad Ohří.

Ongoing Landscape Reclamation Work

■ At the Lítov–Boden site, 2008 saw commencement of a new project entitled “Reclamation of the Lítov Spoilbank – overlayment of acidic areas” with a total area of 38.13 hectares. In the past, these areas were reclaimed as forest but design parameters were not achieved due to highly toxic soil. Forestry work continued on Lítov – Northern Section, Phases II and III with a total area of 97.40 hectares.

■ At the Medard–Libík (M–L) site, 2008 saw commencement of the M–L Lake Monitoring project, which includes monitoring of both surface and underground water, and drilling of penetration bores in

the spoilbank to update geomechanical data. Also, we continued in the agricultural reclamation project M–L – Northern Section, Phase I and in the agricultural, forest, and man-made lake reclamation project M–L – Phase VI near the village of Svatava. Both projects mentioned have a total area of 122.73 hectares. Selective thinning brought to a conclusion 3.29 hectares of forest reclamation in the project Kluč – South Slopes. We newly commenced construction of a collection building for filling the lake, and reinforcement of its future banks. In the area surrounding the lake, technical and biological reclamation of the M–L pit slope – Phases I – V continued with forestry work on a total area of 469.16 hectares.

■ At the Silvestr site, agriculture and forest reclamation work continued in the project Silvestr – Phase II B on an area of 20.41 hectares. We newly commenced forestry reclamation on the project Silvestr – Phase III/1 on an area of 25.32 hectares and continued in the reclamation project Silvestr – Phase II A on a land area of 96.66 hectares.

■ At the Podkrušnohorská Spoilbank site (PS), 2008 saw continued forestry reclamation work in the project PS – Phase II on an area of 110.60 hectares. We newly commenced reclamation work on PS – Phases IX and XI on a total land area of 251.86 hectares and continued reclamation work on PS – Phases III, IV, V and VI with a total area of 554.30 hectares.

■ At the Smolnická Spoilbank site, forestry work and selective thinning completed the project Smolnice – Phase I on a land area of 79.19 hectares. Further, forestry work was done on Smolnice – Phase II (45.80 hectares) and technical and forestry reclamation work took place on Smolnice – Phase III (57.70 hectares).

■ At the site between Nové Sedlo and Loučky, selective thinning completed the forestry reclamation project entitled “Kateřina” (4,16 hectares).

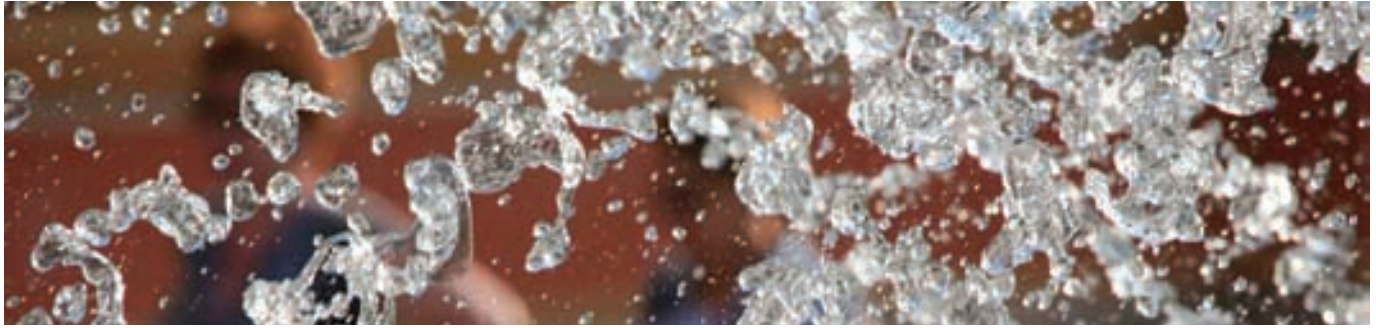
■ At the Dasnice Rock Quarry, technical reclamation work took place on an area of 11.15 hectares.





Medard Reclamation Project Enters Final Stages

The biggest and most closely watched reclamation project in the region is entering its final stages. Lake Medard will be filled artificially in addition to continued natural filling by rainwater and water from the Radvanovský Stream, which after many years will once again become a permanent tributary of the new lake. Sokolovská uhelná has been behind the project since the beginning.



Public Relations

In years past, Sokolovská uhelná has undergone several fundamental transformations. From a company that late in the last century focused primarily on mining brown coal has emerged the country's biggest independent electricity producer.

The Company has undergone privatization, an extensive restructuring and, today, its Processing Section in Vřesová is in many respects the most advanced and environmentally friendly installation of its kind in the Czech Republic. The Company also plays a major role in regional development, as well as in the striking transformations and revitalization of the Sokolov region's landscape.

The Company's good financial performance in recent years is attributable foremost to strategic decisions taken late in

the last century. At that time, Company management decided to go against the prevailing trend and build a combined cycle power plant in its Processing Section in Vřesová.

At the time, it was a relatively unusual idea. The issue of the day was the completion of Temelín Nuclear Power Station and the prevailing view was that its commissioning would lead to an oversupply of electricity. Time proved that it was a truly strategic decision that, today, enables Sokolovská uhelná to succeed in the market even in a situation of falling demand for some of its traditional products such as brown coal briquettes, sorted coal, and chemical by-products of the coal gasification process.

In the case of chemical by-products, the Company searched for ways to make

better use of them. Starting from this year, Sokolovská uhelná will have the capability to add significant value to these products by breaking them down in a so-called entrained flow gasifier. Thanks to this, the Company will no longer sell the by-products as raw materials, but will instead convert them into coal gas for us in its combined cycle power plant, thereby reducing consumption of natural gas in that facility.

As far as briquettes and sorted coal are concerned, a decision on the Company's future strategy in this area will be made in 2009 based on the results of this year's winter. Most of all, Sokolovská uhelná is searching for the most appropriate ways to utilize coal. Related to this will be the fate of the briquette plant in Vřesová, sorted coal production at the central sorting facility in Tisová, as well





HC Energie Wins Extra-league Championship

The hockey team whose general partner is Sokolovská uhelná affirmed once and for all that it is one of the top domestic hockey teams. The 2008/2009 season was the team's last in the Karlovy Vary Winter Stadium. Next season, the team will play in a new, multifunctional arena.

as certain other strategic plans of the Company.

Priority number one is to extend the operating life of the Processing Section in Vřesová for as long as possible and find ways to add value to coal. The next priority is to expand district heating networks in the Karlovy Vary Region and increase supplies to long-term partners.

In the past few years, the entire Sokolov region has been undergoing a change so radical that nothing like it has been seen since the early 1800s. The region is undergoing an extensive program of reclamation and revitalization of former mines. Unlike the transformation of two centuries back, this time the process is going in reverse. From an industrial landscape, a place for life is emerging.

The area in question is by no means small. The total area that needs to be reclaimed is over 9,000 hectares. Of this, work has been completed on over 3,000 hectares and is ongoing on another roughly 2,800 hectares. Only few people realize where

exactly this work took place. Although today it is not obvious at first glance, the reclaimed mining areas include such extensive areas as the forest behind the Sokolov Gymnasium, the Bohemia Park in Sokolov, the nearby Michal Aquapark and the neighboring golf course on the former Silvestr Spoilbank.

Nearly 600 hectares were reclaimed at Sokolovská uhelná's expense, while the State financed the reclamation of approximately 1,200 hectares as part of its obligation to clean up land affected by brown coal mining activity that took place prior to the privatization of the mining companies.

In the past decade, a number of revitalization projects have emerged that go beyond just returning land to its former state. One of these, for example, is the construction of the Michal Aquapark in the former mine of the same name. In addition, as residual pits are being decommissioned a number of man-made lakes are being formed by filling them with water.

However, none of this is bringing elements to the landscape that were absent before. Prior to the massive onset of coal mining in the 19th and 20th centuries, the region was dotted with hundreds of lakes, large and small, as well as fish ponds, streams, and marshlands, which ceased to exist as the mining operations advanced. So, the new man-made lakes are restoring the landscape to its former appearance.

The most closely followed man-made lake project is the ongoing reclamation of the former Medard–Libík mines near Habartov. The result will be the new Medard Lake, which is set to become one of the region's most sought-after recreational areas.

At this site, work is to begin this year on building up the banks of the future lake, with a total length of 12.5 km. Last spring we began building the water collection building, which is slated for completion in 2009. Next spring, we will begin filling the reservoir with water from the Ohře River.

Young Representatives of Golf Club Sokolov at Youth Championships

Support for youth golf in Sokolov has completed its first season, after being formed out of the joint initiative of Sokolovská uhelná and its employees' labor unions. Young golfers representing Golf Club Sokolov qualified for the youth golf championships for the first time in 2009.



Before the lake is finished, however, the region's residents will get a new forest park. It has been under construction since the autumn of 2006 in the former Silvestr mine's internal spoilbank near Dolní Rychnov. It's total area will be 96.6 hectares, roughly two thirds of which will be reclaimed forest, with the rest shared by meadows and other areas.

So far on this project, all technical reclamation work has been completed including drainage, road building, earthmoving, and establishment of marshland. Currently, forest biological reclamation work is ongoing throughout the area. To execute the project, approximately 100,000 m³ of topsoil was brought in from the Jehličná site.

The forest park and zoo are making use of trees that have self-seeded here over the past few years. The result will be a unique combinations of naturally formed and man-made biotopes. In the near future, a game preserve will be added with managed viewing walks, to be followed by more revitalization projects.

Recent emission data confirm a new, significant shift in the Sokolov region's environment. Most of all, the numbers confirm the effectiveness of the "Intensification of Heat/Power Plant Flue Gas Desulfurization" project at Vřesová, which in 2008 saw its efficiency increase to

a full 93%. At the neighboring combined cycle power plant, there was a significant drop in CO₂ per unit of electricity generated. The reason for this decrease was a successful overhaul of both the plant's generating units, which saw the replacement of gas turbine blades and all combustion nozzles. Also contributing to reduced emissions is the fact that the plant is being operated at an output level with higher efficiency.

Not all environmental investments at Sokolovská uhelná are designed to improve air emissions, however. The Company is also running several major projects designed to protect surface water, such as the construction of two new settling ponds in the Družba Mine. These will enable us to further reduce the insolubles content of water discharged into the Loučský and Novosedelský Streams.

Another no less important project is the clean-up of a legacy mining-related site near Stará Chodovská. It is a tar-filled pool from the 1960s and 70s. The project is financed by the State and is being executed by specialists from Sokolovská uhelná.

From the perspective of the general public, however, the most visible projects in 2008 were the Company's advertising and sponsorship activities, which totaled nearly CZK 86 million. Thus, Sokolovská



World Breeders Conference Held in the Czech Republic

The Agricultural Production Department of the Reclamation Section in Staré Sedlo u Sokolova hosted a gathering of Charolais cattle breeders from Europe and overseas as well. Delegates to the congress were treated to a tour of Sokolovská uhelná's breeding operation, which is one of the largest in the country and has long been one of the finest as well. The 150 congress delegates and approximately same number of French breeders had a full program during their stay in the Czech Republic.



uhelná plays a significant role in supporting education, healthcare, and social institutions and facilities in the region. Nor did the Company forget culture, sports, and physical fitness, where supported events included the traditional Moto-cross World Championship series in Loket nad Ohří, the Czech Republic Cyclotrial Championship in Březová, Loket Summer of Opera, folk and Christmas concerts in Sokolov, and many others. Sokolovská uhelná supported Extra-League Ice Hockey in Karlovy Vary and Second League Football in Sokolov, but not only them: a number of smaller sports teams in the region benefited from our support as well.

The Company teamed with the City of Loket to build a 35-meter high look-out platform on a nearly 60-meter high České telekomunikace lattice tower, which stands on one of the three peaks of Krudum Mountain in the Slavkovský Forest. In the past, a look-out tower was built at the same location in 1932. The new platform has been open to the public since mid-October 2008.

The Company as a whole can be described as a dynamic fuel-energy complex that continually strives to be perceived positively in the region.

Sokolovská uhelná remains the largest employer in the Karlovy Vary region.



Business Strategy

In the near future, Sokolovská uhelná's importance within the Karlovy Vary region is set to grow dynamically. Thanks to our size and the focus of our business activities, particularly in the energy sector, we are becoming an island of stability for the entire region. The fact that the worldwide financial and economic crisis has not so far affected the Company's performance is due not only to conscientious management, but also to the character of Sokolovská uhelná's business.

Due to the substance of the matter, the impact of the economic slowdown on the energy sector will be delayed. First hit are those producers, of both goods and services, who have a direct link to the end consumer and whose goods and services can, from the consumer's perspective, be limited in the short term. These include, in particular, producers in the automotive, construction, porcelain, and other industries. The impact of lower consumption on energy will come slightly later, as individual energy customers begin to cut back production. This delay puts the Company at an advantage, because it gives us time to put in place appropriate rationalization measures and an opportunity to minimize the impacts of the crisis on the Company's financial performance. These facts have positive implications not just for Sokolovská uhelná – at the same time, they are extremely important for all our business partners as well. A number of companies in the region are dependent on the Company and any substantial problem (decrease in supply volumes, delay in receiving payment from Sokolovská uhelná for goods and services, etc.) could have serious consequences for them. At the same time, unemployment could rise with its attendant impacts on life throughout the region.

So, Sokolovská uhelná will continue to be one of the most important companies in the Karlovy Vary region. Its core business continues to be the most effective utilization of its various extraction and processing technologies, built up in previous years and designed to extract coal and convert it into value-added forms of energy, electricity and heat in particular. In 2009 we expect to bring the main





wave of technological innovation in the Processing Section to a close with the successful commissioning of the Utilization of Gasworks Liquid By-products installation. That wave of innovation began in the mid-1990s with the construction of the combined cycle power plant, and continued with the installation of flue gas desulfurization technology at the heat/power plant and a change in how process gases (oxygen in particular) are obtained for use in the Processing Section.

Concurrently with our core production operations, Sokolovská uhelná will meet its obligations concerning mine decommissioning and reclamation of land affected by mining activity. At the same time, we will continue to invest in protecting the environment. Attention will thereby be focused both on further reducing the burden on the region's environment by maintaining low levels of pollution discharges into surface water and the air, as well as by improving the environment through reclamation of spoilbanks and other areas impacted by the mining operations of the Company and its predecessor organizations.

More and more, the extraction operation will be negatively impacted by worsening mining conditions in both Sokolovská uhelná mines. The Jiří mine is entering areas previously mined by underground "long wall" techniques. Obtaining high-quality coal from these positions is difficult and expensive and will become even more so. In the next few years, this mine's output will likely decline by as

much as 25%. As a result, we are preparing to take cost-cutting measures – in particular, by reviewing our extraction and transportation capacities for possible reductions. The Družba mine is entering the deepest layers of the mine, where it must proceed with the utmost caution with regard to protecting the region's thermal springs. Any damage to them could have a negative impact on the entire spa and





sanatorium industry in the area, and Karlovy Vary's in particular. In the next two or three years, the Družba mine should return to its full extraction capacity of approximately two million tons. For both mines, it will be necessary to secure sufficiently large spoilbank space – currently, this is one of the principal tasks of mining experts.

In the years to come, the Company will continue to reinforce its position as the largest independent power producer in the Czech Republic, emphasizing the provision of ancillary system services in the electricity market. At present, these services are already a standard component of our electricity revenues.

The Company's management is aware of Sokolovská uhelná's indispensable role in the region. With this in mind, all steps taken in the Company's development in the years to come will be taken in awareness that the Company is not only the largest and strongest economic entity in the Karlovy Vary Region, but its largest employer as well. However, we can only meet our obligations to the region if we are permitted to mine out all extractable

coal reserves. Sokolovská uhelná's future extraction plans fully respect Government Directive No. 490/91 of 27 November 1991, which set environmental limits on brown coal mining in the Sokolov region. Unlike the brown coal mining companies in North Bohemia, then, in our case no fundamental restrictions are on the horizon, provided the current obligations are met.

On the other hand, we must realize that active coal mining the Sokolov Basin will continue only for a relatively short time. If we disregard the decline in extraction volumes immediately prior to decommissioning, Sokolovská uhelná has less than twenty years of mining left. During this time, it will be necessary to create sufficient conditions and funds to clean up, reclaim, and revitalize the entire area affected by mining activity, as well as to reinvent the Company and refocus it on new business activities. Since all of Sokolovská uhelná's operations take place within the so-called "spa triangle", one obvious option for future business initiatives is services related to tourism, recreation, and the spa and sanatorium industry. Thus, even now Com-

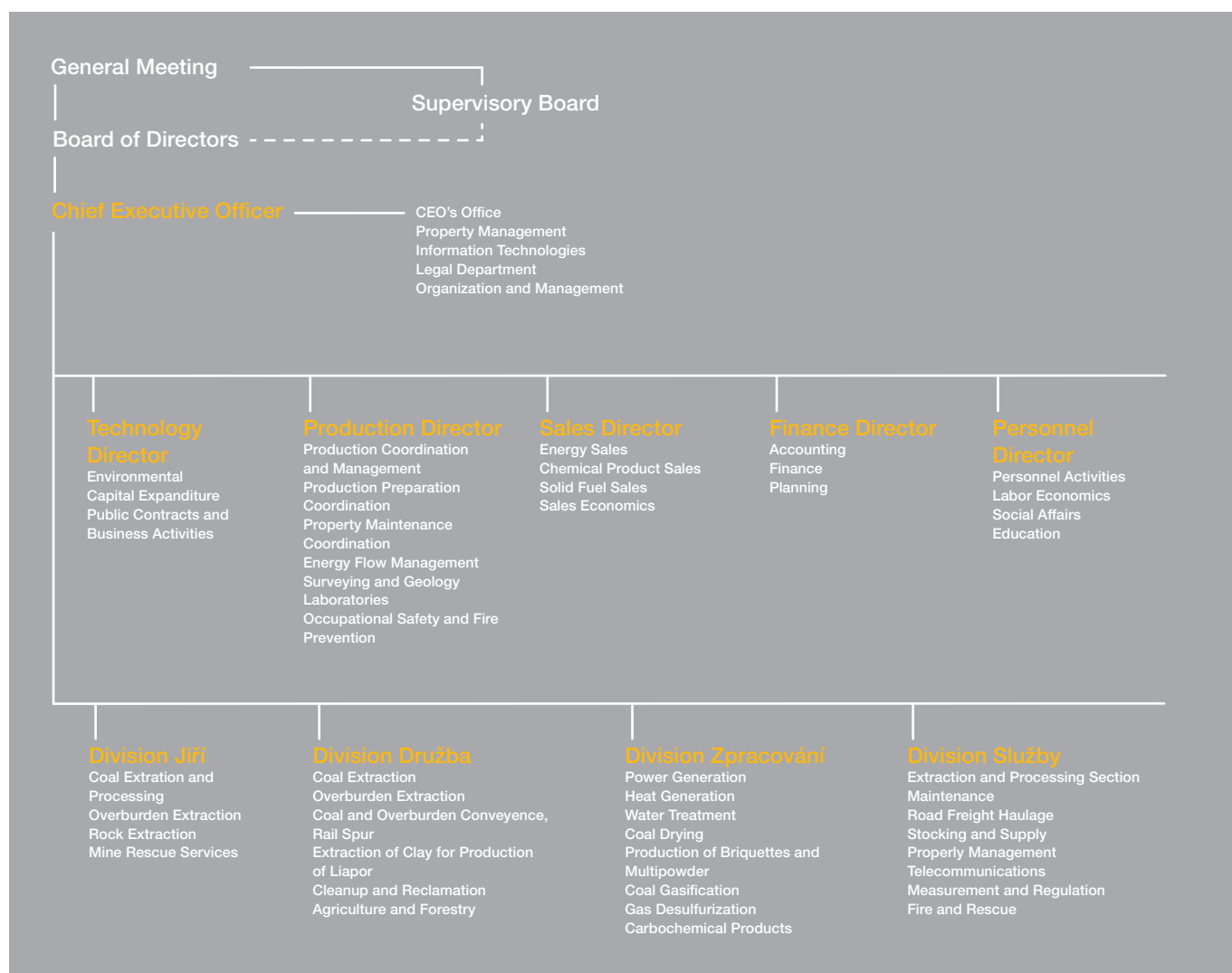
pany management is intensifying steps to create potential for securing the entire region not only in terms of employment, but in all aspects of ensuring good quality of life for residents of and visitors to the region as well.

The basic pillar underlying these considerations is the emphasis we place on reclaiming and revitalizing the entire area affected by mining. The target strategy is based on man-made lakes such as the already completed Michal Water Park and, in particular, the Lake Medard project which is under preparation.

Sokolovská uhelná has everything it takes to overcome the current period of crisis in the Czech and larger economy, which is a short-term matter from the perspective of a long-lived company like ours. The market segment in which we do business is showing that it has all the necessary prospects for continued operation both in the next few years and in the more distant future as well.



Organization Chart of Sokolovská uhelná as of 31 December 2008



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

Financial Statements

Balance Sheet (TCZK)

short form

		31 December 2008		31 December 2007	
		Gross	Provisions	Net	Net
ASSETS					
B.	Fixed assets	26,197,665	(16,394,054)	9,803,611	9,727,452
B.I.	Intangible assets	358,448	(170,149)	188,299	21,313
B.II.	Property, plant and equipment	25,553,556	(16,223,905)	9,329,651	9,280,856
B.III.	Long-term financial investments	285,661	0	285,661	425,283
C.	Current assets	8,550,383	(148,253)	8,402,130	6,648,228
C.I.	Inventories	522,015	(69,579)	452,436	378,157
C.II.	Long-term receivables	41,737	0	41,737	32,792
C.III.	Short-term receivables	1,271,535	(78,674)	1,192,861	1,192,298
C.IV.	Short-term financial assets	6,715,096	0	6,715,096	5,044,981
D.	Accruals and deferred income	50,922	0	50,922	51,645
TOTAL ASSETS		34,798,970	(16,542,307)	18,256,663	16,427,325
		31 December 2008		31 December 2007	
EQUITY AND LIABILITIES					
A.	Equity	10,283,305		8,192,092	
A.I.	Share capital	2,000		2,000	
A.II.	Capital contributions	66,413		66,109	
A.III.	Reserves and other funds created from profit	10,208		10,359	
A.IV	Profit brought forward	7,933,624		6,554,965	
A.V.	Earnings for the current accounting period	2,271,060		1,558,659	
B.	Liabilities	7,969,992		8,231,072	
B.I.	Provisions	3,813,431		3,803,121	
B.II.	Long-term payables	733,075		663,678	
B.III.	Short-term payables	1,423,486		1,364,273	
B.IV.	Bank loans and advances	2,000,000		2,400,000	
C.	Accruals and deferred income	3,366		4,161	
TOTAL EQUITY AND LIABILITIES		18,256,663		16,427,325	

Profit and Loss Account (TCZK)

short form

	Year ended 31 December 2008	Year ended 31 December 2007
I. Sale of merchandise	192,565	133,158
A. Cost of merchandise sold	55,669	53,483
+ Gross profit on goods for resale	136,896	79,675
II. Sale of own products and services	10,063,145	9,045,739
B. Cost of materials, energy and external services	4,026,162	3,740,928
+ Value added	6,173,879	5,384,486
C. Personnel costs	2,315,703	2,145,232
D. Taxes and charges	105,908	108,318
E. Depreciation and amortization	987,259	973,966
III. Revenues from sale of fixed assets and materials	71,493	78,060
F. Net book value of fixed assets and materials sold	39,968	26,532
G. Increase (+) in operating provisions and impairment allowances	(86,968)	236,088
IV. Other operating revenues	2,589,922	408,981
H. Other operating costs	2,703,558	558,066
* Operating profit	2,769,866	1,823,325
VI. Income from sale of securities and interests	1,103,728	1,859,546
J. Cost of securities and interests sold	1,098,621	1,867,946
VII. Income from long-term financial investments	9,000	0
VIII. Income from short-term financial assets	76,512	62,356
K. Expenses from financial assets	47,539	22,699
IX. Revenues from revaluation of securities and derivatives	300	462
L. Expenses from revaluation of securities and derivatives	4,948	300
X. Interest received	151,097	88,996
N. Interest paid	105,396	95,306
XI. Other financial revenues	27,027	6,322
O. Other financial costs	29,243	20,779
* Profit on financing activities	81,917	10,652
Q. Corporate income tax on ordinary activities	580,723	275,318
** Net profit on ordinary activities	2,271,060	1,558,659
*** Net profit for the accounting period	2,271,060	1,558,659
Profit before tax	2,851,783	1,833,977



Post-Balance Sheet Events

Based on an application pursuant to Sections (5)(a)-(c) and 95(a) of Act No. 235/2004 Sb. on Value Added Tax, effective 1 January 2009 the Sokolov Financial Authority registered as payers of VAT a group whose members include Sokolovská uhelná, právní nástupce, a.s. As from that date, all companies in the group use the VAT number CZ699001005.



Contacts

Company name:	Sokolovská uhelná, právní nástupce, a.s.
Seat:	Sokolov, Staré náměstí 69, postcode 356 00
ID:	26348349
Tax ID:	CZ699001005
Commercial Register:	Plzeň Regional Court, Part B, Entry 980
Bankers:	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 the Technology Director	352 462 113	352 621 038
Office of the Production Director	352 462 123	352 621 038
Office of the Finance Director	352 462 133	352 462 132
Office of the Sales Director	352 462 143	352 621 032
Office of the Personnel Director	352 462 153	352 462 132
Office of the Director, Division Jiří	352 463 001	352 675 139
Office of the Director, Division Družba	352 463 501	352 669 457
Office of the Director, Division Zpracování	352 465 001	352 465 002
Office of the Director, Division Služby	352 465 801	352 465 802
Sales contacts:	telephone:	fax:
Brown coal, briquettes, multipowder	352 462 142 352 462 272 352 462 273	352 621 032 352 624 541 352 603 266
Electricity, heat	352 465 210 352 462 260	352 465 212
Carbochemical products and sulfuric acid	352 464 480 352 464 482 352 464 492 352 464 493	352 464 481
Rock/gravel	352 465 911	352 465 910
Secondary materials (expansion clays, adsorption and zeolitic claystones, etc.)	352 462 232	352 462 231
Laboratory work	352 465 650	352 465 670
Stocking	352 465 340	352 465 350
Capital construction	352 465 622	352 465 620
Road transport	352 463 207	352 463 211



This report is not an unabridged annual report pursuant to the Accounting Act, the Commercial Code, the Securities Act, and the Act on Doing Business in the Capital Market. An unabridged annual report is available at the Company's seat and in the Collection of Documents of the Commercial Register.

