NWR NEW WORLD RESOURCES

Annual Report and Accounts 2012

New World Resources Plc

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Front cover photo: Hoisting towers at the Karviná mine run hundreds of metres of wire underground every day ensuring the mine runs throughout the year.

Breakdown of contents

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Directors' report

Directors' report comprises Strategy, Business Review, Corporate Governance, Shareholder information and Ancillary information for shareholders sections. The report has been prepared in accordance with the requirements of the Companies Act 2006.

Signposting

We use the following symbols to point to sources of further information.

Related sections within this Annual Report and Accounts.

Related information online at www.newworldresources.eu

The average exchange rate for 2012 used throughout the report is 25.149 EUR/CZK, unless stated otherwise.

NWR or the 'Company' refers to New World Resources Plc.
The 'Group' or 'NWR Group' refers to New World Resources Plc and its subsidiaries.

Investment proposition

Strong market position

Located within the industrial heartland of Central Europe

European Union structurally short of coking coal

Proximity to blue-chip customers

Responsible corporate citizen

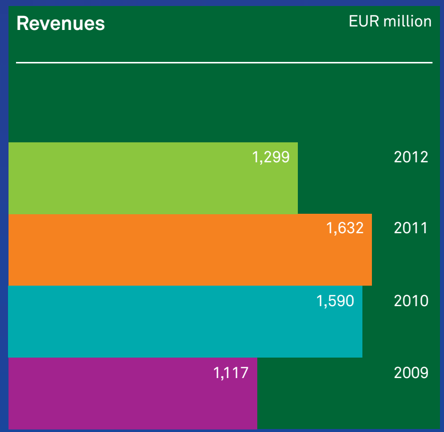
Operational excellence

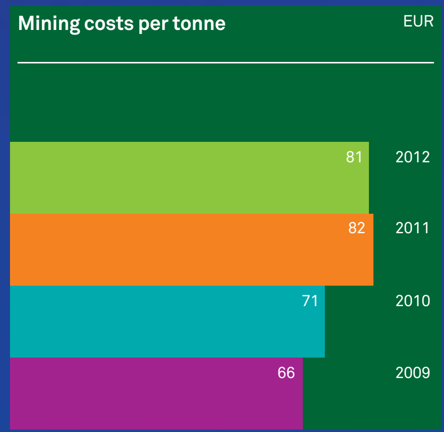
Aim to become *Europe's leading miner and marketer of coking coal by 2017*

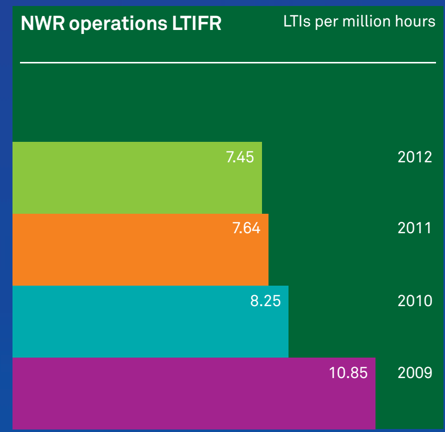
Performance highlights

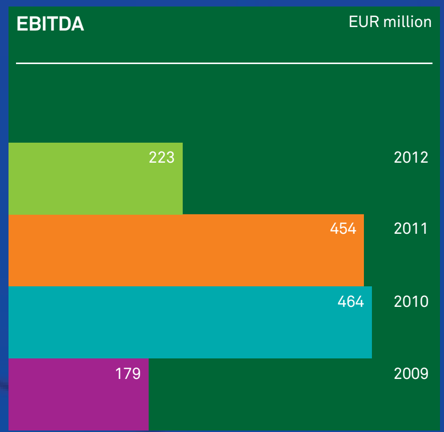
NWR operations LTIFR

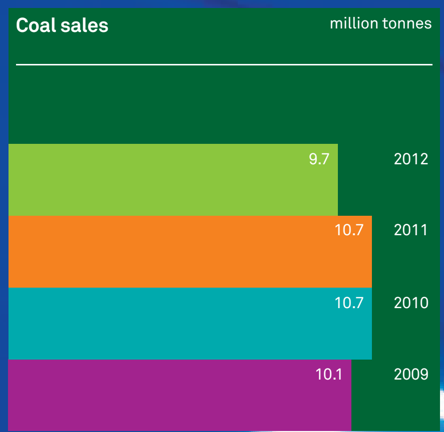
7.45

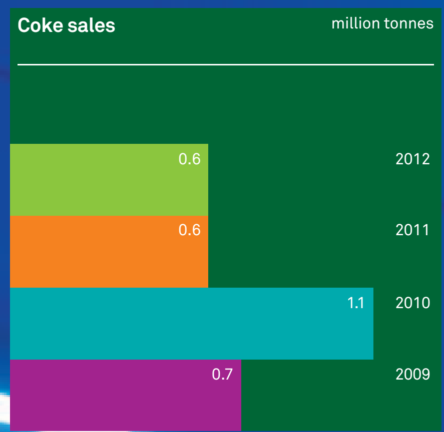












NWR at a glance

'Ownership is 100 per cent'

New World Resources Plc

New World Resources N.V. ('NWR NV')

OKD, a.s. ('OKD')

The Czech Republic's only hard coal mining company and the second largest private employer. OKD has four operating mines which are located in the Upper Silesian Coal Basin.

Pages 40–45

OKK Koksovny, a.s. ('OKK')

Our coking subsidiary operates one coking plant, Svoboda in Ostrava. Svoboda produces both foundry and blast furnace coke from four coking batteries on site.

Pages 46–51

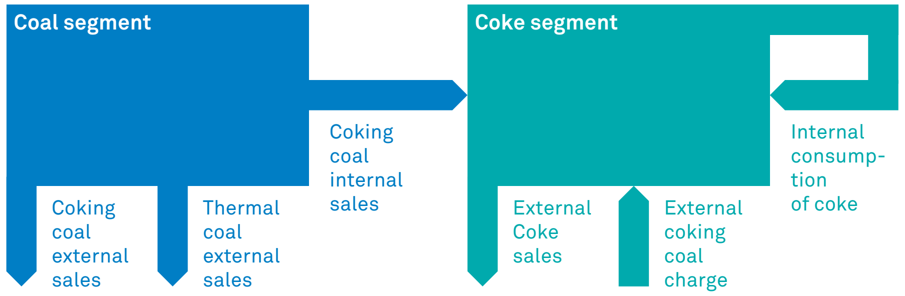
NWR KARBONIA S.A. ('NWR KARBONIA')

NWR KARBONIA oversees NWR's two development projects in Southern Poland of Dębieńsko and Morcinek.

Pages 52–55

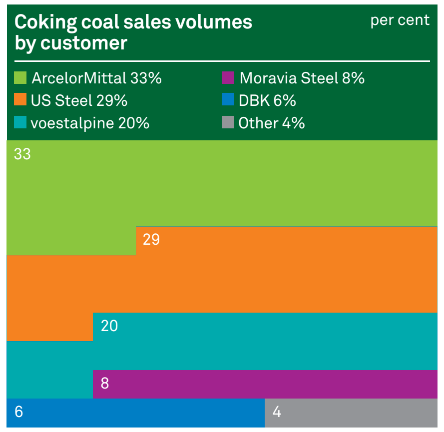
- » Incorporated in the United Kingdom
- » Headquartered in the Netherlands
- » Operations in the Czech Republic and Poland
- » Listed on three stock exchanges: London, Prague and Warsaw included in the FTSE 250 and FTSE 350 Mining indices
- » 18 thousand employees and contractors
- » 2012 coal production of 11.2 million tonnes
- » 2012 external coal sales of 9.7 million tonnes
- » Total JORC[1] reserves of 374 Mt (81 Mt proven reserves and 293 Mt probable reserves) as at 1 January 2013
- » 2012 LTIFR[2] of 7.45 lost-time injuries per million hours worked

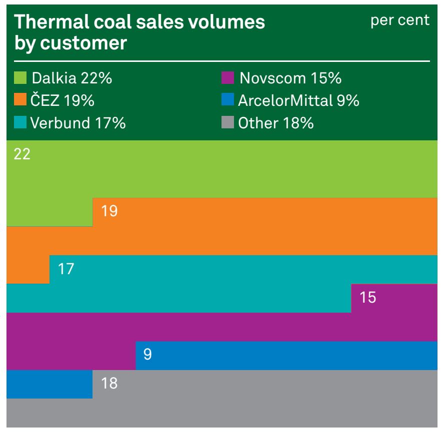
Production – sales

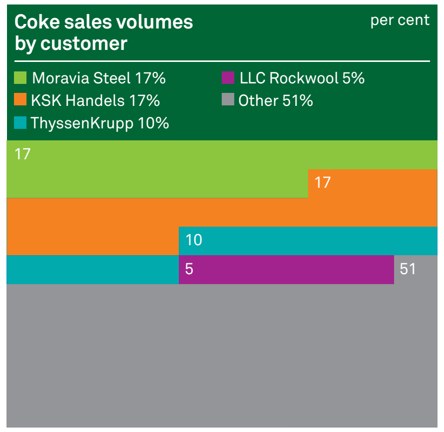


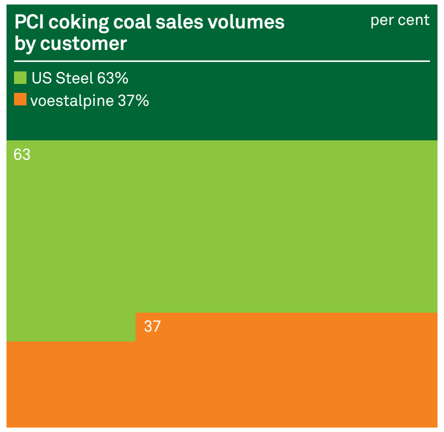
Our customer base

NWR is strategically located in Central Europe and supplies to a blue chip customer base of steel makers and power generators in the region. We produce both coking coal (also known as 'metallurgical coal') and thermal coal (also known as 'steam coal'). Coking coal is used as a raw material in steel production and we supply customers including ArcelorMittal, Moravia Steel, U.S. Steel, and voestalpine. We sell thermal coal to regional utilities with coal-fired power stations including ČEZ, Dalkia and Verbund. Additionally, NWR supplies both foundry and blast furnace coke to steel customers throughout the region. We have long-term framework agreements with our customers with quarterly pricing negotiations for coking coal and coke; pricing terms for thermal coal are predominately agreed on a calendar-year basis.



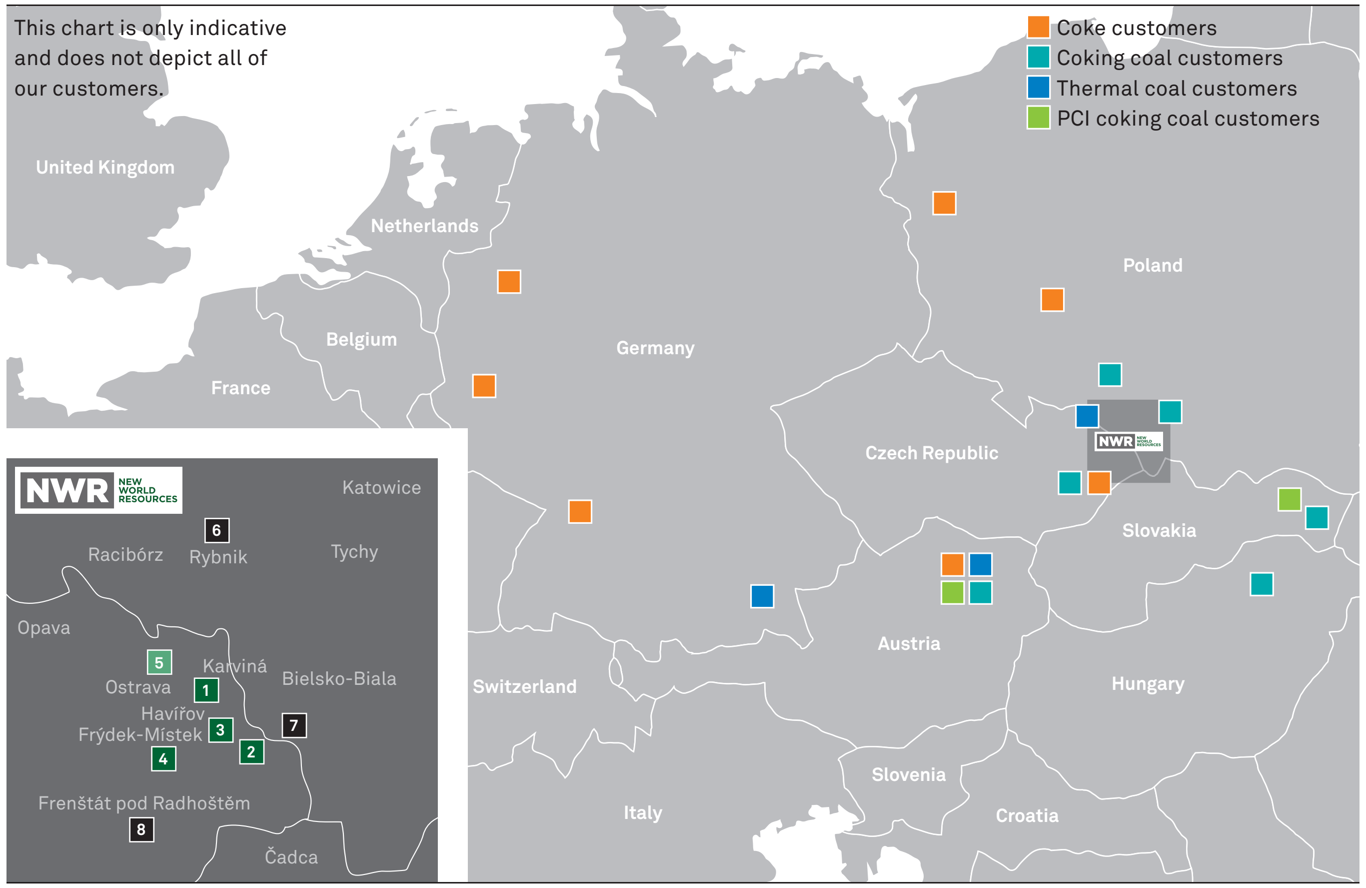






[1] Joint Ore Reserves Committee. NWR currently uses the JORC system to report reserves and resources. The Group employs a certified geologist who prepares the reserve numbers and is the designated 'Competent Person' as defined by the JORC code.

[2] Lost Time Injury Frequency Rate ('LTIFR') represents the number of reportable injuries in NWR's operations causing at least three days of absence per million hours worked including contractors.



Our operations

Our mines are located near to our major customers' operations in Central Europe. We predominantly transport our coal and coke via the railway network directly to our customers.

We operate mining technology for longwall production and gateroad development. We mine deep underground compared to most of the world's coal mines, at around 1,000 metres below the surface. Our deepest active mine floor is located at the Paskov Mine at a depth of 1,120 metres below the surface.

NWR operates one coking plant in Ostrava through its wholly owned subsidiary, OKK. OKK is the largest producer of foundry coke in Europe. The Svoboda facility uses the 'stamp charging process' to produce foundry and blast furnace coke from its four batteries.

1 Karviná mine

2012 coal production: 4.16 million tonnes
Reserves: 84.8 Mt (34.0 Mt proven reserves and 50.8 Mt probable reserves)
Coal type: Semi-soft coking/PCI/Thermal

2 ČSM mine

2012 coal production: 2.87 million tonnes
Reserves: 42.0 Mt (24.1 Mt proven reserves and 17.9 Mt probable reserves)
Coal type: Hard coking/Semi-soft coking/Thermal

3 Darkov mine

2012 coal production: 3.23 million tonnes **Reserves:** 34.5 Mt (14.0 Mt proven reserves and 20.5 Mt probable reserves)
Coal type: Semi-soft coking/Thermal

4 Paskov mine

2012 coal production: 0.95 million tonnes
Reserves: 23.1 Mt (9.2 Mt proven reserves and 13.9 Mt probable reserves)
Coal Type: Hard coking

5 Svoboda coking plant

Capacity: 850 kilo tonnes
2012 production: 680 kilo tonnes
Coke type: Blast furnace/Foundry/Other

6 Dębieńsko development project

Highest-quality hard coking coal asset in Europe
2012 update: Water management issues and potential excessive liabilities mitigated; pursue purchase of surface properties and project value engineering in 2013
Reserves: 190 Mt (190 Mt probable reserves)
Coal type: Premium hard coking coal/Semi-soft coking/Thermal

7 Morcinek development project

2012 update: Officially included in Poland's official list of reserves – crucial step forward to gaining a mining license; exploratory drilling continues; and dewatering underway
Reserves: JORC reserves unavailable
Coal type: Coking coal/Semi-soft coking

8 Frenštát development project

Largest coal resource in Europe
2012 update: Continuation of four-year exploration process started in 2011
Hard coal resources: JORC reserves unavailable; estimated hard coal resources of approximately 1.6 billion tonnes[1]

[1] Estimate based on NWR's own calculations.

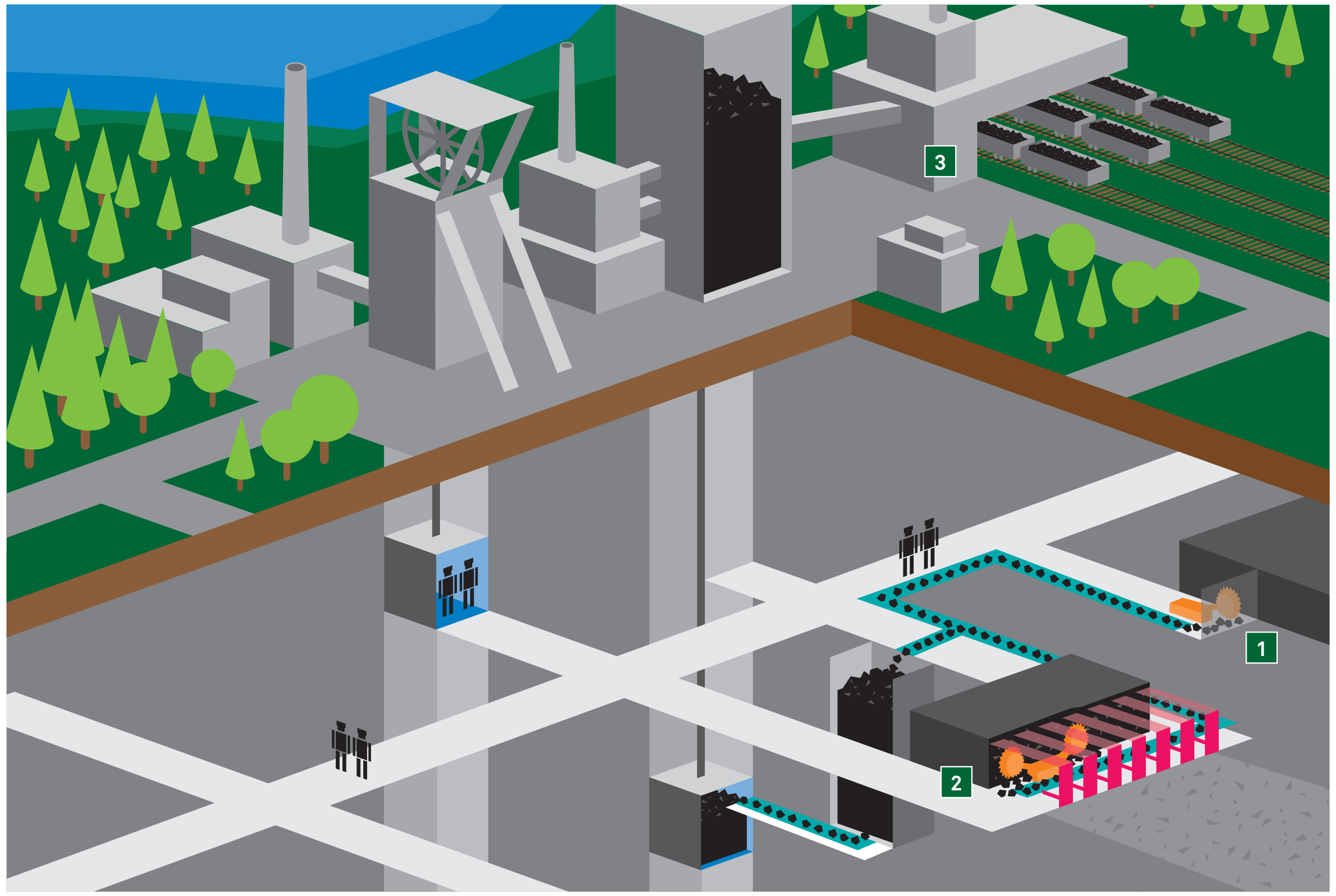
How we produce coal

The construction of a mine starts with sinking two shafts and connecting them underground. One shaft is used to transport personnel and material and the other for the mined raw material. The shafts are also vital for ventilation purposes, controlling the mine gas flow and microclimatic conditions underground, and thus ensuring safety. One shaft brings fresh air into the underground system, and the other, equipped with a mine fan, recovers the air back to the surface. Underground, the deposit is divided into horizontal layers or 'mine floors', and the coal seam is accessed by a system of tunnels or 'gateroads'. Coal is mined top-down and from the outer edges to the centre of the shaft using longwall panels. Once mined, the coal is hauled up to the surface using skip buckets. At the coal preparation plant the coal is washed, sorted and processed to meet customer requirements.

A coal seam needs to be accessed and demarcated by a set of interconnected underground gateroads. These access routes are excavated by roadheaders.

Longwall equipment sets are used to mine coal; kit includes mechanised hydraulic shields, a shearer and an armoured face conveyor.

Once processed in a coal preparation plant, the coal is loaded into rail cars and shipped to customers.

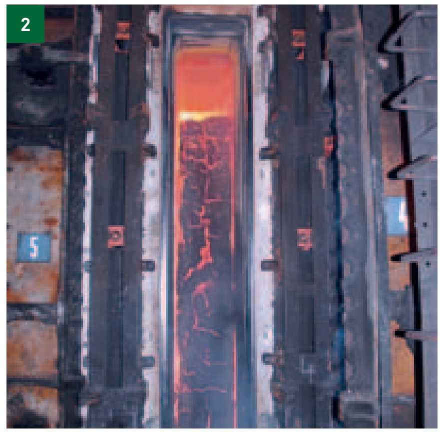


How we produce coke

At the coking plant, selected grades of coking coal are grounded into a fine powder, mixed and compressed into large coal blocks.

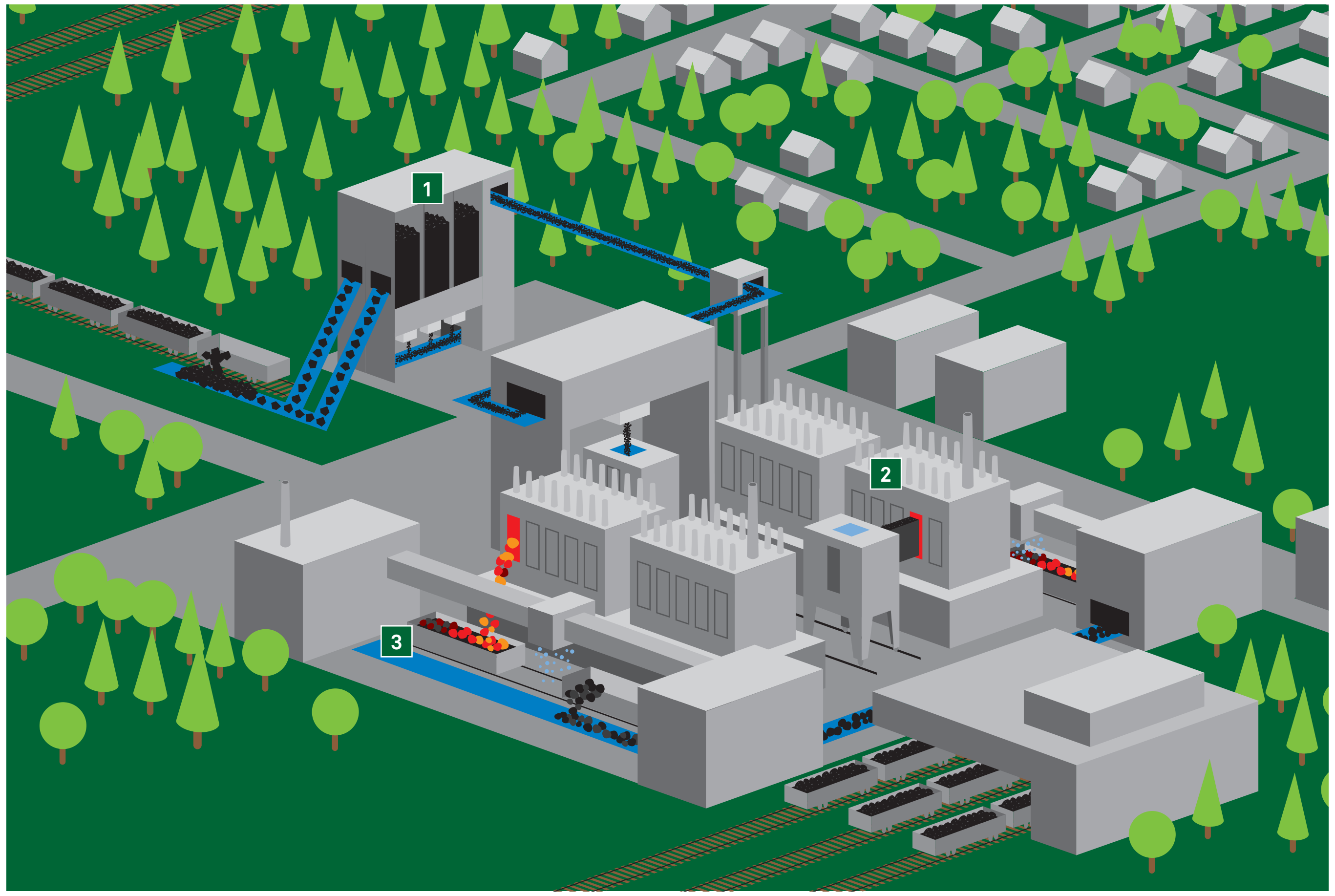
The coal blocks are horizontally inserted into the coking chamber by a charging plate, and heated to temperatures of up to 1,150°C without the access of oxygen to separate all impurities and to produce coke. After 32–34 hours the hot coke is pushed out of the coking chamber into a watering car to be cooled. At the sorting houses, different grades of coke are sorted before being loaded onto rail cars and transported to customers.

Coal storage bins are interconnected with a system of conveyor belts.



Coke being pushed from the coking chamber.

Hot coke is cooled down in the quenching tower.



How NWR creates value

Strong market position

NWR, with four deep working mines and several development projects in the Czech Republic and Poland, is one of Central Europe's leading producers of hard coal and foundry coke, in terms of both quality and quantities sold.

Located within the industrial heartland of Central Europe

NWR's assets are strategically located in the industrial heartland of Central Europe, a region underpinned by strong secular drivers whose industries, in particular the automotive sector, has remained resilient compared with counterparts in Western Europe during the recent downturns. Manufacturers along with the heavy industries are attracted by the region's strong fundamentals including a business friendly environment, competitive and skilled labour force as well as access to an existing infrastructure for the entire carbon-steel supply chain.

European Union structurally short of coking coal

Central Europe, and the wider European Union, is structurally short of coking coal, and is required to import a proportion of its requirements. This is a trend that is widening despite economic pressures. As a regional player with proven strengths and strong customer relationships, NWR is uniquely positioned to take advantage of this industry dynamic by engaging in the import markets. With this in mind, NWR announced in 2013 a strategy to reposition the business as *Europe's leading miner and marketer of coking coal by 2017*.

Proximity to blue-chip customers

Through longstanding relationships with our customers, NWR has gained insights into their specific requirements, enabling the Company to anticipate future changes in demand for different qualities. This encompasses both the quantity and mix of grade of coal and coke required, including the increased take-up of pulverised coal injection coking coal . Coal and coke is predominantly transported via the railway network directly to our customers.

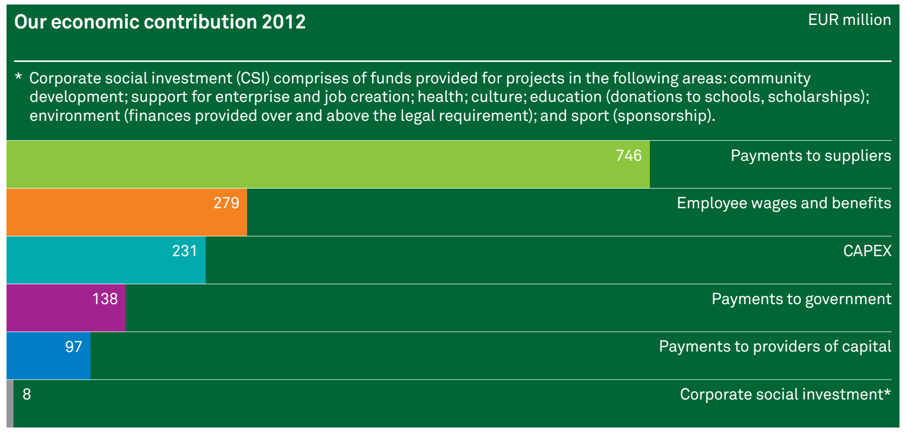
Responsible corporate citizen

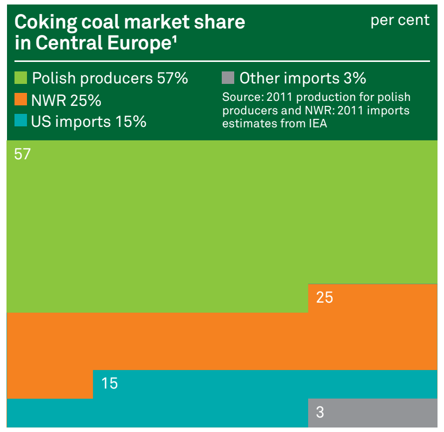
Ensuring that the business is both economically and environmentally sustainable enables the Company to maintain its social license to operate. As one of the largest employers in the Czech Republic, NWR is fully committed to open and regular dialogue with all relevant stakeholders on a whole range of social and environmental issues. Our core areas of focus alongside safety are: land rehabilitation, enhance employee training, reduction of emissions from our coking operation, and to continue to make a significant positive economic contribution to our region.

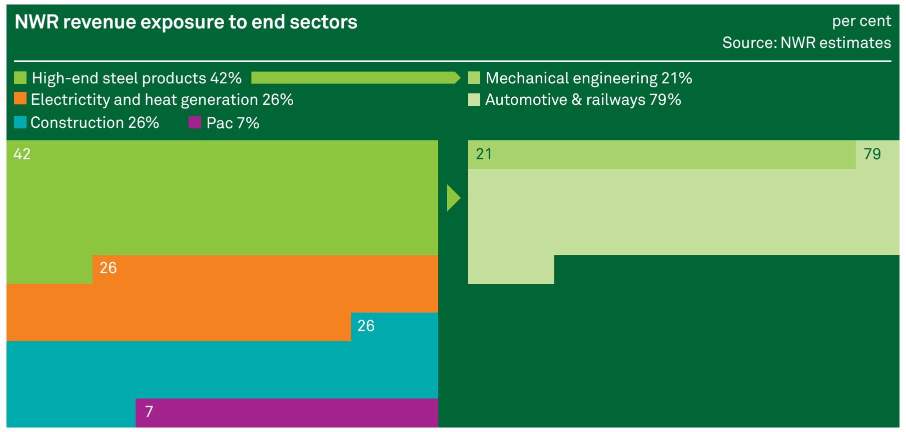
Operational excellence

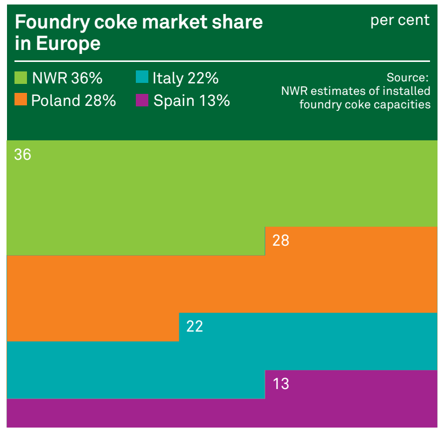
NWR is one of the most efficient miners in the Silesian region with world-class mining equipment and unrivalled levels of technical expertise. Operating mining technology for longwall production and gateroad development, we mine at levels deeper than the majority of the world's miners, at around 1,000 metres below the surface. Longwall productivity continues to increase and in 2012, the average production per longwall per day was 1,800 t/LW, a record-high.

[1] Austria, Czech Republic, Hungary, Poland and Slovakia.









Industry flow chart

Hard coal is divided into three main categories based on its chemical characteristics: coking coal, which is used to produce coke needed in blast furnaces and foundries; PCI coking coal, that can partially replace coke in processing iron ore into crude iron in a blast furnace; and thermal coal, which is mainly used for power and heat generation.

Coking coal

Coking coal, also known as 'metallurgical coal' is used to produce varying grades of coke, principally blast furnace and foundry coke. Coke is produced by heating the coking coal in coking batteries at temperatures of up to 1,150°C to extract volatile components including gases, leaving a highly efficient high-carbon fuel. Coke is one of key ingredients in the steel making process.

Among others there are three main characteristics that determine the quality of the coking coal; the swelling index, dilation and plasticity.

Coke

Foundry coke

Foundry coke is similar in its properties to blast furnace coke, and differs primarily in its greater rigidity and larger size. Foundry coke is not only used for cast iron production, but is also a highly sought-after fuel in the production of basalt-based insulation materials.

Blast furnace coke

Blast furnace coke is used mainly as a reducing agent and a heat source in blast furnaces. The strong chemical properties of blast furnace coke allow it to withstand melting at extreme temperatures, and it also acts as a carrier and filling material in which gas circulates through the blast furnace charge column.

Steel

Pig iron is made by a process of 'smelting' iron ore with a mixture of the coke with some limestone in the blast furnace. The mixture is fed into the top of the blast furnace and air (oxygen) is blasted through the bottom of the unit. The coke burns in the blast furnace at temperatures in excess of 1,400°C, reacting with the oxygen to create carbon monoxide, which in turn reduces the iron ore to pig iron. When iron is smelted from its ore by commercial processes, it contains more carbon than is desirable. To become steel, it must be melted in steel furnaces (e.g. basic oxygen furnace) and reprocessed to reduce carbon and other impurities such as sulphur and phosphorus to the correct amount, at which point other elements (manganese, nickel, chromium and vanadium) are added to produce the exact steel required. This liquid is then continuously cast into long slabs or into ingots. Steelmaking processes are broken into two categories: primary and secondary steelmaking. Primary steelmaking uses mostly new iron as the feedstock, usually from a blast furnace. Secondary steelmaking uses scrap steel as the primary raw material.

PCI Coking coal

Modern blast furnaces allow for around 30 per cent of the coke input to be replaced by less costly, PCI coking coal. This finely pulverised coal is injected along with the air (oxygen) at the bottom of the furnace.

Fact: About 1,400 kg of iron ore, 770 kg of coal, 150 kg of limestone, and 120 kg of recycled steel are used to produce 1 tonne of steel using the blast furnace route.

Fact: The blast furnace reuses up to 30 per cent of steel scrap and the electric arc furnace can recycle around 90–100 per cent of used steel.

Thermal coal

Thermal coal, also commonly referred to as 'steam coal' is mainly used for power and heat generation.

Power & Heat

In electricity generation, thermal coal is burnt to produce heat, which in turn converts water into steam. The steam powers a turbine coupled to an alternator, which generates electricity for the power grid. The steam cools down as it turns the turbine generator and is condensed back to pure water, and the process is repeated. In modern coal plants, the steam is kept at extreme temperatures and pressures at all times to increase the efficiency of the power plant. Around 40 per cent of electric power worldwide is generated using coal.

To generate heat, steam can either be distributed directly to homes and offices etc from the heating plant; or in modern plants, CHP (Combined Heat and Power) technology is used, which is considered more efficient.

Thermal coal is also used in the process of making cement (calcination).

Households & Commercial

Public sector, Industry

Around 40 per cent of electric power worldwide is generated using coal.

Data sources on products:
Sustainable materials brochure, UIT Cambridge Ltd., EUROFER – The European Steel Association.
Data are of informative value only and are based on average numbers.

Cast iron

Casting is used to produce complex shapes such as engineering machinery. Raw iron, steel, nickel and a range of other metals are heated to around 1,800°C in a cupola furnace using foundry coke until they melt. The liquid metal is then poured into a mould (casting), and cooled to form the final shape.

Roling and forming

The process of producing flat and long products depends on the end sector: flat steel products are typically used in car manufacture and in packaging; and long steel products are used in construction of buildings and bridges and to produce railroad tracks and wires.

Components

The properties of steel make it an invaluable commodity with a vast array of uses from producing screws, nuts and bolts to larger products such as cars, airplanes, wind turbines, buildings, and bridges. Steel is 100 per cent recyclable. Demand is principally driven by the urbanisation aspirations of global economies, fundamentally underpinned by emerging market super powers of the likes of China and India.

Products

Mineral wool	1 tonne of rock wool insulation requires 186 kg of hard coal for its production.

Products

Automotive (16%)	**Car** 800 kg steel/car
Mechanical engineering (14%)	**Metal forming machine** 12 tonnes per machine (average weight in trade of CZ)
Structural steelworks (12%)	**Wind mill** 250 tonnes of coal per wind mill on shore. Off shore 350 tonnes
Domestic appliances (4%)	**Washing machine** Average weight in total 36 kg (53 per cent'''of total weight is iron = 19 kg of iron in every washing machine)
Construction (28%)	**Single-sided safety barrier** 16,95 kg of steel per m (type JS3A/N2, ArcelorMittal)
Others (26%)	**Tubes, Metalware, Shipyards, Miscellaneous**

Products

Cement	1 tonne of cement requires approximately 200 kg of coal for its production.

Strategy

JORC reserves as at 1 Jan 2013

374 Mt

1. Operational excellence

— Operational costs containment.
— Continuously improving operational excellence and efficiency through capital investment and improvements in productivity.
— Supplier of choice for customers in our target markets.

2. Growth

— Development of our current mining operations.
— Actively pursuing attractive organic growth opportunities.
— Pursuit of strategic M&A.
— Reposition the business as *Europe's leading miner and marketer of coking coal by 2017.*

3. Sustainable development

— Upholding a strong safety record.
— Maintaining the social license to operate; solidifying our relation-ships with our stakeholders.
— Attracting and retaining the best people in the region.
— Maintaining a strong financial position with a balanced capital structure.

Chairman's Statement

"In my first report to shareholders since joining as Executive Chairman on 1 October 2012, I would like to express how privileged I feel to have the opportunity to lead NWR forward. I truly believe that the Company is a compelling investment story, possessing many unique qualities and strengths that most of our competitors cannot match. It is my intention that NWR explores and realises these to the full."

Gareth Penny
Executive Chairman of the Board

2012 Markets

There can be no denying that 2012 has been a very challenging year with any prospect of recovery in the wider European market becoming seemingly choked by the continuation of structural macroeconomic imbalances in developed markets. Coupled with a slowdown in growth in core emerging markets such as China and India, this has led to a drastic fall in business confidence, and hence business activity, which ultimately has weakened demand for steel and its associated raw materials including coking coal.

The steel-making industry in Central Europe has however, remained relatively resilient during this period of economic weakness, particularly when compared with other parts of Europe. The automotive sector, which is the industry's principal end-customer, has continued to be strong with the Czech Republic and Slovakia now the world's two top car producers per capita. Such manufacturers, along with other heavy industries, are attracted by the region's strong fundamentals including the availability of competitive and skilled labour, supported by an efficient supply chain.

FY 2012 Results

A key achievement for 2012 was reaching our coal production target whilst gaining a further improvement in our safety performance metric, LTIFR[1].

In the coking coal business, continued pricing pressure during the year led to a 30 per cent decline in the price of coking coal year-on-year. However, our sustained efforts on cost control delivered our guided mining unit costs for 2012, which remained broadly flat on the previous year, and partially mitigated the difficult pricing conditions.

Our thermal coal business has suffered from what we believe is a temporary regional oversupply, given the relatively mild winter weather conditions as well as the wider economic slowdown in our local thermal coal markets. Consequently, we built up over one million tonnes of thermal coal inventories by the end of 2012.

[1] Lost Time Injury Frequency Rate represents the number of reportable injuries in NWR's operations causing at least three days of absence per million hours worked including contractors.

The automotive sector, which is the industry's principal end-customer, has continued to be strong with the Czech Republic and Slovakia now the world's two top car producers per capita.

Our coking business profited from lower coking coal purchase costs, and although the price for coke has markedly decreased year-on-year, the overall EBITDA contribution of the segment doubled on the previous year's performance to EUR 12 million.

In January 2013, we took advantage of favourable market conditions to successfully refinance our Senior Notes due in 2015 with a new bond issuance, Senior Notes due in 2021, thus pushing out our overall debt maturity profile.

Strategy

Our underlying strategy is focused on three fundamental pillars: Operational excellence, Growth and Sustainable development. In other words, seeking to supply premium products as cost effectively and in as socially responsible manner as possible, whilst continually looking for ways to grow the business through either acquisition or organic means.

Following a strategic review of NWR in 2012, we announced in February 2013, clear objectives to grow the business. Over the next five years we want to build on the strengths of NWR and evolve the business from what it is today, a regional coal producer and trusted regional supplier with strong customer relationships to *Europe's leading miner and marketer of coking coal*.

We see three core areas to explore to reach this goal: first, to double the amount of coking coal we sell into Europe to 10 million tonnes per year; second, to offer all coking coal qualities to our existing and expanded steel customer base, and evolve into a 'one-stop shop' for European steel customers; and thirdly, to improve our current mining operations in terms of further improvements in safety and operational efficiency.

Despite the current largely negative backdrop, the fundamentals of the region remain intact, and core to this is the simple fact that Europe is short of coking coal. In 2012 there was an estimated supply gap of coking coal in Central Europe of 4 million tonnes reaching around 50 million tonnes in wider Europe, and this trend is increasing despite the economic downturns. Coupled with the influx of heavy industries entering our core market of Central Europe over the past decades and declining coking coal production, it is a logical step forward in NWR's growth plans to engage in the import markets, and to become a 'one-stop-shop' for European steel customers. Pivotal to our successful evolution is to concentrate efforts to further improve our current mining operations.

Whilst our growth strategy is primarily geared towards increasing coking coal sales, thermal coal and coke are, and will continue to be, important parts of NWR's revenue stream going forward.

Taking part in the regional consolidation story continues to be the long-term goal of the business but we are limited by our current position in the market. However, through improving our footprint, and becoming a real market leader in our region, we will be in a better position to return to this ambition.

As a competitive supplier for the regional steel industry, we look forward to capitalising on the opportunities an improved market environment will no doubt offer in due course, and which NWR is well placed to exploit to the full.

Further details of NWR's repositioning strategy can be found on the Company's website or contact the Investor Relations department.

Safety at NWR

Health and safety is an area in which there can be no compromise and is taken extremely seriously at NWR. We remain committed to continuous improvement of our existing positive trends. A 'safety first' attitude needs to be adopted amongst all our staff for the full benefits of the investment we have made in technology and safety equipment to be realised. NWR places emphasis on engendering a safety culture in the organisation through continuous training for staff and the promotion of employee engagement and discipline, along with stronger links between safety performance and financial motivation throughout the Group.

The industry-wide safety indicator, Lost Time Injury Frequency Rate ('LTIFR'), for the year was 7.45 lost-time injuries per million hours worked, which I am pleased

Chairman's Statement

to say is an improvement of 2.5 per cent on last year's 7.64 figure, and reinforces our position as a regional leader in deep underground coal mining safety.

By 2017 we aim to be ranked as one of the top five leaders in safety in deep underground coal mining globally, as measured by LTIFR. On route to achieving this target we want to decrease our present LTIFR further to below 5 by 2015, a target that I am confident that we will be able to reach.

It is an inescapable fact however that NWR mines operate in some of the world's most challenging and difficult geological conditions, and its mining operations are among the deepest in the industry. Whilst this is testimony to the Company's industry-leading technical expertise and the skills of our employees, it is inevitable there are risks. Despite our best efforts, I deeply regret to report that five fatalities occurred during the year and our sincere condolences go out to the families and friends of these colleagues of ours. Any loss of life is unacceptable and lessons from these tragic accidents are taken on board so they are not repeated: we always strive to achieve zero fatalities at our operations.

Coal

Macroeconomic concerns have clearly taken their toll on coking coal prices during 2012, with negotiations in the last quarter of the year reaching USD 165 for a tonne of premium hard coking coal, the benchmark for the first quarter of 2013. However, it is our belief that prices at these levels are unsustainable particularly because spot prices are below the cash costs per marginal tonne of production and there is a limited amount of new supply coming on stream (due to the universal reining in of capital spending within the sector).

Longer-term, we remain confident in the resilience of our business and, in particular, in the attractiveness of the market for coking coal, which remains in structurally short supply.

As a competitive supplier for the regional steel industry, we look forward to capitalising on the opportunities an improved market environment will no doubt offer in due course, and which NWR is well placed to exploit to the full.

Thermal coal remains a key component of the energy mix in the region. However, in the near-term, we continue to envisage tough market conditions for our thermal coal business. This will evidently result in only a gradual sell down of our thermal coal inventory build-up during 2012, principally in the second half of the year.

Coke

As NWR is Europe's largest foundry coke producer, it was never expected that we would come through 2012 unscathed. Production was down 12 per cent at 680 kilo tonnes, with realised prices 21 per cent lower at EUR 289 per tonne at year-end.

Foundry coke, which tends to have a higher margin due to a less competitive market, made up around 70 per cent of sales in 2012, and the remaining sales mix was composed of blast furnace coke and other types. The capability to switch more easily between the various types of coke to suit changes in market demand reflects the investment made in rationalising our coking operations into one single coking plant, which became fully operational at the start of 2011.

Development projects

In 2012 we concluded the technical review of our premium quality coking coal deposit, Dębieńsko in Southern Poland, and I am pleased to report that we remain committed to the project. Dębieńsko is the highest-quality hard coking coal asset in Europe.

The previously outlined risks associated with the water management and potential excessive liabilities are now resolved. However, in light of the current market conditions, we will limit our progress on site in 2013 to the purchase of surface properties and project value engineering. We are budgeting a total capital expenditure of EUR 10 million on the project in 2013.

Sustainability lies at the heart of our operations, with respect to both the management of our current reserve base and in terms of maintaining our social license to operate.

Coking coal reserves at our other Polish project, Morcinek have been included in Poland's official list of reserves. This is an important step forward for NWR in gaining a mining license for the deposit. The project envisages the use of one of OKD's existing mine infrastructures. Currently, the dewatering of the deposit is underway, which is expected to take several years.

At Frenštát, the project remains in exploratory phase, a process that was started in 2011 and will take four years to complete. As the largest coal resource in Europe with an estimated 1.6 billion tonnes of hard coal, Frenštát remains an exciting project for us to explore.

Additionally, development of the Karviná mine to unlock a further 30 million tonnes of coking coal by 2017 continues to progress to schedule.

Sustainability

Sustainability lies at the heart of our operations, with respect to both the management of our current reserve base and in terms of maintaining our social license to operate, which is dependent upon broad community support of our objectives. Achieving such community support involves minimising our impact upon the physical environment, looking after the welfare of our employees and cultivating productive relationships with our wider stakeholders.

Corporate Governance

NWR is committed to upholding the highest standards of corporate governance and anti-bribery policies throughout the Company, adhering principally to the UK Corporate Governance Code.

Notable highlights for 2012 included the Board conducting an external evaluation of its effectiveness. One of the principal recommendations coming out of this review was that both the Nomination and Remuneration Committees should be chaired by an Independent Director: this has now been implemented. Importantly, we changed the details of the Deferred Bonus Plan, building in more long-term incentives with stricter targets for senior management taking effect from January 2013.

Ján Fabián continues to offer his valuable experience to the Board in his new role as Executive Director of NWR and CEO of OKD, succeeding Klaus-Dieter Beck from January 2013.

Finally, the Board completed its redomiciliation process to the United Kingdom, a move that we continue to believe has long-term benefits for our shareholders.

Outlook

Although we expect market weakness to continue in 2013, we are beginning to see encouraging signs that declines in industrial activity and levels of business confidence have started to level out. Longer-term, we remain confident in the resilience of our business and, in particular, in the attractiveness of the market for coking coal, which remains systemically in short supply.

Our key priority for 2013 and in the medium term will be to optimise our existing assets and increase cost efficiency across our operations without compromising safety, production flexibility, or future development at our mines. We have taken many decisive steps to preserve cash in 2013 including significant savings in both capital and operating expenses. Further details are set out on pages 36 and 39 in this section on liquidity and capital resources.

As one of the world leaders in deep-level underground coal mining, we have the technical skills, a relatively unleveraged balance sheet and a strong set of markets to draw upon. These qualities set us apart from many of our peers. We are well placed to further improve and expand our successful mining operations, and truly become the preferred supplier of coking coal for our customers through the Company's repositioning strategy to become *Europe's leading mine and marketer of coking coal*.

Dividend

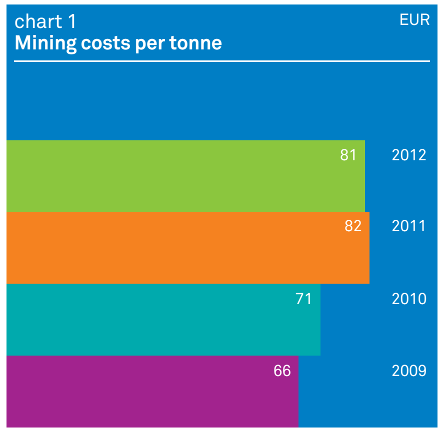
As the Company reported a net loss in the second half of 2012 the Board of NWR did not declare the final dividend. In line with NWR's stated policy of distributing 50 per cent of the Mining Division's consolidated annual net income over the course of the business cycle, NWR paid an interim dividend of EUR 0.06 per share in September 2012 out of the profit achieved in the first half of 2012.

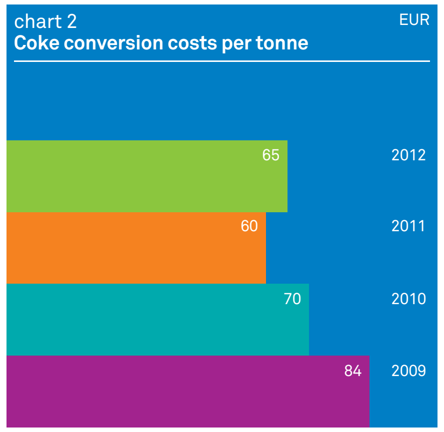
Gareth Penny
Executive Chairman of the Board

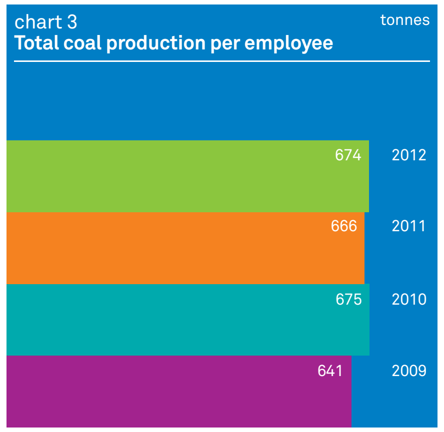
Business strategy

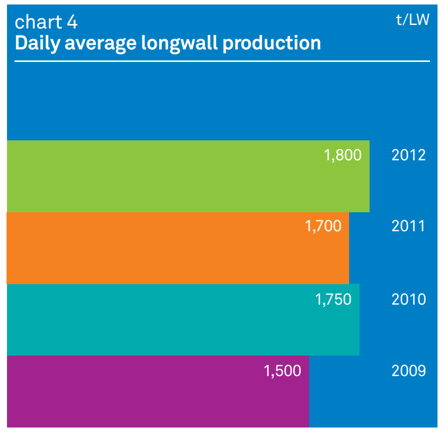
Definitions of individual indicators can be found in the Glossary pages 172–175.

Strategic pillar	Strategic priority	2012 progress	2013 Priorities and targets	Operational KPIs	Risks
1. Operational excellence	Cost containment to mitigate continued tough operating climate.	» Coal mining unit costs at EUR 81 per tonne, broadly flat in the local currency year-on-year. » Coke conversion costs increased in line with expectations for the year, up 11 per cent on constant currency terms to EUR 65 per tonne with a 12 per cent decline in production year-on-year.	» Targetting broadly flat mining unit costs on a constant currency basis. » Broadly flat coke conversion costs on a constant currency basis. » Expected CAPEX reduction to EUR 120–130 million for 2013. » Making regular supplier audits standard practice.	» Chart 1 – Mining costs per tonne » Chart 2 – Coke conversion costs per tonne	» Market risks — Input cost inflation » Operational risks — Geological — Lack of qualified workforce
	Improvement of operational efficiency.	» Achieved incremental cost savings of EUR 12 million through CIP. » Continued roll-out of PERSP 2015 initiatives. » On-going replacement of mining equipment. » Construction of a connecting gateroad between Karviná and Darkov mines completed.	» Capital spending on new mining equipment down 57 per cent y/y. » Capital spending on gateroad development down 24 per cent y/y. » Engineering work in the gateroad between Karviná and Darkov mines.	» Chart 3 – Total coal production per employee » Chart 4 – Daily average longwall production	» Operational risks — Geological — Health and safety — Lack of qualified workforce
	Being the supplier of choice for customers in our core markets.	» Consistently ranked highly by customers in terms of levels of service.	» Strengthen existing partnerships and build on them, and capture new opportunities in Europe.		» Market risks — Customer concentration





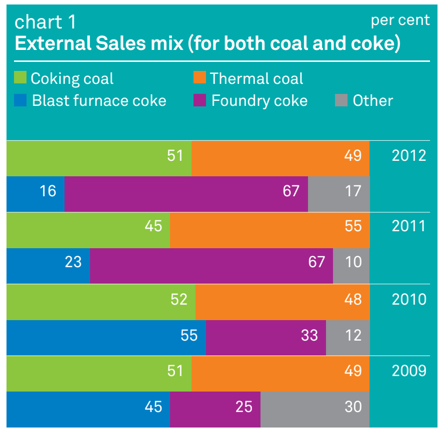


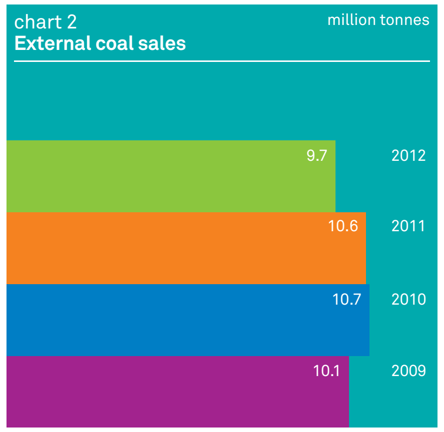


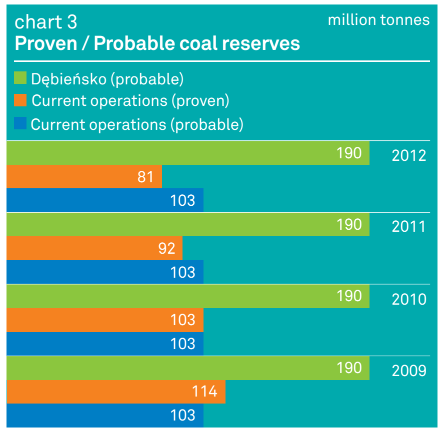
Business strategy

Definitions of individual indicators can be found in the Glossary pages 172–175.

Strategic pillar	Strategic priority	2012 progress	2013 Priorities and targets	Operational KPIs	Risks
2. Growth	Development of current mining operations.	» Around 10 per cent of 2012 CAPEX spent on Karviná expansion project. » Karviná expansion project progressed to plan with surface buyouts and licensing. » Shaft deepening project at Karviná initiated.	» Further headway with shaft deepening process as part of Karvina expansion project. » Apply for EIA for Karviná expansion project. » Continue to hold dialogue with affected stakeholders of Karvina expansion plans.	» Chart 1 – External Sales mix (for both coal and coke) » Chart 2 – External coal sales	» Strategic risks — Future growth — Wider macro » Market risks — Pricing — Input cost inflation — Liquidity — Financing costs — Sales volume » Operational risks — Geological — Lack of qualified workforce » Social and Environmental risks — Environmental — Impact on communities » Legal and regulation — Licensing
	Exploring organic growth projects.	» Concluded technical review of Dębieńsko – risks associated with water management and potential excessive liabilities resolved. » At Morcinek, reserves are included in Poland's official list of reserves – crucial step forward in gaining a mining license for the deposit. » Exploratory drilling continues at Morcinek and de-watering underway. » At Frenštát 4-year exploration process continues.	» At Dębieńsko, progress on site to the purchase of surface properties and project value engineering. Total capital expenditure of EUR 10 million. » At Morcinek, exploratory drilling continues; and detwatering continues. » At Frenštát 4-year exploration process continues.	» Chart 3 – Proven / Probable coal reserves	
	Pursuit of strategic M&A.		» Appraise the market for viable targets.		



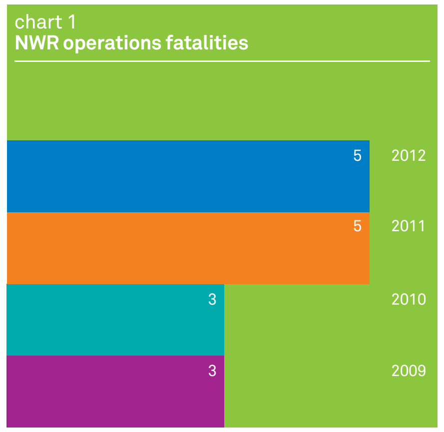


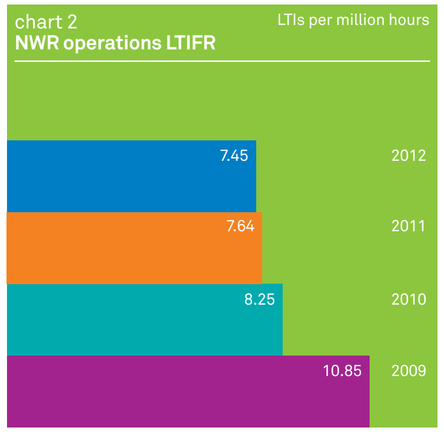


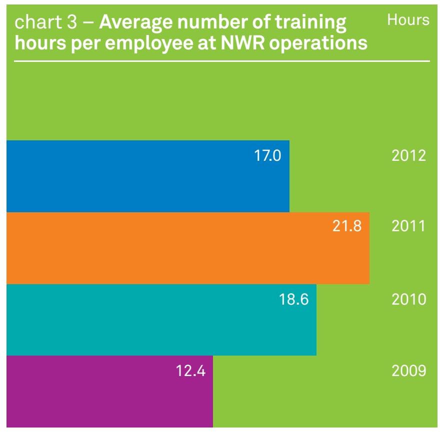
Business strategy

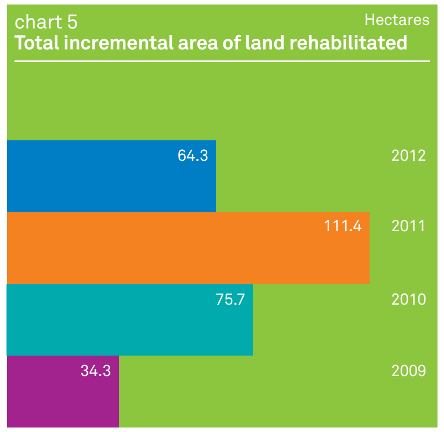
Definitions of individual indicators can be found in the Glossary pages 172–175.

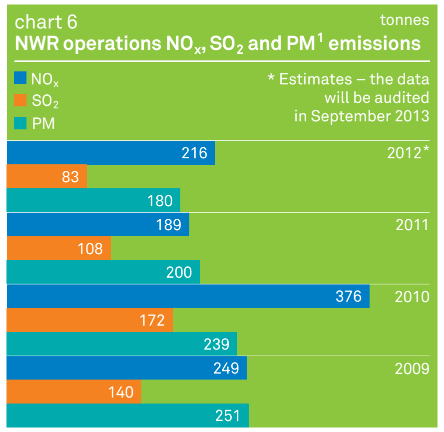
Strategic pillar	Strategic priority	2012 progress	2013 priorities and targets	Operational KPIs	Risks
3. Sustainable development	Improving health and safety performance to become one of the top five global leaders in underground coal mining measured by LTIFR. LTIFR below 5 by 2015. Continued commitment to zero fatalities.	» NWR operations LTIFR fell by 2.5 per cent to 7.45 LTIs per million hours. » Five fatalities recorded during the year. » Average time dedicated to training reached 17 hours per employee and year.	» The Board of NWR has implemented stronger links between safety and financial motivation at all levels of the Group, to promote a 'safety first' culture.	» Chart 1 – Fatalities » Chart 2 – NWR operations LIFTR » Chart 3 – Average number of training hours per employee at NWR operations	» Operational risks – Geological, Health and safety, Lack of qualified workforce
	Strengthening stakeholder partnerships and relationships.	» Strenghtened Group-wide Code of Ethics and Business Conduct policies. » Maintained close relationships with the communities, which we impact. » On-going commitment to the highest standards of corporate governance.	» On-going fous on anti-bribery prevention through a broad Business Integrity Policy training. » Zooming on (gender) diversity and preparation for the introduction and implementation Group Diversity Policy.	» For further KPIs relating to Sustainable Development, please refer to the Sustainability section pp. 62–65	» Operational risks – Health and safety, Lack of qualified workforce » Social and Environmental risks – Environmental, Impact on communities » Legal and regulation risks – Licensing » Legislative risks – Bribery, corruption etc.
	Attracting and retaining the best people in the region.	» Increasing the number of apprenticeships for mining graduates, from the local technical university » Further 'on the job' training for all staff	» Continued emphasis on training to reach at least 20 hours per employee. » New three-year framework contract with Trade Unions.	» Chart 4 – NWR operations employee turnover	» Operational risks – Lack of qualified workforce
	Minimising the impact of our operations on the surrounding environment.	» Application of best-practice operating and mining processes.	» To reduce the number of reclaimed areas into five major projects by 2015.	» Chart 5 – Total area of land rehabilitated » Chart 6 – NWR operations emissons	» Social and Environmental risks
	Maintaining a strong financial position with a balanced capital structure, whilst being able to reduce maintenance CAPEX.	» Successfully managed segmental cost containment measures, meeting guidance.	» Successful refinancing with new bond issuance thus pushing out debt maturity profile. » Targeting significant CAPEX reduction. » Targeting broadly flat segmental unit costs on a constant currency basis. » Continue to apply diligent hedging policy.	» Chart 7 – CAPEX » Chart 8 – EBITDA » Chart 9 – EBITDA margin » Chart 10 – Free cash flow	» Market risks – Pricing, Input cost inflation, Financing costs, Currency fluctuation, Interest rate volatility » Strategic risks – Future growth » Legal and regulation risks – Licensing

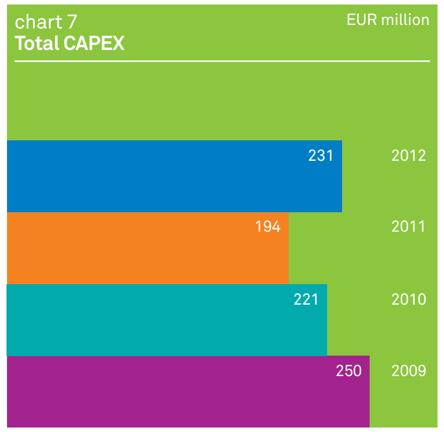


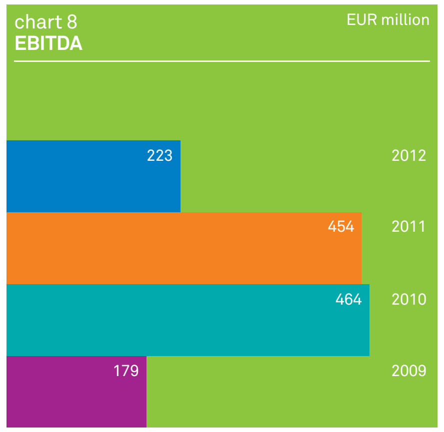


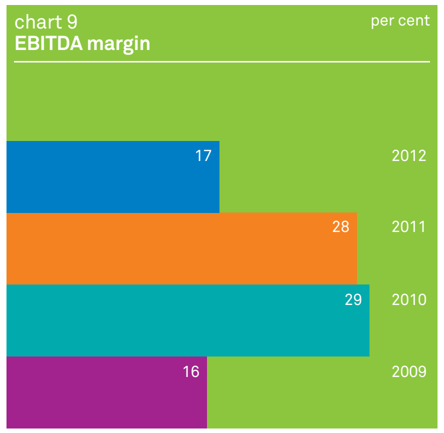


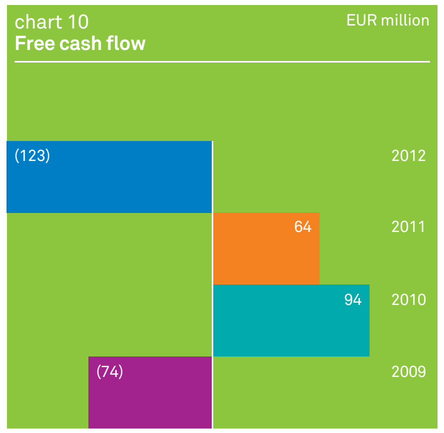












[1] Particulate Matter (PM_x) denotes dust particle pollution at the size smaller than X μm dispersed in the air. The particles smaller size 10 μm identified as PM_{10} are subject to standard monitoring as they can settle in bronchial tubes and cause health problems.

Our markets

Global economy
Since the second half of 2011, there has been a marked decline in global growth rates. Fiscal stimuli, such as the 'cash for clunkers' in Germany in 2010 became increasingly difficult to finance and governments have been forced to cut back on their spending to redress the fundamental issue of unsustainable debt levels.

During the crisis of 2008–2009 the US and Europe were hardest hit, and this subsequently resulted in the ballooning of their national debts. The readjustment of these countries continued to be acutely felt in 2012 with growth rates struggling to gain any real positive traction for most of 2012. The problems in the Eurozone have been exacerbated by the uncertainty over the workings of monetary union and how to solve the sovereign debt issues plaguing much of the continent. Conversely, the growth rates in developing economies have continued to bolster international trade. Chinese growth in particular has continued to replace a lot of the lost supply from other parts of the world.

Figure 1
International coking coal spot prices
Units: USD/tonne
Source: Platts

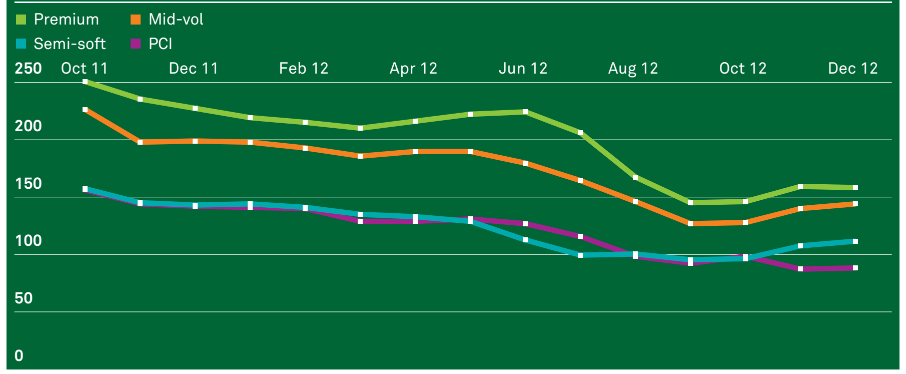
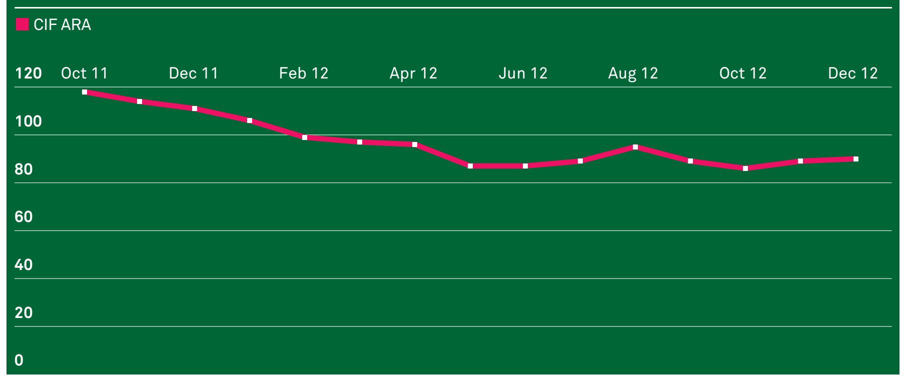


Figure 2
Thermal coal spot prices
Units: USD/tonne
Source: Platts



Central Europe regional economy
The economies of Central Europe ('the region') have remained relatively resilient over the past number of years as a result of prudent economic management and distinct geographical advantages that have helped to shield the region somewhat from weaknesses in Western Europe. A long-standing and solid manufacturing base has been the cornerstone of the region's performance. Poland's economy in particular has been singled out as one of the best performers in Europe with growth rates consistently higher than the European average.

These countries' position next to Germany has undoubtedly contributed to their relative strength as much of the manufacturing and engineering sectors in the region supplies the large German industrial base, which has been growing steadily on the back of increased exports outside Europe. The car industry in the region is especially strong with the Czech Republic and Slovakia noted as the leading auto producers per capita in the world in 2012. The region continues to benefit from lower labour costs compared to the rest of Europe whilst continuing to invest in infrastructural improvements. The industrial regions of the Czech Republic and Poland have the highest share in Europe of employment in industry as a percentage of all economic activities.

However, despite strong underlying fundamentals, the region has also registered slower growth in 2012 as a knock-on effect of slowing exports of manufactured goods from the region, compounded by the general dampened business sentiment towards the Eurozone.

International coal markets

Coking coal
Move from yearly pricing toward shorter term pricing
The dynamics of the international coking coal markets have undergone considerable changes over the past number of years, largely reflecting the emergence of China as the most influential player in world trade and steel production. The former dominance of the Japanese steel mills in settling the terms of yearly contracted coking coal prices came to an abrupt end in 2011 as Chinese demand for high quality seaborne coking coal quickly tightened the world supply. These developments resulted in a more volatile environment for coking coal prices, so much so that a slight disruption or increase in supply now has a major impact on prices. The subsequent move by the larger diversified mining companies to quarterly based contracts added further volatility to the market. During the second half of 2012, the global spot price for different grades of coking coal became more prominent

Poland's economy in particular has been singled out as one of the best performers in Europe with growth rates consistently higher than the European average.

and played a much more influential role in determining how much is paid for a tonne of coking coal.

Reaching the bottom of the market?
Entering 2012 the international spot price for coking coal continued a steady decline that followed from the peak of 2011 when supply disruptions saw prices of premium grade coking coal hit USD 330 per tonne. A stuttering global economy and falling demand and prices for steel throughout 2012 meant that miners were invariably in a position of weakness as they entered quarterly price negotiations with their steel-producing customers. Although the international premium hard coking coal benchmark price managed to remain above USD 200 per tonne for the first two quarters of 2012, falling spot prices undermined the contracted settlement, and prices were forced lower in the second half of 2012 to about USD 165 per tonne, the benchmark for the first quarter of 2013.

Nevertheless, lower coking coal prices have forced some of the marginal, higher-cost suppliers to shut down production as their costs were running higher than what the market was willing to pay. These corrections in supply have already seen the market reach a more balanced position, and it is widely accepted that coking coal prices reached the bottom of the cycle at the end of 2012 and should begin to recover gradually during 2013. During the last few weeks of December the spot prices began to rise, reaching USD 158–162/tonne by the year-end.

Thermal coal
Increase in supply from the US following the shale gas boom
The usual stability of thermal coal markets has been shaken in recent years by the boom in shale gas extraction in the United States, displacing a lot of coal from the electricity mix in the country. For decades thermal coal has been used to generate close to 50 per cent of electricity in the US with huge domestic reserves readily available to supply power plants. But the large amounts of new gas supply available on the US market and the subsequent drop in gas prices have undercut the competitiveness of thermal coal.

Figure 3
European coke spot prices
Units: EUR/tonne
Source: Resource Net

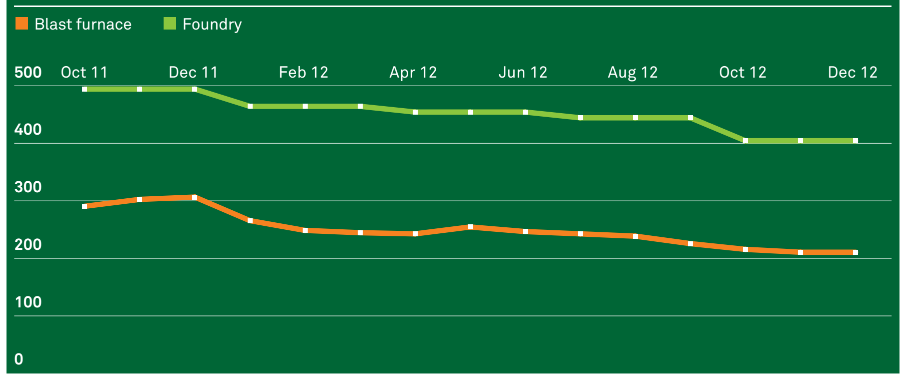
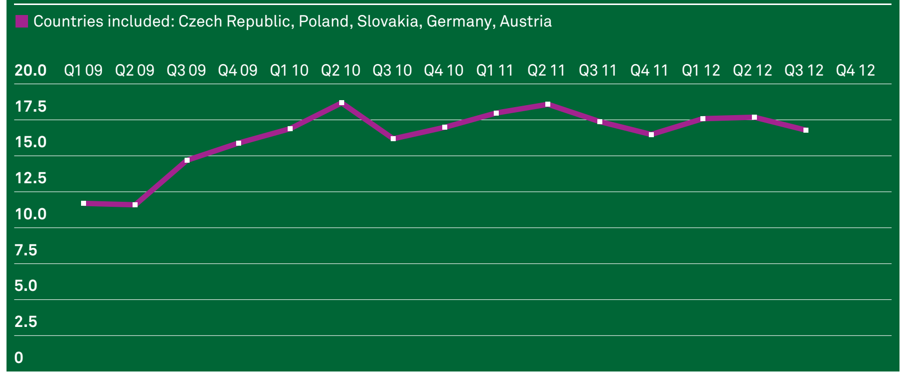


Figure 4
Steel production in NWR customer markets
Units: million tonnes
Source: World Steel Association



This drop in demand for thermal coal has resulted in many US coal miners experiencing severe financial distress and has forced most to cut back production. Consequently, mining companies have been forced to seek out new export markets overseas. The increase in supply to the ARA ports in Western Europe has put downward pressure on thermal coal prices in the continent with spot prices down by about 16 per cent over the course of 2012, trading at about USD 90 per tonne by the end of the year.

Regional coal markets

Coking coal
Prices hit by lower steel sector output
The steel industry in Europe has struggled during 2012 as prices and demand fell in tune with reduced economic activity. Overcapacity of steel production has been acknowledged by the industry as a major obstacle to profitability with calls from the industry for coordinated action to permanently cut output. Production of crude steel in NWR's customer markets reflected these challenging conditions, falling by 4 per cent compared to the previous year. This underperformance of the steel sector was echoed in the regional coking coal markets as prices came under consistent pressure throughout the year tending to follow the downward trends of the international benchmark prices.

Thermal coal
A vital long-term part of the regional energy mix
For thermal coal, prices and demand in Central Europe will tend to be relatively stable since there is little shift in the source of electricity and heat production from year-to-year. During 2012 and into 2013, significant stockpiles of inventories have been built up in the region, due to mild winter conditions, as well as slower economic activity and hence electricity consumption, impacting the pricing environment for thermal coal in the region in 2013.

In terms of a threat coming from unconventional gas sources in Europe, any meaningful supply from shale gas is many years away, if it comes at all. And whilst increased imports of thermal coal from the US have depressed spot prices in Europe, such imports cannot be sustained at current prices.

Our markets

Coke markets

Downward pressure on prices

The coke market in Europe is characterised by the supply and demand balance between the merchant and integrated producers where the merchant coke makers are subject to volatile swings in demand and prices as the market quickly moves in response to the business cycle. There is also a distinction between the two types of coke produced; blast furnace coke is used in blast furnaces where pig iron is produced from iron ore. The end products are flat and long steel products; and foundry coke is used mainly in larger furnaces where cast iron is produced as well as basalt-based insulation material from iron, scrap and other metallic components. A key end market is the automotive industry. There is generally a tighter market in Europe for foundry coke, which means it commands a higher price than blast furnace coke.

As with coking coal, the performance of coke markets will generally reflect the performance of the steel industry. Although coke prices during 2012 did not fall to the same extent as coking coal, there was consistent downward pressure on prices due to falling demand and greater reliance on coke produced in-house by steel makers.

From a global perspective, the coal industry is still in a stage of readjustment as it responds to a world of slower growth and less demand for steel. Coal supply continues to be reduced as mines cut production and suspend previously planned capital programmes, helping to bring the market closer into balance. Many in the industry believe that the trough in the market was reached in the second half of 2012 as prices fell to the marginal cost of production or below. Expectations are that price recovery will be slow as demand from the wider economy takes time to filter through but a tighter coal supply should see international prices rise in the second half of 2013.

Figure 5
Industrial production growth in region
Units: per cent
Source: Goldman Sachs

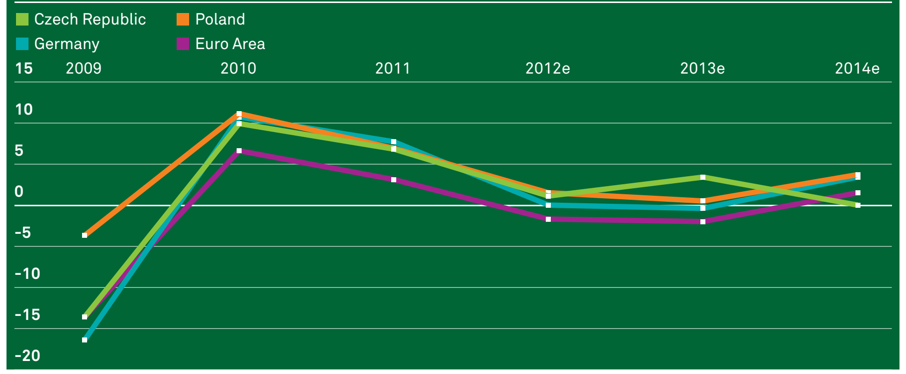


Figure 6
Central European car production per capita
Units: Vehicle production (units) per 100 inhabitants, 2011
Source: OICA

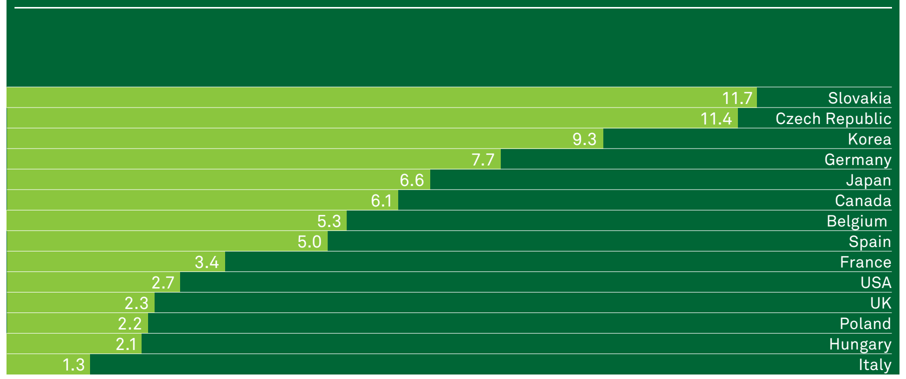
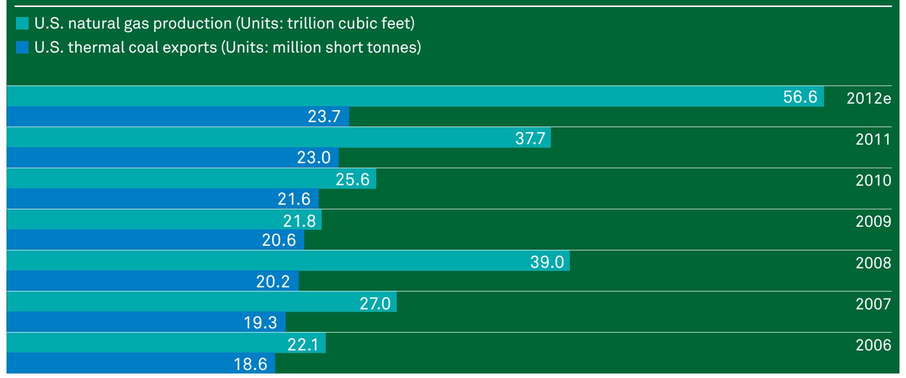


Figure 7
U. S. natural gas production and thermal coal exports
Source: US Energy Information Administration



The estimated supply gap of coking coal in Europe during 2012 was around 50 million tonnes, and is projected to rise to around 70 million tonnes per year by 2021.

Maintaining a strong market position

The industrial landscape of Central Europe is marked by the presence of a strong and interdependent manufacturing base that relies on the supply of large quantities of steel, which in turn requires a supply of a wide range of qualities of coking coal. Car manufacturing is of particular importance to the region, taking advantage of a lower cost base and well-established infrastructure. Central European steel producers also supply to a robust mechanical engineering sector, which requires more specialised, high-quality steel products. This specialised nature of the steel produced in Central Europe is recognised as a definite competitive advantage as overall demand for steel in the continent falls. It is for this reason, amongst others, that the large multinational steel companies have targeted production cuts and plant shut-downs in other parts of Europe whilst continuing to invest in their Central European operations.

Owing to declining coking coal production in Central Europe as well as the geological composition of the coking coal in the Upper Silesian Basin supplementary imports of higher quality coking coal have to be blended with local coal to produce the desired coke properties for steel producers in the region. As a result coking coal from countries such as the US, Canada and Australia are imported into the region. Despite the recent economic downturns, there is a rising trend of imports into the region. The estimated supply gap of coking coal in Europe during 2012 was around 50 million tonnes, and is projected to rise to around 70 million tonnes per year by 2021.

Exploiting the rise of PCI technology

Pulverised coal injection ('PCI'), a partial alternative to the use of coke in steel production, is being installed at a number of NWR's customers' plants, which should require extra supplies of this specific quality of coking coal in the future. NWR is well placed to alter its quality mix to meet this new demand for PCI coking coal, and has planned its production profile in the coming years in anticipation of these changes.

Outlook

Longer term, there is a threat to global coke markets by the withdrawal of the 40 per cent export tax imposed by the Chinese authorities which could see greater supplies hitting international markets. However, it is believed that Chinese exports cannot undercut European prices at their current level with little or no volumes of Chinese coke expected to come into Europe.

Employment in industry as a percentage of all economic activities by regions (2011)

Total EU employment: 218 million

Total EU industrial employment: 38 million, or 18% of all economically active people.

The 5 highest regions

1. Moravian-Silesian Region, Czech Republic. 36.3%
2. North-East (Liberec, Hradec Kralove and Pardubice regions), Czech Republic. 35.9%
3. Central Moravia (Olomouc and Zlin regions), Czech Republic. 35.5%
4. West (Arad, Caraș-Severin, Hunedoara and Timiș counties), Romania. 35.2%
5. Central Transdubia (Fejér, Komárom-Esztergom and Veszprém counties), Hungary. 34.9%

Risk management

Risks are controlled and managed within the relevant operational areas they occur in. It is the responsibility of every NWR subsidiary to actively manage its own risks. Regional management is responsible for identifying, assessing and mitigating risks with the support of risk managers.

Each subsidiary reports to NWR's Audit and Risk Management Committee, the main decision making body.

The Group's Risk Management function is responsible for managing this process, monitoring the key risks and managing them directly where appropriate. This central risk management function is responsible for the implementation of appropriate structures and the co-ordinating of risk management activities across the Group.

Strategic risks

Future growth risks

Description

The growth of NWR is achieved through organic means as well as through acquisition. Organic growth can come through either expanding existing reserves or initiating new projects. Such growth involves risks of geology, cost overruns, delays to the start of production to name a few potential issues.

Acquired growth carries risks of selecting targets that may not fit strategically or are priced inappropriately in the Company's opinion.

Additionally, there is the potential risk of lack of sufficient capital to finance growth.

Mitigation

» Along with internal staff, NWR uses specialised advisers and contractors to produce detailed preparation studies and cost management plans for all its organic growth plans. This includes, and is not limited to, the current expansion of the Karviná mine, and the Dębieńsko project. On the latter, NWR is applying prudent capital spend in 2013 in light of continued tough market conditions.
» NWR continues to monitor potential M&A opportunities that are complementary to its repositioning strategy. We use strict and rigorous investment criteria before proceeding with a potential target.

Wider macro risks

Description

Implementation of additional taxes and regulations in Central Europe thereby threatening the region's attractiveness as a manufacturing destination, resulting in end customers (such as automobile manufacturers) moving their operations away from the region.

Mitigation

» NWR is located in the industrial centre of Europe.
» Central Europe retains a level of resilience compared to Western Europe with an increasing orientation towards high-end steel products of the likes of automotive producers, mechanical engineering as well as high-speed railway.
» Around 40 per cent of NWR's yearly revenue is exposed to high value added steel products. Supplying to this customer group makes NWR less vulnerable to a potential increase in the region's taxation or regulation.

Market risks

Pricing risks (including input cost inflation)

Description

As NWR is highly operationally leveraged, the Company is heavily dependent on global commodity prices for coal and coke as they impact on the prices received.

Such commodity prices, along with input costs (mainly labour, steel and energy), are cyclical in nature and are influenced, among other things, by the strength of the global economic environment, resulting in wide fluctuations.

Additionally, capital goods cost inflation impacting on capital expenditures, and the overall cost of development projects are further risk considerations.

Mitigation

» By applying detailed scenario analysis, NWR's business model takes into account commodity price fluctuations, which are closely monitored.
» Relative flexibility (compared to direct regional peers) in both operating and capital costs allows NWR to relatively adapt quickly to changing market conditions, helping to offset in part market weakness and/or price inflation.
» Contractual pricing for both coal and coke offers a certain degree of stability and predictability.
» NWR successfully implemented cost containment measures during 2012, and is committed to taking further measures in 2013 including substantial CAPEX reduction to EUR 120–130.
» NWR aims to reach annual maintenance CAPEX at OKD of around EUR 100–150 million by 2017.
» NWR is strategically located in Central Europe, an area of relative economic resilience compared to Western Europe.

Sales volume risks

Description

Demand for NWR's outputs is highly dependent on the health of the global and regional economy, and in particular the steel industry, and competition from other suppliers to the region.

NWR relies on third party transport operators to deliver its products to customers, an important component of the overall delivery price.

As with prices, any changes in volumes sold has a significant impact on NWR's financial results due to its high operational leverage.

Development of shale gas deposits may have an adverse effect on NWR's thermal coal sales.

Mitigation

» NWR is one of Central Europe's leading producers of coking coal and the largest producer of foundry coke at a time when the European Union is a net importer of coking coal.
» NWR has longstanding relationships with a blue-chip customer base, with long-term framework agreements in place. Additionally, the Company has strong connections with regional transport operators.
» NWR has close proximity to its customers.
» Shale gas exploration remains at very early stages in Europe with high barriers to entry implying viable commercial production is many years away.

Risk management

Market risks continued

Customer concentration risks

Description

A large proportion of NWR's output is sold to a small number of customers.

The loss of one or more of these significant customers, or their inability to pay, would have a disproportionate effect on the Company's financial results.

Mitigation

» NWR has longstanding relationships with its customers underpinned by long-term framework contracts. Going forward we aim to build on these and diversify the customer base further in line with the Company's strategy.
» NWR can adjust its output, in terms of both volume and quality, according to changes in customer demands.
» These customers have in many cases configured their production facilities to suit NWR's product characteristics.
» NWR carries out regular due diligence reviews on its customers.

Currency fluctuation risks

Description

NWR reports in Euros, invoices in a mixture of Czech Koruna and Euros whilst the majority of its costs and cash outflows are in Czech Koruna and to a lesser extent, the Polish Zloty.

This leads to currency mismatches; should the Euro weaken or strengthen significantly against these two currencies, this can affect the financial results.

Mitigation

» NWR actively manages its exposure to currency fluctuations by applying various instruments such as currency forward contracts, including cap and collar arrangements. The time horizon of these instruments is matched as closely as possible to the forecasts and contracted exposure.
» NWR has a policy of hedging 70 per cent of the Czech Koruna shortfall each year.

Interest rate risks

Description

On the debt side NWR uses a mixture of floating and fixed rate debt, with differing maturities. This leaves NWR potentially exposed to movements in interest rates.

Mitigation

» NWR actively manages its exposure to interest rate and duration risk, among other things by entering into interest rate swaps with maturity profiles matching the underlying debt as closely as possible.

Market risks continued

Liquidity and financing costs risks

Description

Continuing pressure on the global economic environment may impact on NWR's financial health. This can result in significant decrease in liquidity, possibly affecting NWR's ability to fund its operations.

Mitigation

» NWR aims to maintain a prudent gearing policy, strong cash balance and sound funding profile, sufficient to meet its current and foreseeable operating and capital expenditure needs. The Company is planning significantly reduced capital expenditure in 2013, in part to manage liquidity.
» The Company has good relationships with its lending banks. In anticipation of not being able to meet the requirements of one of the covenants in the ECA and RCF at the end of the first quarter of 2013, the Group is currently negotiating revised terms for both the ECA and RCF, including suspension of covenant testing until later in 2013.
» The Company's base case forecasts indicate that it will have sufficient cash available to satisfy its credit needs through at least 31 March 2014 whether or not these facilities remain available. However, in the event that the current low prices for the Company's products persist and the Company is unable to negotiate a further extension of its short term borrowing facilities (or negotiate replacement facilities on acceptable terms), the Company would, absent mitigating actions, need further funding before that time. The Company has a number of mitigating actions available, including accelerating the sale of its inventories, reducing operating costs, factoring receivables and further reducing/deferring of capital expenditure, which it believes would provide sufficient liquidity until at least 31 March 2014.
» NWR is in regular dialogue with the investor community in order to adapt to changing market conditions, and the Company takes full advantage of the flexibility in its capital structure.

Legal and regulation risks

Licensing risks

Description

NWR's activities are subject to licenses and permits – it is therefore vital for the Company's future to retain them.

Mitigation

» NWR monitors political, regulatory and social developments closely and maintains regular dialogue with local, regional and national authorities to ensure compliance with all relevant current and future laws and regulations in the industry. Through regular dialogue with all its stakeholders, NWR also maintains its social license to operate.
» Detailed measures for the mitigation of licensing risks are discussed further in the Sustainability Report 2012.

Risk management

Operational risks

Geological risks

Description

NWR's mining operations are among the deepest coal mines in the world, and the geological conditions are subject to potential unpredictable events that may impact on production.

Mitigation

» NWR uses the latest mining technologies including improved ventilation systems; enhanced protection from rock bounces; as well as improved detection and procedures for dealing with methane leaks.

Health and safety risks

Description

NWR's operations are deep underground with some of the most challenging geological conditions in the market. Such conditions are high-risk meaning exposure to health and safety risks may result in accidents, injuries (including fatal injuries), production disruption, financial penaltities, and reputational damage.

Mitigation

» NWR is a regional leader in safety in deep underground mining.
» Fatalities are investigated by a designated team of experts and, wherever possible, lessons are learnt and further mitigation measures implemented as the Company strives for zero fatalities at its operations.
» NWR remains committed to reaching a rate of less than five lost-time injuries per million hours worked by 2015, and to become a top five global leader in deep underground coal mining by 2017.
» The Board of NWR is committed to a 'safety first' attitude Group-wide through implementing continuous training, and has made stronger links between safety and financial motivation at all levels of the Company.

Lack of qualified workforce risks

Description

NWR has a continuous need to attract and retain highly skilled employees and maintain effective industrial relations, in order to maintain its competitive advantage. If NWR is unable to do so, this may jeopardise the Company's operational performance and growth potential.

Mitigation

» In order to help retain employees, NWR offers attractive compensation packages including support for vocational and secondary mining education.
» NWR aims to attract new employees through close liaison with local schools and universities including the provision of scholarships and first-class training.
» The Company maintains constructive and regular dialogue with all its trade unions.

Social and environmental risks

Impact on community risks

Description

As NWR is the second largest private sector employer in the Czech Republic, it naturally occupies a significant, integral role in the socio-economic fabric of the communities where its operations are located. Consequently, there is a heightened sensitivity that may negatively impact on the Company if NWR is perceived to be not adequately discharging its responsibilities.

Mitigation

» NWR places strong emphasis on transparency and is fully committed to open and continuous dialogue with all relevant stakeholders including, but not limited to, local communities, municipal and state authorities.
» Detailed measures for the mitigation of community risks are discussed further in the Sustainability Report 2012.

Environmental risks

Description

The Group's operations in mining and coking have an impact on the environment in many ways. Inadequate preventative and remedial actions may result in irreversible material damage to the environment and may affect the Group's corporate reputation and ability to operate in its current business landscape.

Mitigation

» NWR undertakes to minimise the impact its operations have on the environment by applying best-practice operating processes and continuously implementing improved technology. In cases where the impact on the environment cannot be avoided, NWR works closely with local communities and the authorities to redress the environmental balance as far as possible: two such strategies would include land reclamation and reduction of emissions.
» NWR focuses on open communication of its negative impacts on the environment and corresponding mitigation measures.
» Detailed measures for the mitigation of environmental risks are discussed further in the Sustainability Report 2012.

Other risks

Bribery, corruption and fraud risks

Description

NWR operates in an industry and countries that have historically been prone to risks of bribery, corruption, fraud or otherwise unethical or anti-competitive behaviour. Such risks can negatively impact on the Group's business through prosecution, fines or reputational damage.

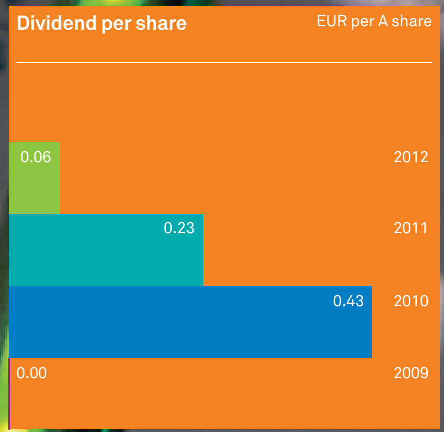
Mitigation

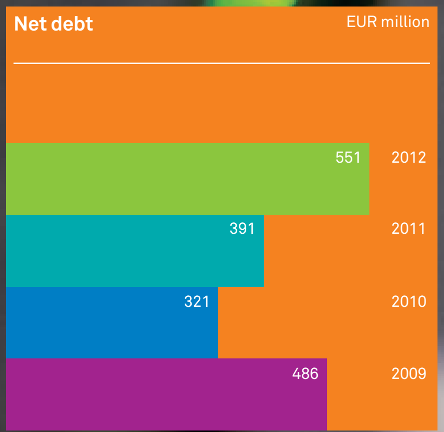
» NWR adopts a zero tolerance policy to bribery, corruption and fraud Group-wide, and procedures governing this are implemented throughout the Company. Employees receive continuous training on these policies.
» NWR regularly carries out reviews of its business partners to strengthen compliance with the Company's approach to bribery, corruption and fraud.

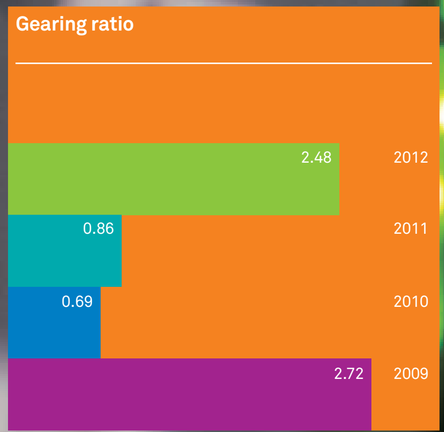
Financial review

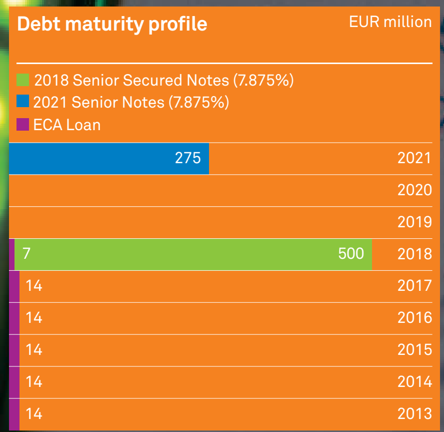
Mining unit costs

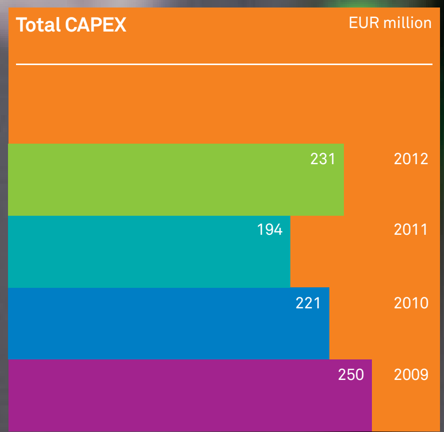
down 1%

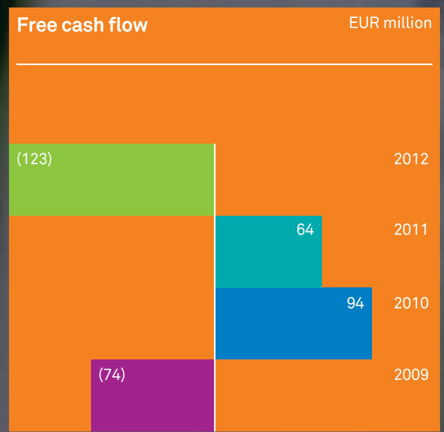












Financial review

“Amidst volatile economic conditions and commodity prices, we have been able to maintain stable mining costs by implementing a number of incremental cost savings across the Group. Whilst we are cautiously optimistic regarding market dynamics in 2013, we remain committed to further improving the efficiency of our current operations and to a continued disciplined and rigorous approach to capital spending.”

Marek Jelínek
Executive Director
and Chief Financial Officer

Highlights

In response to continued volatility in global economic conditions and commodity prices, we further strengthened our focus on cost management, implementing a number of incremental cost savings across the Group during 2012. This allowed us to keep mining unit costs contained, ending the year broadly flat on last year at EUR 81 per tonne. This is no small feat given the significant increases in costs recorded across our industry.

Our revenues for the year declined by 20 per cent to EUR 1,299 million due mainly to lower revenues from coking coal and coke, driven by lower prices for both products. Decreased revenues from thermal coal, driven by lower sales volumes also contributed to the decline on the top line, and this was only partially offset by higher thermal coal prices for 2012 compared to the previous year.

EBITDA for the year declined by 51 per cent to EUR 223 million as our efficiency improvements could not fully offset the decline in our revenues.

We reported a net loss by year-end of EUR 1 million and basic earnings per A share for 2012 was negative EUR 0.02.

Coal

Total production of coal in the year 2012 remained almost flat on last year at 11.2 million tonnes whilst total external coal sales at 9.7 million tonnes were 9 per cent below the 2011 level.

Revenues in the Coal segment declined by 22 per cent to EUR 1,178 million, mainly due to the unfavourable pricing environment for coking coal, coupled with lower sales volumes of thermal coal. This was somewhat offset by the increased proportion of coking coal in the external sales mix, which made up 51 per cent of total external sales volumes (FY 2011: 45 per cent).

The average realised coking coal price in 2012 was down 30 per cent at EUR 124 per tonne, and led to a 27 per cent decline in coking coal revenues for the year of EUR 621 million. 2012 realised thermal coal prices at EUR 74 per tonne represented a 10 per cent increase over 2011 prices, and partly mitigated the 19 per cent decline in sales volumes year-on-year. As a result, thermal coal revenues declined by 11 per cent compared to previous year to EUR 347 million.

Slower thermal coal sales caused coal inventories to increase by 978 kilo tonnes in 2012 compared to an increase of 48 kilo tonnes the year before, resulting in a positive change in inventories of EUR 58 million in 2012.

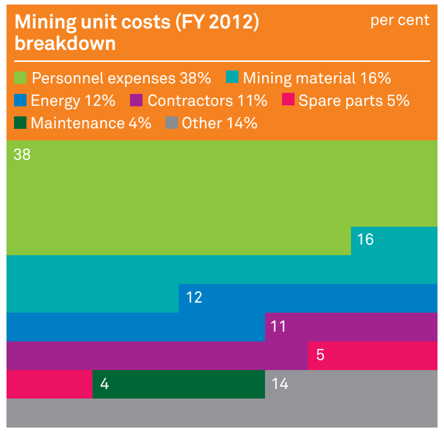
Coke

Our coking business profited from lower coking coal purchase costs, and although the average realised price for coke fell by 21 per cent year-on-year to EUR 289 per tonne, and sales volumes remained flat at 555 kilo tonnes, the overall EBITDA contribution of the Coke segment increased on the previous year’s performance to EUR 12 million.

We maintained a high exposure to foundry coke throughout the year. By year-end our coke sales mix comprised of 67 per cent foundry coke, 16 per cent blast furnace coke and 17 per cent other types.

Operating expenses

Our total operating expenses for the year, net of other operating income and gain/loss from sale of material and property, plant and equipment, including depreciation and amortisation decreased by 7 per cent to EUR 1,302 million. This was mainly attributable to the decrease in costs of external coking coal used for coke production, lower personnel expenses and the absence of one-off advisory expenses related to the reincorporation process in 2011.

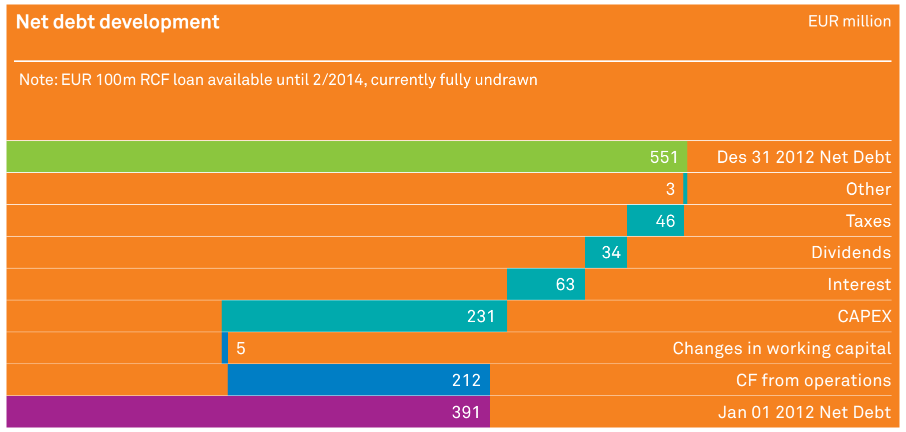


We delivered on our expectations for segmental unit costs year-on-year. As mentioned our mining unit costs were in line with our guidance for 2012; and coke conversion costs ended the year, as expected, up 11 per cent on a constant currency basis to EUR 65 per tonne as a result of a 12 per cent decrease in coke production.

Operating cash flow and CAPEX

Net cash flow from operations after working capital changes, interest payments and taxes decreased by 58 per cent to EUR 108 million compared to 2011, in line with the lower EBITDA for the year.

Total CAPEX for 2012 increased by 19 per cent to EUR 231 million. This included maintenance CAPEX for both the mining and coking segments. The major components were mining equipment renewal, vertical and horizontal mine developments, the Karviná mine expansion projects, as well as safety CAPEX. The expansion projects at the Karviná mine accounted for around 10 per cent of the total CAPEX spend for the year.



Financial expenses and taxes

Net financial expenses have three main components: interest costs, foreign exchange gains and losses, and gains and losses from derivative instruments. We reported a 47 per cent decline in net financial expenses to EUR 47 million in 2012 as a result of much more diligent foreign exchange hedging in line with the Company’s quarterly pricing cycle for the majority of its products.

NWR recorded a net income tax expense of EUR 10 million during the year.

Financial review

Liquidity and capital resources

In light of the continued market volatility, we retained our cautious approach to cash management. At 31 December 2012, our net debt stood at EUR 551 million whilst we had EUR 267 million of cash and cash equivalents, and we ended the year with gearing of 2.5 net debt to EBITDA.

Our capital is made up of a combination of shareholders' equity and long term debt. We are relatively highly geared.

Our long term debt has three components. In January 2013, favourable market conditions allowed us to successfully refinance our Senior Notes due in 2015 with a new bond issuance, EUR 275 million Senior Notes due in 2021, pushing out the maturity profile of our long term debt. We also have EUR 500 million Senior Secured Notes due 2018 and an amortising Export Credit Agency loan (EUR 76 million (2011: EUR 90 million)) with final instalments due in 2018, subject to compliance with certain covenants.

We manage our liquidity through cash (EUR 267 million (2011: EUR 537 million)) and a EUR 100 million Revolving Credit Facility (undrawn at 31 December 2012) which is available to us until February 2014, subject to compliance with certain covenants.

In anticipation of not being able to meet the requirements of one of the covenants in the ECA and RCF at the end of the first quarter of 2013, the Group is currently negotiating revised terms for both the ECA and RCF, including suspension of covenant testing until later in 2013.

Should the negotiations fail or should the Group not be able to meet the requirements of the revised facilities, the ECA loan would have to be repaid and the RCF would not be available to the Company.

Based on its base case forecasts the Company does not believe that it would need to borrow further funds until at least 31 March 2014, whether or not the ECA and RCF remain available.

However, if the currently depressed coking coal prices do not improve (which we consider to be highly unlikely) the Company would, absent mitigating actions, need further funding before that time.

The Company has a number of mitigating actions available including accelerating the sale of its inventories, reducing operating costs, factoring receivables and further reducing/deferring capital expenditure, which it believes would provide sufficient liquidity until at least 31 March 2014.

Dividends

We reported a net loss in the second half of 2012 and in line with our stated dividend policy, the Board of NWR did not declare the final dividend.

In September 2012, an interim dividend payment of EUR 0.06 per share was paid out to shareholders from the net profit made for the first half of 2012.

Our dividend policy is to distribute 50 per cent of consolidated annual net income over the course of the business cycle.

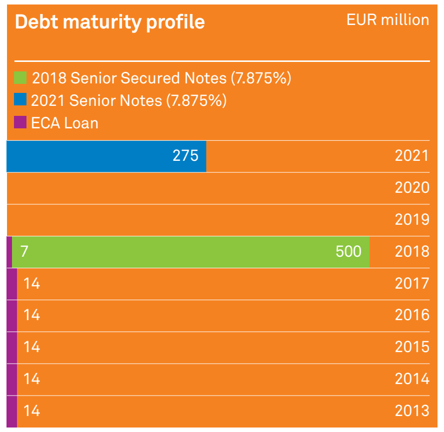
Reincorporation

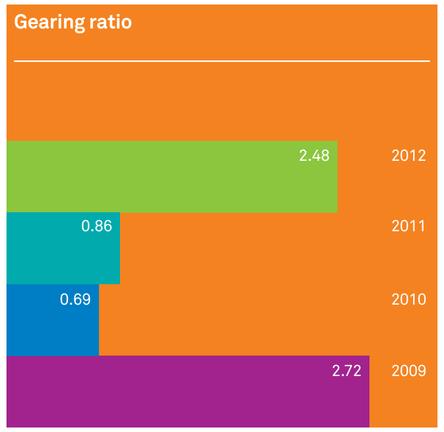
Following our successful reincorporation in the United Kingdom in 2011, we completed the squeeze-out of the remaining minority shareholders for a price of EUR 3.96 per NWR NV share, thereby acquiring all remaining shares in the company. These shares were subsequently delisted from the Warsaw Stock Exchange, marking the final step in the reincorporation process.

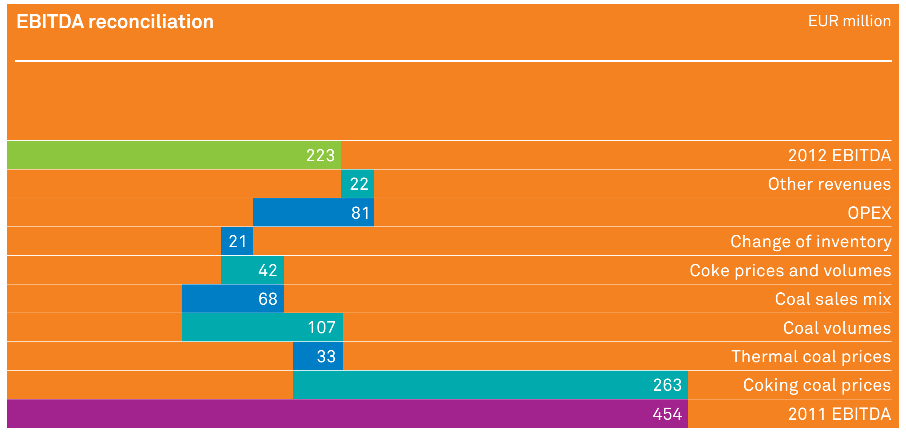
NWR NV is now a wholly owed subsidiary of NWR Plc, which is listed on the London, Warsaw and Prague Stock Exchanges.

Outlook for 2013

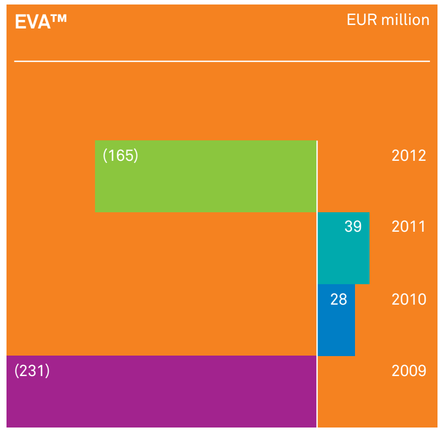
Whilst we expect market conditions to remain volatile into 2013, we are seeing early signs that lead us to believe in a continued momentum during the year. In particular, the upward trend in coking coal prices and a tightening in coking coal supply, as large producers continue to take both existing capacity off-line and cut their levels of growth CAPEX, makes us cautiously optimistic for a recovery in coking coal prices in 2013. On the other hand, the short- to medium term outlook for thermal coal remains somewhat more subdued, as a result of temporary regional oversupply caused by mild winter weather conditions, as well as the wider economic slowdown in local thermal coal markets.







NWR is committed to controlling operating costs, reducing maintenance CAPEX and maintaining optimal capital structure, and we will continue monitoring our progress using, among others, the Economic Value Added ('EVA™') metric.



In 2013, we plan to maintain our strong focus on further improving the efficiency of our current operations to ensure both our mining unit costs and coke conversion costs remain broadly flat on a constant currency basis year-on-year. Given the expected production of between 10 and 11 million tonnes of coal and around 800 kilo tonnes of coke, this effectively implies a reduction in operating expenses for 2013 in absolute terms compared to 2012.

As part of our disciplined and rigorous approach to capital spending, we expect to achieve a significant reduction in capital spending from the current EUR 231 million to around EUR 120–130 million in 2013, including EUR 10 million on strategically important surface properties purchases and value engineering works at our Dębieńsko project. This will be accomplished partly by reducing capital spending on new mining equipment and gateroad development by 57 and 24 per cent respectively on last year. It is important to stress that we always make sure that our efforts on this front will not jeopardise our production flexibility, safety or future development at our mines. By 2017, our goal is to move towards a yearly maintenance CAPEX of EUR 100–150 million for OKD.

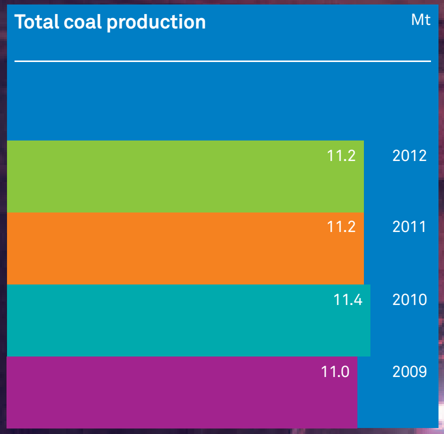
Finally, following our recent debt restructuring, our financial strength remains intact and we remain alert to any attractive growth opportunities should they arise during 2013.

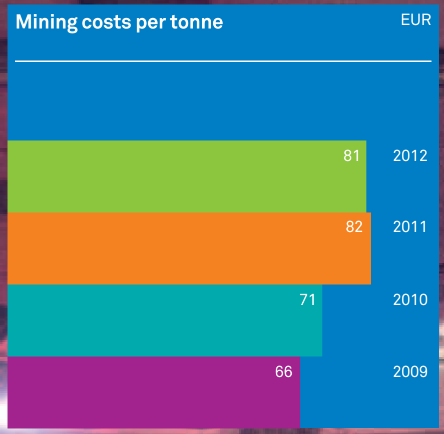
Marek Jelínek
Executive Director
and Chief Financial Officer

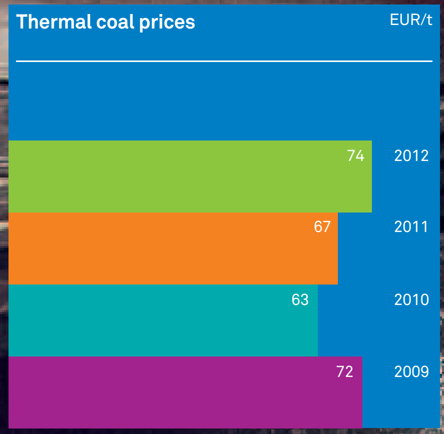
Coal

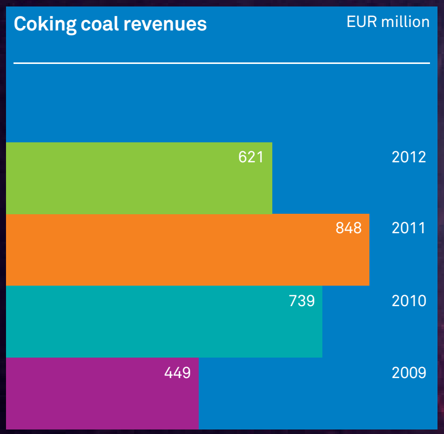
Coal production for the year

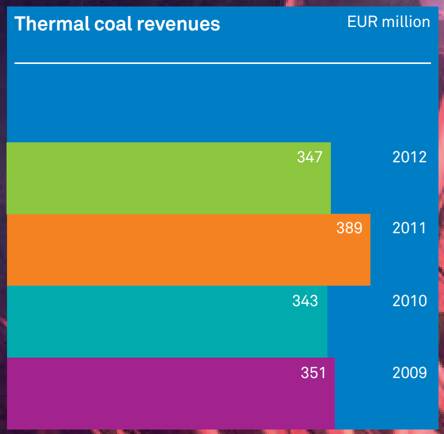
11.2 Mt

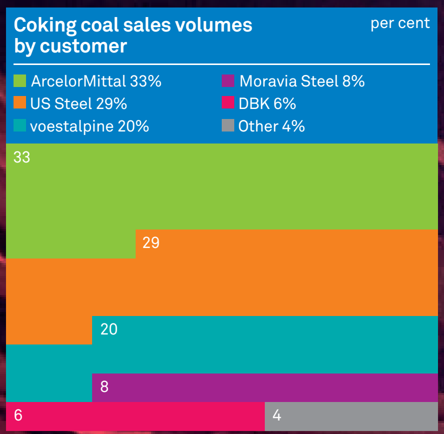


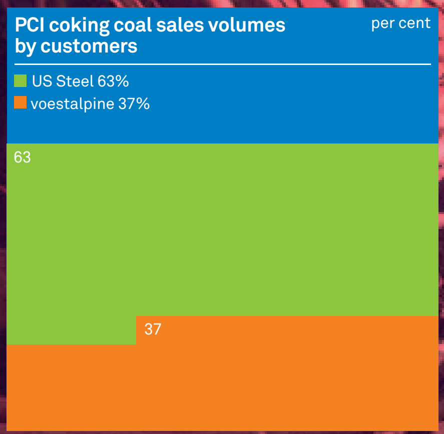


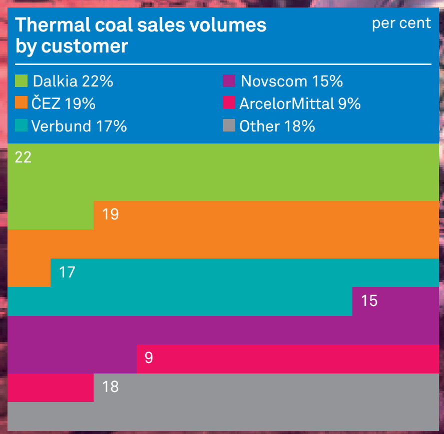












Coal

"Taking clear and decisive action aimed at managing mining unit costs and capital spending amidst continuing challenging market conditions has allowed us to remain competitive whilst retaining the ability to capitalise on future market opportunities. At the same time, our commitment to safety, improving efficiency and focusing on productivity remains uncompromised."

Klaus-Dieter Beck
Non-Executive Director of NWR (until 31 March 2013). Previously, Executive Director of NWR, chief executive of OKD and chairman of the board of directors of OKD (until 31 December 2012).

2012 Highlights

There can be no denying that 2012 has been a very challenging year for the business as it has had to contend with a number of significant headwinds: most notably, the persistent weakness of the European economy, which has continued to be plagued by sovereign debt issues; and further afield, the implications of moderated growth from core emerging markets such as China and India.

It is to OKD's enormous credit that the business has managed to cope with these external pressures through the continuous pursuit of internal initiatives that seek to improve levels of both operational excellence and efficiency. Mining unit costs[1] for the year were kept flat on the previous year in local currency terms, which compared with the performance of some of our mining peers, is a notable achievement.

Safety

Safety is paramount. It is vitally important primarily from a human impact perspective but also from an operational and commercial viewpoint.

LTIFR[2], for the Group in 2012 was 7.45 lost-time injuries per million hours worked, an improvement of 2.5 per cent on 2011's figure of 7.64, which is an encouraging trend and reaffirms our position as a regional leader in deep underground mining safety. However, we cannot afford to become complacent particularly as there is still some way to go to achieving our goal of a LTIFR of less than 5 by 2015, and importantly, to reach our ambition to be ranked within the top five globally for safety in deep underground coal mining by 2017.

Although safety levels can undoubtedly be improved by allocating financial resources, this can never be sufficient on its own. It is critical that this is accompanied by

Mining unit costs for the year were kept flat on the previous year in local currency terms, which compared with the performance of some of our mining peers, is a notable achievement.

a cultural awareness and acceptance of the need to put safety above all other concerns. Mining is an inherently dangerous activity that carries with it many unique risks, particularly in the geological conditions that OKD operates in. For this reason, NWR invests heavily in acquiring modern technologies and equipment, and in providing continuous training and instilling discipline into the minds of our people.

However, despite our best efforts five fatalities regrettably occurred in 2012, serving to remind us of the substantial perils involved in deep underground mining.

Markets

Coking coal

It should come as no surprise that the market for coking coal has been tough in 2012. Unaddressed imbalances in public finances in some Eurozone countries and the US have continued to dominate the market landscape, ultimately resulting in the sustained weakness of business activity. This, in turn, negatively affected demand for steel-making materials, including coking coal. Consequently, coking coal prices have been on a declining trajectory since mid-2011. However, we remain confident that the coking coal price levels seen towards the end of 2012 are unsustainable in the medium to longer term, and we expect these to rise in 2013.

As a raw material used in steel production, the demand of our coking coal is closely aligned with the developments of the steel industry in Central Europe. The region has continued to be more resilient to the wider problems facing the rest of Europe. Notably, the automotive sector, which is our single most important end market, maintained its momentum during the year with the Czech Republic and Slovakia being regarded as the world's two top producers of cars per capita. Car manufacturing, construction, and other heavy industries continue to move into the region to take advantage of the region's competitive and skilled labour, as well as the existing infrastructure for the entire carbon-steel supply chain.

Thermal coal

The slowdown in global economic growth coupled with the shale gas boom in the US has impacted the benchmark thermal coal prices in 2012. With US gas prices at historical lows, power utilities are increasingly using gas rather than coal as their primary input fossil fuel, thereby forcing US producers of thermal coal to find alternative markets. This includes exporting to Western Europe.

Looking more specifically at developments in Central Europe, as thermal coal is primarily used as a fossil fuel for energy suppliers (including electricity and heat suppliers), and with no viable large-scale alternative energy available, the underlying demand for thermal coal is relatively stable in the region. However, during 2012, the mild winter weather conditions as well as wider economic slowdown in our core local thermal coal markets resulted in a regional oversupply. By year-end regional thermal coal inventory levels reached historically very high levels and, although we believe the situation to be temporary, we do not foresee the situation improving significantly during 2013.

Sales

Coking coal

External coking coal sales in 2012 reached 5.0 million tonnes, an increase of 4 per cent per cent year-on-year and accounted for 51 per cent of total external coal sales, compared to 45 per cent in 2011. External coking coal sales comprised 47 per cent mid-volatility hard coking coal, 46 per cent semi-soft coking coal and 7 per cent PCI coking coal.

In 2012 OKD also sold 0.5 million tonnes of coking coal to OKK, NWR's coke producing subsidiary.

The average coking coal price realised in 2012 was EUR 124 per tonne, a decrease of 30 per cent on 2011.

The average agreed blended price of coking coal for delivery in the first calendar quarter of 2013 is EUR 103 per tonne, an increase of 3 per cent compared to the fourth quarter 2012 realised price. This average price is based on expected Q1 2013 coking coal sales of approximately 45 per cent mid-volatility hard coking coal, 47 per cent semi-soft coking coal and 8 per cent PCI coking coal.

Thermal coal

Thermal coal sales for the year were 4.7 million tonnes, a decrease of 19 per cent year-on-year and comprised of 79 per cent thermal coal and 21 per cent middlings, which are a low calorific type of thermal coal.

[1] Mining unit costs reflect the operating costs incurred in mining both coking coal and thermal coal. They exclude transportation costs and D&A.
[2] Lost Time Injury Frequency Rate represents the number of reportable injuries in NWR's operations causing at least three days of absence per million hours worked including contractors.

Coal

The average realised price for thermal coal sales for 2012 was EUR 74 per tonne, a 10 per cent increase on the previous year.

Unlike coking coal, which is priced on a quarterly basis, thermal coal is typically priced on a calendar-year forward basis. However, deteriorating market conditions have caused our 2013 thermal coal pricing to deviate from this trend. An average price of EUR 60 per tonne was concluded for 2013 thermal coal deliveries, representing a 19 per cent decrease compared to the 2012 realised price. Approximately 80 per cent of the thermal coal prices have been concluded on the basis of the standard yearly pricing cycle, while a quarterly pricing period has been applied to approximately 20 per cent of deliveries. This average price is based on an expected calendar year 2013 mix of 85 per cent thermal coal and 15 per cent middlings.

Costs and revenues

Revenues for the Coal segment decreased by 22 per cent to EUR 1,178 million principally due to the challenging pricing climate for coking coal coupled with lower thermal coal volumes. This was partially offset by the increased proportion of coking coal in the external sales mix, which made up 51 per cent of total external sales volumes.

Mining unit costs of EUR 81 per tonne, which include personnel costs, costs of material and energy and service costs, remained broadly flat year-on-year on a constant currency basis due to stringent cost control across all cost categories.

The Coal segment generated EBITDA of EUR 222 million in 2012, a 54 per cent decline on 2011. The EBITDA margin was 19 per cent.

Reserves

One of the largest, richest sources of hard coal in Central Europe, the Upper Silesian Coal Basin underpins the long-term prospects of our mining operations in the region. Our total JORC reserves were 374 million tonnes as at 1 January 2013 with 184 million tonnes at our current operations in the Czech Republic (81 million tonnes proven reserves and 103 million tonnes probable reserves) and 190 million tonnes at our development project Dębieńsko in Southern Poland.

Efficiency enhancements

We are continually striving to increase the efficiency and effectiveness of our operations and 2012 was no exception to this.

Key to these efficiency enhancements are two principal initiatives: the PERSPective 2015 ('PERSP 2015') initiative and the Continuous Improvement Programme ('CIP'). PERSP 2015 was launched in 2010 and focuses on five main areas: People, Efficiency, Reserves, Safety and Predictability intended to optimise the utilisation of the POP 2010 mining technology acquired in 2008–09. CIP is designed to encourage employees to submit ideas and suggestions that may help to promote safety, efficiency or cost savings. If a cost saving is achieved as a result of a suggestion submitted under the programme, the reward for the employee is linked to the amount saved. Incremental cost savings from CIP in 2012 reached EUR 12 million. Alongside these initiatives, there is the regular replacement cycle of older mining production equipment and further enhancement of our infrastructure.

At the Karviná mine, we concluded the construction of a new underground central air conditioning unit. At the start of 2013 we completed the underground connecting gateroad between the Karviná and Darkov mines. This important milestone allows us to close one preparation plant in 2013 when both mines start using one centralised preparation plant with a maximum capacity of 4.5 million tonnes per year.

Outlook for 2013

Our principal priority for 2013 will remain cost control and watchful management of capital spending whilst not compromising our commitment to safety, improving efficiency and long-term productivity, which are all areas largely within our control. Taking clear and decisive action promptly has helped NWR to remain competitive and well positioned to withstand wider market downturns, whilst retaining the scope to profit from the inevitable upturn.

Trading conditions in 2013 will remain challenging as the coal markets continue to grapple with both demand and supply side issues. On the supply side, however, we are beginning to see some encouraging signs with regards to reductions in the production of coking coal, and this should help to bring the market back into balance, which will in turn offer support to coking coal prices. Furthermore, the increased adoption of PCI coking coal by steelmakers represents an opportunity for us, and this is an area we intend to target more going forward.

Our principal priority for 2013 will remain cost control and watchful management of capital spending.

Finally, I would like to thank my colleagues at NWR for the encouragement, support and friendship they have given me since my appointment as CEO and Chairman of OKD in 2007. Ján Fabián officially assumed my former role and responsibilities on 1 January 2013. Having previously occupied the dual roles of Chief Operating Officer for NWR and Vice Chairman of the OKD Board of Directors, Ján is vastly experienced, and I have every confidence in his ability to continue to lead the Company on the path we have set together.

Klaus-Dieter Beck
Previously, Executive Director of NWR, chief executive of OKD and chairman of the board of directors of OKD until 31 December 2012

Safety

An underground employee tracking system enhances the safety of miners

The safety of our mining employees remains a top priority in our business as we strive for zero harm in an inherently risky business. This year we continued to roll out further safety systems in underground areas known to be highly seismic.

The new system is an improved tracking device better able to pinpoint all our staff underground as it allows for a wider range of tracking alerts to be configured, including a breach of the maximum headcount and the movement of unauthorised personnel into restricted areas. Importantly, it is better able to detect the location of our miners during an underground bounce, allowing the safety teams to work quickly and efficiently in accident areas. The new system was first deployed in 2011, and now covers all underground sections classified as high-risk bounce-prone zones.

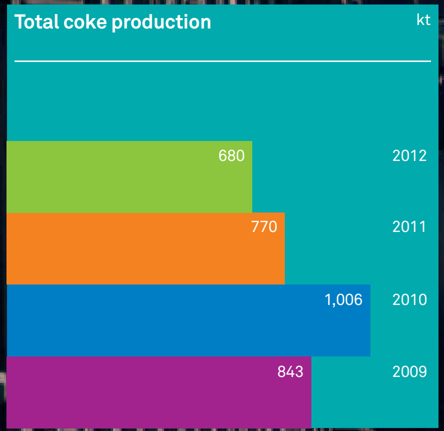
Miners are identified by ultra high frequency ('UHF') tags that are placed in their cap lamp are charged from the lamp's battery. The tags are unique to each miner and contain detailed information about the individual. Tag readers are located at specific points underground, which allow the over-ground control room to track and record personnel movements effectively. The back-up power source for the lamp ensures that the UHF is kept active and should that fail, there is a secondary back-up source for the tag itself. The system can also track miners if the recommended methane threshold concentration of 1.5 per cent is exceeded or if there is a power outage.

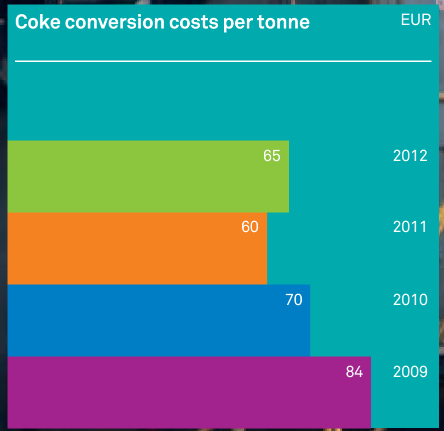
Additionally, the tags are hooked up to an underground communication system. If the control room needs to contact a miner, the individual is notified by flashing his headlamp or the LED on his battery pack to come to the closest transceiver, located every 40 metres underground. There is also a button on the battery pack to confirm the individual has received the message and/or send a pre-defined text back to the control room.

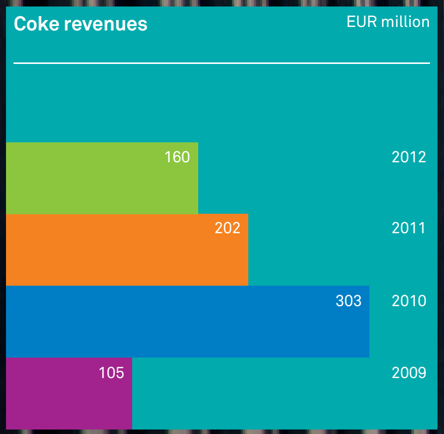
Coke

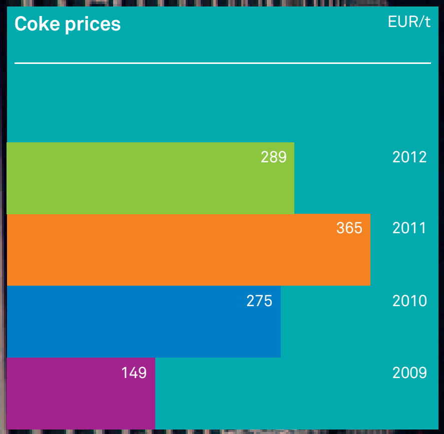
Foundry coke in sales mix

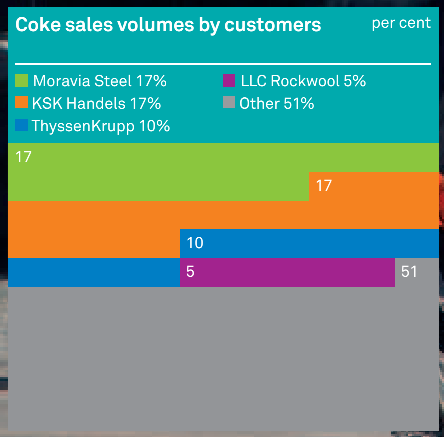
67%











Coke

"Our new coking plant continues to operate smoothly, offering an enhanced ability to switch production quickly between the varying types of coke to suit changes in market demand. In 2012, we introduced a number of incremental improvements to our processes focusing, in particular, on overall efficiency levels and improving safety standards whilst minimising our impact upon the environment."

Michal Kuča
Director of OKK and chairman of the board of directors of OKK

Highlights 2012

Following a period of transformational changes that resulted in the successful restructuring of our coke operations, in 2012 our key focus was on efficiency and adapting effectively to tough market conditions.

We are very pleased to have been able to contain unit conversion costs as guided – an increase of 11 per cent on a constant currency basis, in line with a 12 per cent decrease in our production volume year-on-year. This is testamony to our strict cost discipline, which along with safety, lies at the heart of all our activities.

As part of this drive, we introduced a number of incremental improvements to our processes in 2012. Firstly, the new conveyor for coke dust was constructed to replace railcars, reducing our internal coke dust transportation costs by up to 80 per cent. The second stage of the reconstruction of coke storage containers was realised and work for the accreditation of our new chemical laboratory was completed and certified. Finally, the SAP human resources management and payroll module was implemented at OKK to further streamline this function. These and many other day-to-day initiatives ensure our continued success in producing competitively priced premium quality coke.

Market conditions

OKK faced challenging trading conditions in 2012, in particular during the second half of the year. Although steel production in Central Europe remains relatively resilient, overall demand for steel products has declined, particularly in the car industry in Western Europe. This has inevitably impacted on sentiment in our core markets. Some steel mills and foundries in Central Europe continued to operate at reduced levels during 2012.

There has been a more significant shift in the overall European coke market dynamics, as those regional producers with the ability to refocus their efforts on producing a greater proportion of foundry coke in their sales mix have started to do so. NWR remains the market leader in the European foundry coke market, with a 36 per cent market share, based on the installed capacity.

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Operational performance

Our new coking plant reconstructed during 2009 - 2010 continues to operate smoothly, adapting production schedules to meet the changing requirements of our customers. As expected, coke production in 2012 was 680 kilo tonnes, approximately 12 per cent lower than in 2011. During the year, we not only managed to meet our 2012 production, sales and conversion costs guidance but also delivered a high proportion of foundry coke in the sales mix despite the dampened sentiment in the European coke market. The improved ability we have to switch between blast furnace and foundry coke in our coke batteries has allowed the business to adapt to changes in market conditions.

Coke sales

Coke sales for 2012 were flat on the previous year at 555 kilo tonnes, and comprised approximately 67 per cent foundry coke, 16 per cent blast furnace coke, and 17 per cent other types. Coke prices are set quarterly and the average blended realised price during 2012 was EUR 289 per tonne, a decrease of 21 per cent on the previous year.

Financial performance

For 2012 Coke segment revenues decreased by 18 per cent year-on-year to EUR 192 million due to lower coke prices. However, controlled coke conversion unit costs[1] and mainly a lower cost of inputted coal (both internal and external), meant the impact of lower revenues on the operating result was muted, and the Coke segment EBITDA increased on the prior year to EUR 12 million.

[1] Coke conversion costs per tonne reflect the operating costs incurred in producing all types of coke and exclude the costs of inputted coal, transportation costs, and D&A.

Safety

Improving safety and promoting health at work are among OKK's key priorities, as are activities aimed at motivating employees and strengthening their sense of responsibility with regard to their own as well as their colleagues' health.

In addition to investments in technology, we place strong emphasis on staff training in the field of work safety. We also have contingency and crisis communication plans in place that can be activated should a dangerous situation arise.

Continuous Improvement Programme ('CIP')

CIP, aimed at encouraging employees to submit innovative ideas and suggestions that could lead to a meaningful improvement in safety and efficiency, yielded 31 ideas at OKK and three thematic assignments during 2012. This contributed to total savings of EUR 3 million at OKK since the inception of the Group-wide programme in 2010, a figure well above our expectations.

Caring for the environment

In 2012, we launched a number of initiatives aimed at further reducing our impact on the environment, over and above the regulatory requirements. In the recently refurbished Battery No. 8, we installed mini rising pipes to reduce gas emissions during the coking process. As part of the EU-funded 'Operational Programme: Environment', refurbishment of the quenching towers at Battery No. 9, and the newly constructed Battery No. 10 were completed, resulting in lower Particulate Matter ('PM_{10}')[2] emissions.

We are pleased to see that our relentless efforts in this area are yielding tangible results, as confirmed by a study published

In 2012, we launched a number of initiatives aimed at further reducing our impact on the environment, over and above the regulatory requirements.

[2] Particulate Matter (PMx) denotes dust particle pollution at the size smaller than [X] µm dispersed in the air. The particles smaller size 10 µm identified as PM10 are subject to standard monitoring as they can settle in bronchial tubes and cause health problems.

Coke

by the Czech National Institute of Public Health that showed that total emissions into the atmosphere from OKK are falling.

One of NWR's core sustainability commitments is to keep low level of harmful emissions from the coking operations.

In 2013, OKK will be installing new equipment for the elimination of volatile organic compound emissions from its desulphurisation unit. Further initiatives planned include the elimination of PAHs (Polycyclic Aromatic Hydrocarbons) and BTXs (Benzene, Toluene and Xylene) from the coking plant's wastewater, and optimisation of pressure and temperature ratios in individual coke oven battery chambers aimed at improved heating efficiency of coking batteries and lower gas emissions.

Long-term commitment to our people

OKK takes a long-term approach to the selection of capable, educated and loyal employees, placing great emphasis on a system of performance-related remuneration and benefits. The continued strength of our relationship with our employees is reflected in the low labour turnover rate of less than 2 per cent in 2012.

In addition to the implementation of the SAP human resources management and payroll module, in 2012 we adopted the Group's Code of Ethics and Business Integrity Directive. Furthermore, we continued to provide a number of employee benefits including vocational training, additional financial allowances and reconditioning stays, whilst looking after the health and safety of our employees and providing them with an opportunity to play an active part in OKK's activities through programmes such as CIP.

Outlook for 2013

Looking ahead, despite some positive signs, we expect the situation in Europe to remain volatile during 2013.
Our production target for 2013 is 800 kilo tonnes as we seek to take advantage of what appears to be an ever widening spread between the price of coking coal and the average blended price for our coke. We expect to sell 700 kilo tonnes of coke in 2013, and continue our focus on the foundry coke market in the region.

The average price of coke agreed for delivery in the first calendar quarter of 2013 is EUR 253 per tonne, a 1 per cent decrease compared to the fourth quarter 2012 realised price. This average price is based on the expectation of Q1 2013 sales of approximately 76 per cent foundry coke, 15 per cent blast furnace coke and 9 per cent other types.

In response to the continuing difficult market conditions, we plan to maintain a strong focus on cost containment by making decisions that will support the business in the short-term whilst not jeopardising our ability to capitalise on more favourable market conditions when sentiment inevitably improves.

Michal Kuča
Director of OKK and chairman of the board of directors of OKK

Operational efficiency / employee engagement

CIP in practice at OKK

The Continuous Improvement Programme ('CIP') at OKK has strengthened employee engagement at the Svoboda coking plant. Since its implementation in 2010, 88 ideas to improve the operations have been submitted, and 74 of those have been approved. The ideas are often better solutions to existing practices, covering a wide range of topics from enhancing safety and improving operational efficiency to environmental improvements. Two such ideas are summarised below.

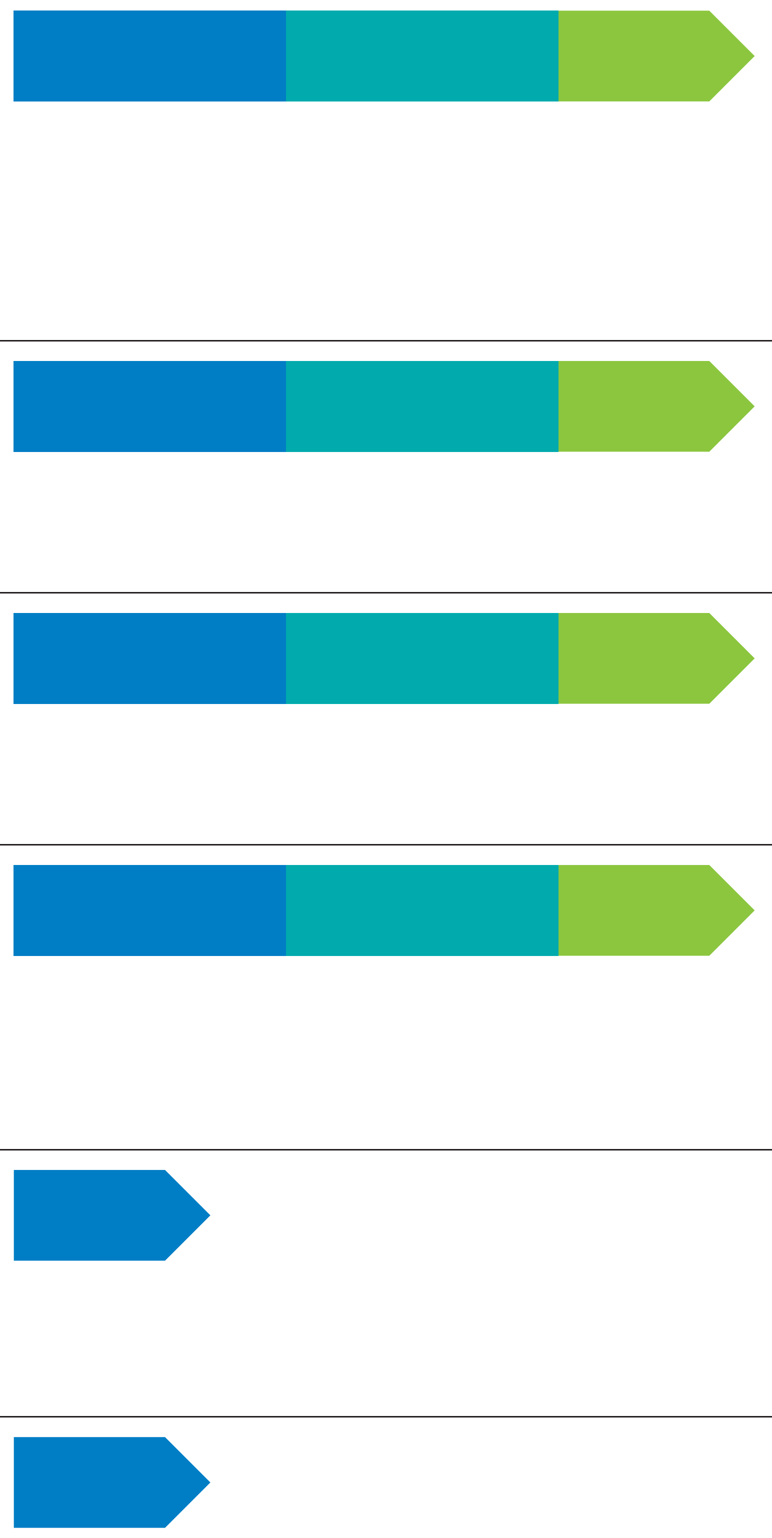
Conveyor heating
A spiral conveyor is used to discharge dust that is produced during the coking process. The unit runs continuously to avoid adverse environmental implications. During the winter, the conveyor is prone to freezing, disrupting the de-dusting process. The previous solution to this problem involved using gas bottles to heat the conveyor, but during the winter of 2012–2013, OKK implemented an idea to install a hot water pipeline along the entire length of the spiral conveyor. The suggestion proved to be highly successful, contributing towards overall cost containment and operational efficiency improvements at the coking plant during the year.

Pushing rod treatment
Pushing rods force coking coal into the coke discharging machines. As a result of the chemical substance s contained in the input coking coal, deep corrosion occurs on the surface of rods of the coke discharging machines, and typically the pushing rods would last around a year and half before being replaced. Thanks to an idea that came through CIP, the rods are now welded with stainless steel plates and it is believed that this innovative solution will extend the average lifetime of the pushing rods to between three and five years.

Development projects

Development projects overview

Pre-feasibility/ geological survey | Feasibility study | Implementation



A Dębieńsko

Highest-quality hard coking coal asset in Europe

2012 update: Water management issues and potential excessive liabilities mitigated; pursue purchase of surface properties and project value engineering in 2013.

Reserves: 190 Mt (190 Mt probable reserves)

Coal type: Premium hard coking coal/ Semi-soft coking/Thermal

Project manager: NWR KARBONIA

B Karviná project 1 – Karviná

Extension of current operations; expansion project at the Karviná mine; aim to extract more than 20 Mt of coking coal via existing Karviná mine by 2017.

2012 update: Project progressed to plan with surface buyouts and licensing.

Project manager: OKD

C Karviná project 2 – Orlová-Výhoda

Extension of current operations; expansion project into the Orlová-Výhoda district in the Karviná area; aim to extract approximately 10 Mt of coking coal from the site by 2017.

2012 update: Project progressed to plan with licensing.

Project manager: OKD

D Shaft deepening projects

Extension of current operations; expansion at the ČSA mining site of the Karviná mine; a further 312 metres underground; total depth to reach approximately 1,270 metres by 2015; shaft sinking at the Lazy mining site of the Karviná mine.

2012 update: Shaft deepening project initiated.

Project manager: OKD

E Morcinek

2012 update: Officially included in Poland's official list of reserves – crucial step forward to gaining a mining license; exploratory drilling continues; and dewatering underway.

Reserves: JORC reserves unavailable

Coal type: Coking coal/Semi-soft coking

Project manager: NWR KARBONIA

F Frenštát

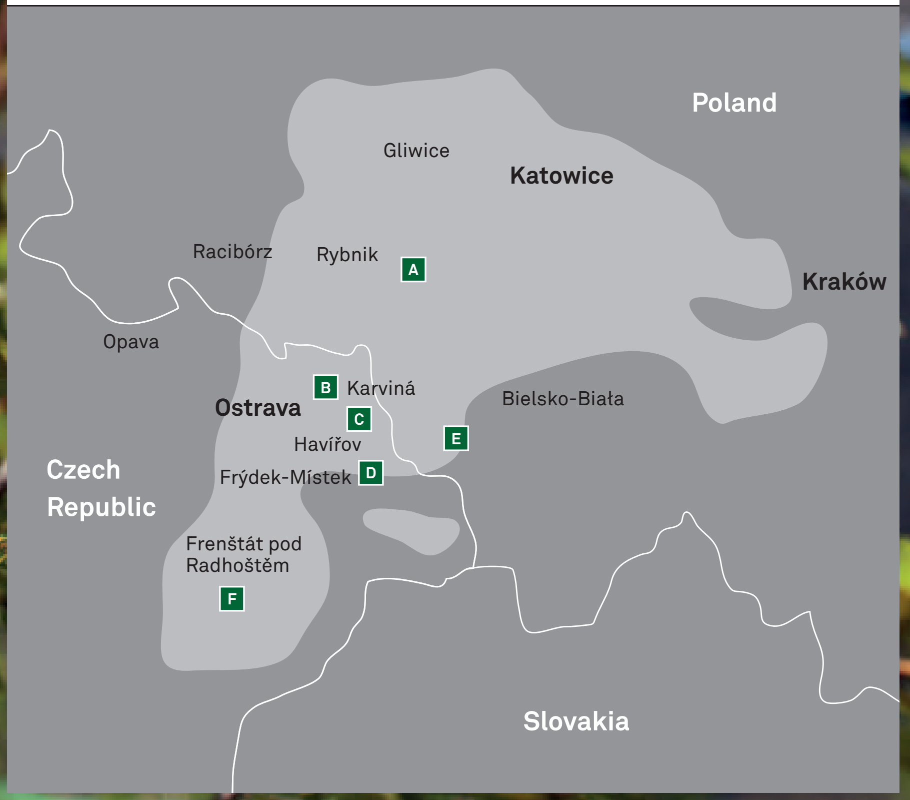
Largest coal resource in Europe

2012 update: Continuation of four-year exploration process started in 2011.

Hard coal resources: JORC reserves unavailable; estimated hard coal resources of approximately 1.6 billion tonnes

Project manager: OKD

Upper Silesian Coal Basin



Development projects

“Our development projects represent an integral part of our strategy and reflect our continued confidence in the long-term strength of demand for our products. During 2012, we continued to carry out work necessary to prepare for future mining activity across all our projects.”

Ján Fabián
Executive Director and chief executive and chairman of the board of directors of OKD since 1 January 2013

Our development projects are located in the Upper Silesian Coal Basin, on the border between the Czech Republic and Poland, where we have extensive mining expertise. Our projects represent an integral part of our strategy and reflect our continued confidence in the long-term strength of demand for our products in the region.

We divide our development projects into three major groups of strategic, near-term and long-term to reflect the respective stages of development timelines to completion and the level of investment.

Strategic project – Dębieńsko
Near-term projects – Karviná project 1, Karviná project 2 (jointly referred to as Karviná expansion) and Karviná shaft deepening
Long-term projects – Frenštát and Morcinek

We use the phrase ‘near-term projects’ to describe development projects, which relate to our existing mines. These deposits are included in our current JORC reserve base and help to sustain production volumes and quality, as well as improving overall returns by extending the life of our mines.

Our long-term projects are at the preparation stage or are undergoing geological surveys. This means that resources in those locations are not included in our JORC classification, and by surveying the resources we will be able to prepare more detailed information on future activity.

During 2012, we continued with the work necessary to eventually pursue future mining activity across all these sites.

Dębieńsko

NWR holds a 50-year mining license to extract coal from Dębieńsko, a site in Southern Poland with predominantly hard coking coal reserves of 190 million tonnes (probable reserves). The asset is the highest quality hard coking coal deposit in Europe.

Following ground-breaking in December 2011, construction works progressed according to plan during the first quarter of 2012. However, due to a change in the long-term water treatment liabilities and the inflationary pressure for mine development in Poland, in May 2012 a thorough review of the project’s parameters was initiated and all development work temporarily suspended. As a result of this decision, the revised CAPEX related to the project in 2012 was EUR 5 million, significantly lower than originally planned.

By the end of 2012, we concluded the technical review and reaffirmed the attractiveness of the project as a viable growth proposition for NWR.
The mentioned water management risks and potential excessive liabilities were resolved by year-end. Looking ahead, given the current market conditions, we will limit our progress on site in 2013 to the purchase of essential surface properties; and will conduct a project value engineering exercise, meaning we are looking into all options for the development of the mine to production. This includes potential partnerships.
We are budgeting a total capital expenditure of EUR 10 million for 2013.

Karviná expansion

We are currently working on the expansion of our mining footprint from our Karviná mine aimed at improving our external coal sales mix towards a higher proportion of coking coal. Once completed, this venture, which consists of two principal projects, Project Karviná and Project Orlová-Výhoda, will access around 30 million tonnes of predominantly coking coal via our existing operations by 2017.

Work on the project continued to progress as planned during 2012. In March, we submitted a Notice of Intention to expand mining activities at the mine from 2015 to 2035 to the Ministry of Environment of the Czech Republic. In June we received a response from the Ministry outlining their requirements, reflecting the feedback of non-profit organisations, citizens as well as state and local governments. NWR is in the process of responding to this feedback as part of its preparations for the wider Environmental Impact Assessment (‘EIA’) documentation, which started in mid-2012. The single EIA documentation, which covers both projects, is expected to take around two years to complete and will outline the impact of the Company’s expansion plans on the local environment.

As part of this project, we are also negotiating resettlement terms with local residents as well as speaking to local businesses who will be affected by our expansion plans.

Karviná shaft deepening

In December 2011 we started to deepen one of the shafts at the Karviná mine. Estimated to be completed by 2015, a further 312 metres will be excavated to bring the total depth of the shaft to approximately 1,268 metres below the surface.

Once completed, the project will have extended ventilation, dewatering and air-conditioning of longwall panels that are currently operated in a subfloor mode as well as helping to streamline a number of operational processes including transportation of personnel as well as materials underground.

Morcinek

Morcinek is a mothballed mine in Southern Poland, which was last mined in the late 1990s and is a long-term project for NWR.

Morcinek comprises two sites, Morcinek 1 and Zebrzydowice 1. We were granted a 12-year exploration license in 2003 for Morcinek 1, the mine, and in 2008 an additional 6-year license for the second area, Zebrzydowice 1, in 2008 in order to document the reserves.

Once we completed the drilling and geological work at Morcinek 1, the Polish Ministry of Environment approved our application to have the reserves included in Poland’s official list of reserves in November 2012. The inclusion is necessary for the purpose of preparing the land development plans, and fundamentally, represents a crucial step forward in obtaining a mining license for Morcinek 1.

In the meantime, a dedicated team is working on dewatering the former mine via our existing operations at the ČSM mine in preparation for potential future mining activity. This process is expected to take several years to complete.

Frenštát

Frenštát is located in the northeast of the Czech Republic. The two shafts at Frenštát were built in the 1980s but were never brought into operation. Under the Czech Mining Act, NWR is obliged to maintain and look after the mine in order to prevent degradation, in particular of the technical conditions, water conditions and safety.

Frenštát is currently in exploration phase, a process that was started in 2011 and is expected to take four years to complete. Once completed, we will be in a better position to decide on the feasibility of developing the deposit further.

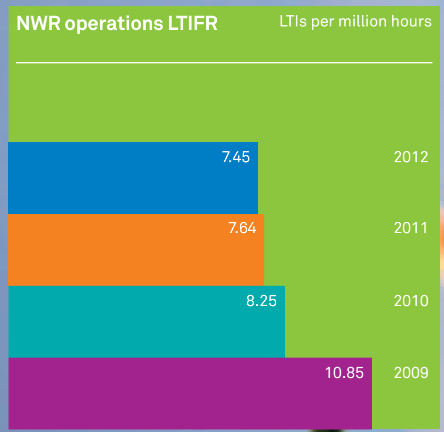
The deposit is estimated to hold approximately 1.6 billion tonnes of hard coal resources.

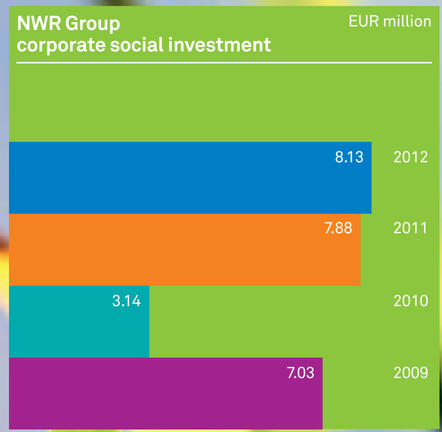
Ján Fabián
Executive Director and chief executive and chairman of the board of directors of OKD since 1 January 2013

Sustainability

Corporate social investment ('CSI')

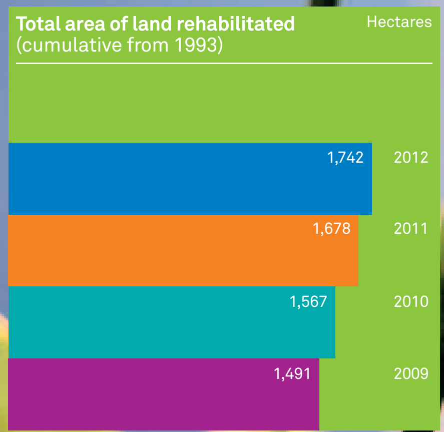
EUR 8.13 million



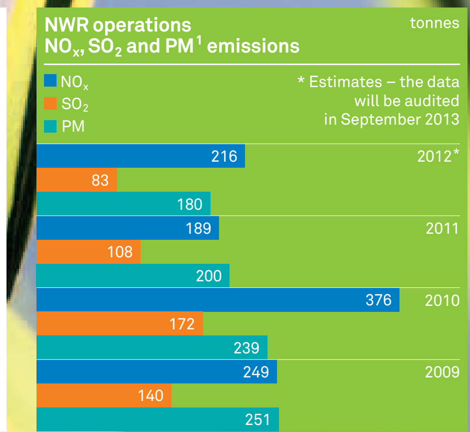


Level of PM emissions reached 180 tonnes in 2012 a decrease of 35 per cent in 5 years.

NWR's Group CSI increased by 3 per cent y/y reaching around EUR 8 million, which is the biggest CSI in NWR's history.



Sustainability is central to our mining activities because it will always have an impact on the communities, the environment and the economy of the regions in which we operate. The importance of sustainable development to our Company is reflected by its integration into our business strategy as one of three strategic pillars, alongside growth and operational excellence.



[1] Particulate Matter ('PM_x') denotes dust particle pollution at the size smaller than X µm dispersed in the air. The particles smaller size 10 µm identified as PM_{10} are subject to standard monitoring as they can settle in bronchial tubes and cause health problems.

Sustainability

"Safeguarding the long-term sustainability of our business lies at the heart of everything we do. The core principles of sustainability, underpin all our decision-making processes across the Group and ensure active engagement with each of our stakeholders. Our Sustainability Report shows clear progress against key targets in the areas of corporate governance, employee welfare, and the impacts on the environment and the communities we operate in."

Petra Mašínová
Head of Corporate Communications and Sustainability (until 4 February 2013)

Strategy

Sustainability lies at the heart of everything we do, and is key to our long-term business success. We engage with all of our stakeholders in matters of our current activities as well as future aspirations when setting near- to long-term sustainability priorities for NWR. Meeting these priorities and applying our principles of sustainability throughout the Group enables us to maintain and strengthen our social license to operate.

Coal mining and coke production are by their nature operations that are socially sensitive given the huge impact these activities could have on the surrounding environment and communities if not managed carefully. NWR consistently manages the environmental and social impacts of all its mining operations and coke production activities. We are committed to an on-site focus to complying with all the regulations that govern our operations, and we are committed to seeking a broad social consensus in order to continue our operations efficiently, and to generate and deliver value to our key stakeholders.

Sustainable development is one of the three core strategic pillars of NWR's business strategy. The priorities are set and approved by NWR's Safety, Health and Sustainability Committee ('SHSC'), and are ultimately overseen by the Company's Board of Directors. For more information see Strategy section on page 22.

Safety, Health and Sustainability Committee ('SHSC')

The SHSC was established to assist NWR's Board of Directors with managing sustainability risks and opportunities within the Group. The SHSC places particular emphasis on safety, health, environmental and social risks within the Group. The Board approves the adequacy of risk-control measures to ensure that the risks are effectively controlled and managed. The SHSC aims to provide the Board with additional focus, insight and guidance on key Group Sustainability and HSE issues, best practice and global trends. The members of the SHSC are: Paul Everard (Chairman), Gareth Penny (succeeding Mike Salamon as of 30 September 2012), Klaus-Dieter Beck (resigned as at 31 March 2013), Steven Schuit, and as at 14 January 2013 also Ján Fabián. SHSC meetings are regularly attended by two mining experts, by members of the OKD's board of directors, Stan Suboleski and Karl Friedrich Jakob and Petra Mašínová, Head of Corporate Communications and Sustainability (until 4 February 2013).

Further details on the function and activities of the SHSC may be found in the Corporate Governance section of this report on page 79.

Sustainability reporting

Our performance against sustainability targets in 2012, together with explanations for the prior years, is disclosed in the Sustainability Report 2012. All NWR's Sustainability Reports are in accordance with GRI sustainability reporting guidelines (Mining & Metals Sector Supplement, version 3.0) in order to provide the full range of comparable indicators and information to our stakeholders.

We intend to fulfil the requirements of Application Level A in the Sustainability Report 2012.

The Group has a policy towards disabled employees covered by the Code of Ethics. The subsidiaries act in compliance with Czech and Polish laws.

Our vision: to be a responsible partner

The long-term vision of our sustainability strategy is to be a responsible partner to all our core stakeholders, which in turn allows the Company to safeguard the long-term sustainability of the business by securing and sustaining a social license to operate. We value the importance of regular communications with all our stakeholders (internal and external) at local, national and international levels.

Strategic priorities

Within the framework of our integrated strategy we set strategic priorities in close cooperation with our stakeholders[1]. They cover topics that reflect NWR's significant economic, environmental and social impacts, or that could substantially influence the assessments and decisions of our stakeholders. For each priority we set a measurable targets and performance is monitored by the corresponding Key Performance Indicators ('KPIs'). By monitoring the KPIs we are able to measure and manage our development better. The performance is disclosed to all our stakeholders on a regular basis in NWR's annual Sustainability Report.

Our strategic priorities are in line with GRI methodology and are covered in more detail in the NWR Sustainability Report 2012, Strategy section. They are grouped into four core pillars: Corporate governance, Our people, Environment and Community.

We strive for a high degree of transparency when communicating our risks and opportunities to stakeholders. Regular dialogue contributes significantly to identifying the strategic priorities that our stakeholders consider important.

Vision:
to be a responsible partner

Mission:
safeguarding the sustainability of our business by securing and sustaining a social licence to operate

Strategic priorities

1. Corporate governance
— Relations between workforce and management
— Ethics
— Transparency

2. Our people
— Health and safety
— Employment
— Training and education

3. Environment
— Biodiversity
— Emissions, wastewater, waste management
— Energy efficiency

4. Community
— Community dialogue
— Community impact management
— Market presence and economic performance

[1] The importance of various priorities was determined by means of a weighted matrix analysis in conjunction with continuous communication with stakeholders.

Sustainability

Principles that guide our thinking and inform decision-making within the Group

There are ten core principles of sustainability that are applied to all decision-making processes throughout the Group, to ensure that they are part of our everyday business life from exploration, development projects, mining, coking and decommissioning through to marketing and selling of our coal and coke products.

Related information online at www.newworldresources.eu/en/sustainability

Ten principles of sustainability

1 — Continuous improvements in occupational health and safety

Safety is our top priority. Deep underground mining is inherently risky and NWR operates in some of the most demanding geological conditions in the world. We have achieved significant improvements in our LTIFR over the last five years, retaining our position as a regional leader in deep underground mining. We remain committed to further improving on our strong track record.

2 — Recruiting and retaining skilled employees

Highly skilled employees are pivotal to our type of business. We strive to ensure that our employees are motivated, regularly trained and able to develop their skills and knowledge while working for NWR.

3 — Maintaining dialogue and strengthening our partnership with stakeholders

We strive to maintain and further improve our relationships with the local communities in the regions where we operate, creating a strong base for mutually beneficial long-term dialogue. We consistently cooperate with the local regulatory authorities and through membership in industrial associations, we actively take part in the debate on the legislations affecting our industry. Regular sustainability reporting is an essential part of our on-going commitment to maintain transparent stakeholder dialogue.

4 — Monitor the impact of our activities on the environment

Maintaining strict internal policies enables us to manage the negative impacts on the environment better. Continuous stakeholder dialogue ensures that all our environmental activities are in line with stakeholder requirements including investors, municipalities, local communities and the state.

5 — Compliance

We ensure the highest level of compliance with all regulations that govern our operations, and adopt best practice where legislation is absent or insufficient.

6 — Sustaining our business through developing existing coal reserves

We strive to access further coal reserves from our existing mines in order to sustain production levels, access further coking coal panels, as well as to extend average mine life.

7 — Investment in modern technology

Continuous investment in technology enables us to overcome geological challenges and to reach our production targets safely and efficiently. It also contributes towards improving overall occupational health and safety of our mining employees.

8 — Cost management

We remain committed to stringent cost management given the on-going tough operating climate. We have identified further opportunities for cost improvement across the Group. NWR encourages all its employees to offer their suggestions on improving existing working practices through the Continuous Improvement Programme. Employees who submit an idea that is then successfully implemented are rewarded in proportion to the resultant cost saving.

9 — Maintaining a strong financial position

Maintaining the financial health of the business is essential for the sustainable development of NWR, which ultimately rewards our shareholders, enhances our attractiveness to potential investors, enables us to pursue investment and growth plans, and allows us to contribute back to the communities in which we operate.

10 — Growth through M&A

NWR pursues a strategic M&A policy in line with the Company's goal to become *Europe's leading miner and marketer of coking coal by 2017*. In the long-term we continue to believe in the rationale for consolidation within the Central European coal sector. Our solid financial position gives us the flexibility needed to move quickly when M&A opportunities arise.

Environment

Committed to driving down harmful emissions produced from our operations

NWR's operations produce five types of harmful emissions. Principally, the coking plant produces, Nitrogen (NO_x), Sulphur (SO_2), Carbon Monoxide (CO) and general Particulate Matter (PM_x)[1]. The level of PM_{10} is monitored in our mining operations.

At the Svoboda coking plant, the COP 2010 initiative has played an integral part in driving down major pollutants. For example, as part of the modernisation drive, Batteries Nos. 8 and 10 have been fitted with a number of improvements, including raw coking gas off-take pipelines, which have reduced gaseous emissions generated during the coking process. Svoboda benefits from several advances in the technological control of combustion, which have helped to reduce NO_x and CO emissions by 62 per cent and 89 per cent respectively over the last five years.

Additionally, SO_2 emissions have been significantly reduced by the adoption of the 'Stretford process', a specialised desulphurisation process whereby hydrogen sulphide (H_2S) is first removed before burning the gas streams, and sulphur is then recovered for further processing. Notably, this method has reduced energy demand, as well as offering further efficiency gains. OKK currently produces less than 50 mg H_2S/m^3 of desulphurised coke-oven gas. In 2012, SO_2 emissions were down 24 per cent from 108 tonnes in 2011.

Particulate Matter is produced by the coking plant in two ways: firstly, during the process of coking, and secondly, by the coke quenching towers. In the first instance, PM is captured in the wet dust separators or cloth filters located at several areas throughout the coking plant, which are then separated in the de-dusting plant. Dust separators are refurbished regularly.

PM's from the coke quenching towers are captured using water-sprayed shutter separators fitted to the inside of the towers. Each coking battery has coke quenching towers, and all were refurbished in 2012. Over the past five years, particle pollution has been reduced by 60 per cent down to 60 tonnes in 2012.

At the mines, Particulate Matter is emitted by the underground mine ventilation systems. OKD has consistently ensured low levels of PM_{10} pollution at around 120 tonnes/year, depending on the volume of production.

[1] Particulate Matter (PM_x) denotes dust particle pollution at the size smaller than X µm dispersed in the air. The particles smaller size 10 µm identified as PM_{10} are subject to standard monitoring as they can settle in bronchial tubes and cause health problems.

Sustainability

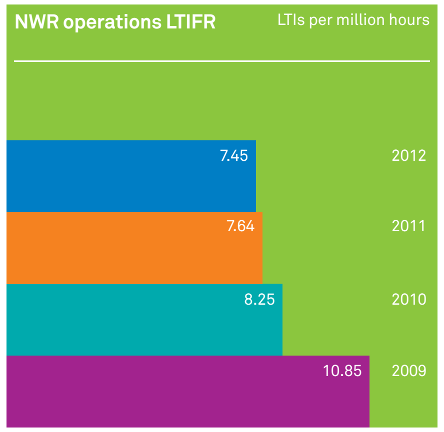
We maintain regular contact with all stakeholders, including our employees, investors, analysts and shareholders, community, local and central government, suppliers, customers and educational institutions.

Our people

Caring for our employees is a key priority and encompasses safety, healthcare, the working environment, remuneration and training. Every year NWR invests considerable time and resources to improve employee safety and training.

Sustainability Report 2012
www.newworldresources.eu/sustainability

Sections Our people, Scorecard, Strategy, GRI Content Index (LA indicators)



NWR operations LTIFR

The Lost Time Injury Frequency Rate ('LTIFR') represents the number of reportable injuries in NWR's operations causing at least three days of absence per million hours worked including contractors.

Performance

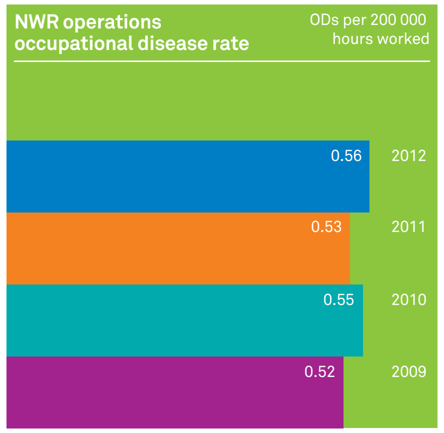
LTIFR decreased by 2.5 per cent year-on-year and by 10 per cent in the last four years. Strong emphasis continued to be placed on staff safety-related training and further investment in personal protective gear. Our goal is to be among the top five global leaders in safety of underground coal mining by 2017, as measured by LTIFR.

NWR operations employee turnover

The employee turnover rate is a calculation of the total number of employees who have left the company minus employees who have left due to dismissal, retirement, death in service or health reasons and it is expressed as a percentage of the average number of employees in the year.

Performance

NWR operations voluntary employee turnover decreased by 27 per cent year-on-year. The total decrease was driven by OKD where the number of people who left the company voluntarily dropped by 32 per cent to 108 people from 160 people in 2011. Our aim is to maintain a voluntary employee turnover rate below 1.2 per cent in order to reduce any negative impact on productivity or recruitment costs.

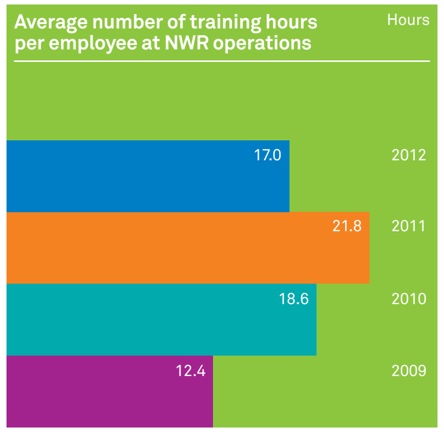


NWR operations occupational disease rate (ODR)

The frequency of occupational diseases relative to the total time worked in the reporting period. The Occupational Disease Rate ('ODR') represents the number of occupational diseases in NWR's operations per 200,000 hours worked Does not include contractors.

Performance

The total number of occupational diseases recorded marginally increased from 65 in 2011 to 68 in 2012. NWR's ODR increased by 0.03. The number of dust exposure cases decreased by 6 cases year-on-year due to investments in technology. However, NWR recorded a negative trend in vibration-related occupational diseases (plus five cases), and unilateral long-term limb strain (plus four cases) due to employee age structure. We continue to focus on providing preventative health checks and other health related benefits.



NWR operations average hours of training per year per employee

The average hours of training per employee is calculated as the total number of hours dedicated to training divided by the average number of employees in the reporting period. Does not include contractors.

In the long-term we aim to have the average number of training hours of not less than 20 hours per employee per year.

Performance

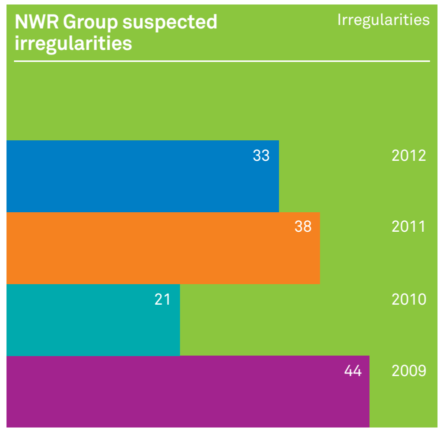
The average number of training hours per employee decreased to 17 hours in 2012, which was caused by the fact that some training in OKD is periodical, repeated every second or third year. The bulk of perodical training took place in 2011, and therefore, will be repeated again in 2013 and in 2014. On the contrary, the average hours of training at OKK increased by 150 per cent year-on-year and by 17 per cent year-on-year at HBZS. The total number of training hours per employee at OKD was 16.6, at OKK 12.0 and at HBZS 66.4 hours.

Corporate governance

We are committed to maintaining high standards of corporate governance. The Group has zero tolerance to bribery and fraud, has adopted a Business Integrity Policy and holds regular business integrity training sessions for staff.

Sustainability Report 2012
www. newworldresources.eu/sustainability

Sections Corporate Governance, Ethics and transparency, GRI Content Index 4.1–4.10, HR indicators)



NWR Group suspected irregularities

The number of suspected irregularities reported within the Company's established Whistleblower Procedure, which is part of NWR's Code of Ethics and Business Conduct and Business Integrity Policy.

Performance

The number of irregularities reported within the Group decreased by 13 per cent to 33 cases. The majority of the reported irregularities were related to alleged violation of Czech Labour Act (six cases), and alleged fraud and theft (six cases).

Sustainability

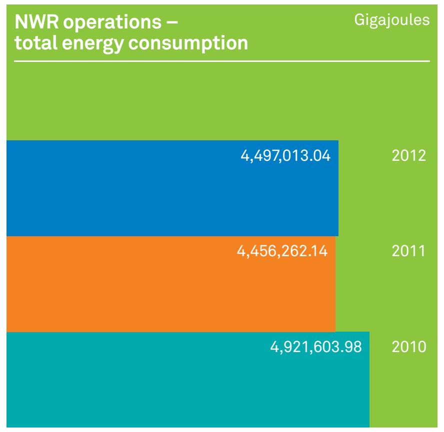
As a mining company, NWR's operations will always have an environmental impact, which is why we devote an enormous amount of time and resource into managing this crucial aspect of our business.

Environment

Mining, by its nature, affects the environment in a number of ways. We continuously monitor the impact that our activities have on the environment. We constantly work to reduce the negative impacts of our mining and production operations through land reclamation projects and other measures such as water consumption management or emissions reduction.

Sustainability Report 2012
www. newworldresources.eu/
sustainability

Sections Chairman's statement, Environment, Scorecard, Strategy, GRI Content Index (EN indicators, MM indicators)



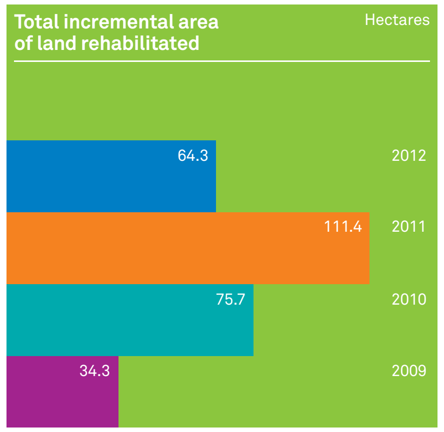
NWR operations energy consumption and sales

Total energy consumption in NWR operations includes direct primary energy purchased (diesel, petrol and natural gas) and indirect energy purchased (electricity, heat, compressed air, natural gas) minus direct primary energy sold (electricity, heat) excluding production and sales of coke-oven gas and coal mine gas.

Performance

Total energy consumption increased by approximately 1 per cent in 2012 (in GJ) mainly due to the increased heat energy consumption and a change in the conversion method for compressed air. In 2012 we set a coeficient for conversion of compressed air to electricity (1 th. m^3 equals to 0,085 MWh).

Note: Total energy consumption in 2009 is unavailable due to the lack of reportable audited data as a result of a significant change in the reporting base.

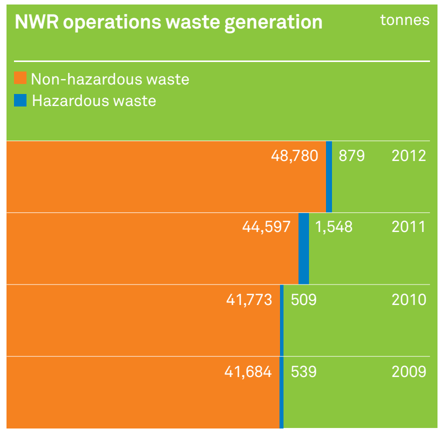


NWR operations total incremental area of land rehabilitated

Land rehabilitation is the area of land disturbed by operational activities, which is then reshaped and restored into a new ecosystem in accordance with natural principles. The total incremental amount of land rehabilitated in reclamation projects is set by 'Comprehensive Rehabilitation and Reclamation Plan' for a five-year period. The plan is closely linked to the closure of mining operations and the goal is to mitigate the damages.

Performance

The total incremental area of rehabilitated land in 2012 amounts to 64.3 hectares. The trend in the area of land rehabilitated is uneven as it reflects operation closures from the past. As reclamation projects are long-term, the amount spent does not correspond to reclamations completed in the year as some future projects are already financed. NWR spent EUR 5.6 million on reclamation projects in 2012, down from EUR 6.9 million in 2011, and the decrease is significantly lower than the decrease in land rehabilitated.

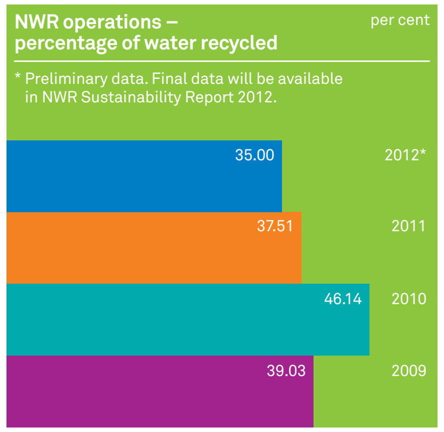


NWR operations waste generation

The total weight of generated waste includes the total volume of hazardous waste and non-hazardous waste defined by the Czech legislation. Non-hazardous waste contains all other forms of solid or liquid waste excluding waste water, waste rock and flotation tailings.

Performance

The total weight of generated waste increased in 2012 by 7.6 per cent due to the production of scrap steel resulting from the decommissioning and replacement of old equipment with new technology under the POP 2010, and logistics optimisation programmes. The increase in waste generation is in the category of recyclable waste.



NWR operations share of recycled water

Recycled/reused water is water that has:
1. been used at least twice in the same process within the operations;
2. been used in a different process within the same operation; and
3. been used at another of the Group's facilities.

Performance

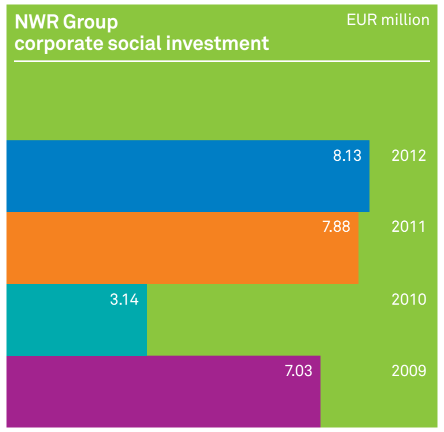
According to preliminary data, recycled water accounted for circa. 35 per cent of total water consumption in NWR operations in 2012. The lower volume was caused primarily by a 10 per cent year-on-year decrease of surface water consumption, reaching 22 million litres, while the volume of recycled water decreased by 3 per cent and so remains essentially unchanged.

Community

NWR maintains close relationships with the communities in which we operate and aims to develop mutually beneficial partnerships. We invest significantly in the social, cultural, sporting and educational life of the communities wherever we operate.

Sustainability Report 2012
www. newworldresources.eu/
sustainability

Sections Chairman's statement, Community, Scorecard, Strategy, GRI Content Index (SO indicators, MM indicators)



NWR Group corporate social investment ('CSI')

CSI spent primarily on social issues in the form of donations or sponsorship, excluding benefits for employees. In 2012 NWR N.V. donated EUR 190,000 to the OKD Foundation and EUR 20,000 to the St. Barbara Civic Association. In 2012 NWR N.V. supported two sponsorships projects: the International Viola Viola festival in the Netherlands for EUR 115,000 and the P8Cycling team in their Alpe d'Huez race against cancer for EUR 2,000. NWR does not make contribution to political parties.

Performance

NWR's Group CSI increased by 3 per cent year-on-year reaching around EUR 8 million, which is the biggest CSI in NWR's history. CSI in 2012 consisted of 81 per cent donations and 19 per cent sponsorship. The largest donations were to the OKD Foundation (48 per cent) and municipalities (47 per cent). The Group sponsored different projects mostly in sport (72 per cent). In general, the volume of CSI is, and will always be, influenced by NWR's financial performance, which in turn is a reflection of the economic environment.

Corporate Governance

"Changes in the Board's composition occurred in 2012. Mr. Penny was appointed Executive Chairman in October, and Mr. Fabián succeeded Mr. Beck as CEO of OKD and joined the Board as an Executive Director at the year's end. The Board received a positive external evaluation of its efficacy. Last but not least, the Board changed the Deferred Bonus Plan to achieve closer alignment of senior management with shareholders' interests."

Lucie Vávrová
Company Secretary

Main activities of the Board in 2012
In 2012, the Board of NWR met ten times, including a special two-day strategy meeting in Ostrava where the core operation of the Group is situated. The Board continued to hold joint meetings with the board of NWR NV.

Completing the work on the redomiciliation of NWR NV to the UK, the Board oversaw the squeeze-out process with respect to the minority shareholdings in NWR NV. NWR become the sole shareholder of NWR NV, and NWR NV A shares were then delisted from the Warsaw Stock Exchange.

During the course of 2012 the Board's composition was changed by two resignations. Firstly Mr. Mende resigned effective as at 31 January 2012 and in accordance with the advice of the Nomination Committee, the Board decided not to appoint a new Director as the Board was considered sufficiently robust and had a good balance of skills. Then the Executive Chairman Mr. Salamon retired from the Board effective as at 30 September 2012. To succeed Mr. Salamon, the Board appointed Mr. Penny to first take the position of Chairman-Elect from 3 September 2012 and to become Executive Chairman leading the Board from 1 October 2012. The succession planning for the Chairman was actively driven by the Nomination Committee which recommended retaining the position of Executive Chairman and prepared the job specification accordingly. It also recommended Mr. Penny's appointment (with his terms of appointment approved by the Remuneration Committee). Thirdly, in connection with Mr. Fabián becoming the CEO of OKD, the Board appointed him as a new Executive Director with effect from 1 January 2013. Mr. Beck, retiring CEO of OKD, remains on the Board as a Non-Executive Director until his resignation which will take effect on 31 March 2013.

The Board conducted an external evaluation of its effectiveness which is described in more detail below in the section Board effectiveness and evaluation on page 81. Overall the results were positive. Upon one of the recommendations of this external evaluation, the chairmanships of the Nomination Committee and Remuneration Committee have been changed with both of these Committees now being chaired by an Independent Director.

During the strategy meeting in Ostrava, the Board reviewed the outlook of the regional coal and coke markets taking into account the coal reserves and life-of-mine projections. The shale gas alternative was also presented. A large part of the strategy meeting was dedicated to the new mine development project in Dębieńsko. As a result of the discussion, the Board requested an overall review of the project's assumptions and feasibility. The Board also spent considerable time discussing the overall strategy of the Group and how the Group should grow.

At the end of the year the Board introduced a new long-term incentive feature into the existing Deferred Bonus Plan. As of 1 January 2013, this incentive is available to the top management and will be fully paid in shares subject to certain criteria. The Board also unified the maximum amount of annual bonus and the portion of bonus that is deferred into shares, so that they are the same for all participants. A full description of the changes to the Deferred Bonus Plan, which came into effect as of 1 January 2013, can be found in the 'Remuneration Report' on page 96.

The Board attended a training session on the Business Integrity Policy in January 2012. A set of similar training sessions for selected employees was then rolled out across the Group.

The Board also approved the first ever NWR Sustainability Report for the year 2011.

Main activities undertaken in 2012 by the individual Committees appointed by the Board are described in 'Committee Reports' on page 75.

Highlights of 2012

New Executive Chairman

New CEO of OKD and Executive Director

Changes in the Remuneration and Nomination Committees

Changes to the Deferred Bonus Plan

Thorough external Board evaluation

Two day off-site meeting in Ostrava and increased focus on strategy

Implementation of the Business Integrity Policy with extensive trainings

Squeeze-out and delisting of NWR NV from the Warsaw Stock Exchange

Board of Directors

Shareholders

Elect | Communications

Board

Executive Chairman

Executive Directors

Independent Directors

Non-Independent Directors

Appoint | Advice

Committees

Audit and Risk Management Committee

Remuneration Committee

Finance and Investment Committee

Safety, Health and Sustainability Committee

Real Estate Committee

Nomination Committee

Role of the Board

The Board sets the Group's strategy and reviews management and financial performance. Its role is to create and deliver strong, sustainable financial performance and long-term shareholder value while protecting the interests of NWR Group and representing NWR, holders of A and B Shares (for a definition of A and B Shares, please refer to the Articles of Association of the Company) and other stakeholders. Matters specifically reserved for the Board's decision-making include:

- approval of the overall strategy and annual budgets of the business;
- appointment of the Board's Chairman;
- approval of internal policies (such as the Corporate Governance Policy, Code of Ethics and Business Conduct, Business Integrity Policy, Divisional Policy Statements, Share Dealing Code, the terms of reference of the Board's Committees, etc.);
- determination of the annual remuneration of Non-Executive Directors within the scope of the Articles of Association and the Compensation Manual;
- review of the financial and annual reports; and
- approval of major transactions, including acquisitions, by NWR and its subsidiaries.

The Board manages the Mining Division and the Real Estate Division. Day-to-day operational decisions relating to these divisions are taken by NWR's employees and overseen by the Board (as described in more detail in the report of the Real Estate Committee on page 80).

To assist the Board in its decision making the Board has established and maintains six Committees described below.

1


2


(1) Gareth Penny
Executive Chairman of NWR

Gareth Penny was appointed as a Director and Chairman-Elect of the Company with effect from 3 September 2012. As of 1 October 2012, he replaced Mr. Salamon as an Executive Chairman of NWR and NWR NV. He has been a member of the board of directors of OKD since 1 October 2012. Mr. Penny also serves as a non-executive director of Julius Baer Holdings Limited, a member of the Advisory Board of TowerBrook Capital Partners and occupies the pro bono position of vice chairman of the Botswana Economic Advisory Committee. He has extensive experience of the international mining industry. In March 2013, Mr. Penny became a non-executive chairman of OJSC MMC Norilsk Nickel, a Russian listed mining company. Over his 25 year career, Mr. Penny has developed deep experience of many aspects of mining at Anglo American, De Beers and AMG. Through his involvement at operational level he has gained vast knowledge in the exploration, development and expansion of resources.

Between 2006 and 2010. Mr. Penny served as group chief executive of De Beers, the world's leading diamond mining business, and developed a strong track record for shareholder value creation as a result of both a clear strategic insight and the ability to manage change. Mr. Penny became a member of the board of De Beers in 2003, having worked for the De Beers Group since 1991. Prior to joining De Beers Group, Mr. Penny worked for the Anglo American Corporation in Johannesburg. Mr. Penny graduated in 1985 from Oxford University, UK, with a Master of Arts (M.A.) in Philosophy, Politics and Economics.
(South African, 24 December 1962)

(2) Marek Jelínek
Executive Director and Chief Financial Officer of NWR

Marek Jelínek is a Director of NWR and was appointed upon the incorporation (30 March 2011) and re-appointed by the annual general meeting of shareholders in 2012. Mr. Jelínek has served as a director of the board of directors of NWR NV since 6 March 2007. He has been a member of the board of directors of OKD since his appointment on 1 November 2007. Since March 2007, he has worked as NWR's Chief Financial Officer and is responsible for the Group-wide finance and treasury. In 2007 and 2008, Mr. Jelínek led the Group's bond issue and the successful Initial Public Offering in London, Prague and Warsaw. He also steered the Group through the latest successful bond issue in January 2013. From March 2009 to March 2010, Mr. Jelínek was a non-executive director of Ferrexpo Plc. Mr. Jelínek was a director of BXR Partners, a.s. (formerly RPG Advisors, a.s.) from 2005 to 2006. He joined BXR Group in December 2004 as financial officer and was responsible for a variety of areas including group financing, restructuring and divestitures. Prior to that, Mr. Jelínek served as an analyst and associate of the Corporate Finance Department at Patria Finance, a Prague based investment banking boutique, from 1995 to 2004, where he managed merger and acquisition transactions for domestic and international clients. Mr. Jelínek graduated from the Anglo American College in Prague in 1995 with a Bachelor of Science degree in Business Administration.
(Czech, 27 December 1972)

3


(3) Ján Fabián
Executive Director of NWR,
Chief Executive Officer of OKD

Ján Fabián was appointed a Director of NWR with effect from 1 January 2013. From the same date, he became the CEO, and chairman of the board of directors of OKD, the principal subsidiary of NWR involved in hard coal mining, He has previously served as Chief Operating Officer of the NWR Group with overall responsibility for the (coke) operations of OKK and the Polish business operations of NWR KARBONIA and strategic planning and organizational development of OKD. Prior to joining the NWR Group, Mr. Fabián was advising companies from the energy sector, resources, steel, machinery and automotive industries. His main areas of focus included turn-around, privatization, restructuring and process optimization strategies. He graduated from the Technical University in Košice, Slovakia in 1988 with a degree in mining and gained a PhD in production optimization for underground mining from the Technical University in Berlin in 1998.
(Slovak, 2 May 1966)

Board of Directors

(4) Zdeněk Bakala
Vice-Chairman and Non-Independent Non-Executive Director
Zdeněk Bakala is a Director of NWR and was originally appointed with effect from 8 April 2011. In 2012 he was re-appointed by the annual general meeting of shareholders. Since 15 September 2011 he has also served as Vice-Chairman of the Board. Mr. Bakala had served as a director of NWR NV since 2006, but resigned in 2011 following the reincorporation of NWR NV in the UK. He served as a member of the supervisory board of OKD from 2008 to 2010. He has served as a director of BXR Real Estate Investments (formerly RPG Real Estate B.V.) since October 2006, as a director of RPG Property B.V. since December 2008 and as chairman of the supervisory board of BXR Partners, a.s. (formerly RPG Advisors, a.s.) since September 2005. In 2008, Mr. Bakala acquired a majority shareholding in Economia a.s., a leading Czech publishing house, and serves as chairman of the board. Mr. Bakala was a member of the supervisory board of the Prague Stock Exchange from 2005 to 2010. In 1994, he founded Patria Finance, the Czech Republic's first independent full-service investment bank, which was acquired by KBC, a Belgian banking group, in 2001.

Between 1990 and 1994, Mr. Bakala was head of the Czechoslovakia desk at Credit Suisse First Boston (CSFB) and was responsible for establishing a branch office of CSFB in Prague in 1991. Prior to that, he worked in the Corporate Finance department of Drexel Burnham Lambert (New York) from 1989 to 1990. Mr. Bakala graduated from the University of California, Berkeley USA in 1986 with

a degree (with honours) in Economics, and obtained a Master of Business Administration degree from the Amos Tuck School of Business Administration, Dartmouth College, in 1989.
(Czech and USA citizenship, 7 February 1961)

(5) Peter Kadas
Vice-Chairman and Non-Independent Non-Executive Director
Peter Kadas was appointed as a Director of NWR with effect from 8 April 2011. Since 15 September 2011 he has also been Vice-Chairman of the Board. He was re-appointed by the shareholders at the 2012 annual general meeting. Mr. Kadas previously served as a director of NWR NV, and resigned in 2011 following the reincorporation of NWR NV in the UK. He served as vice-chairman of the board of directors of OKD from 2006 to 2007. Since 2006 he has also served as director of BXR Real Estate Investments B.V.

Mr. Kadas has been a director of Bakala Crossroads Partners, an affiliate of BXR Group since 2000. Before that he was managing director of Croesus Central Europe. From 1996 to 1997 he also worked

as managing director for MC Securities in London. In 1995 he co-founded Renaissance Capital, Russia's first private investment bank. In 1990 he was a Director of Credit Suisse First Boston in Budapest. Mr. Kadas also served on numerous corporate boards in the region, including CSFB, the management committee of Renaissance Capital, and vice-chairman of the board of directors of České radiokomunikace, a.s.

Mr. Kadas graduated in 1986 from Trinity College, University of Toronto with a Bachelor of Arts degree in Economics and Politics. In 1990 he obtained a Master of Business Administration degree from Dartmouth College.
(Canadian, 27 February 1962)

(6) Klaus-Dieter Beck
Non-Independent Non-Executive Director
Having retired as Chief Executive Officer of OKD as of 31 December 2012, Klaus-Dieter Beck continues to serve on the Board as a Non-Executive Director until 31 March 2013 providing continuity and stability during the top level change at OKD. He was originally appointed a Director with effect from 8 April 2011 and re-elected at the annual general meeting of shareholders in 2012. Since 12 June 2007, Mr. Beck had served as a director of NWR NV, but resigned in 2011 following the UK redomiciliation. He served as CEO and chairman of the board of directors of OKD from 1 July 2007 till 31 December 2012. Between 1 January and 31 March 2013, Mr. Beck served as non-executive member of OKD's board. Between 2009 and 2010 Mr. Beck also served as a member of the board of directors of OKK. He is also a non-executive director of SUEK, Siberian Coal Energy Company, and member of the

supervisory board of TUEV Nord, a German consulting, service and inspection company. Prior to joining OKD, he was senior vice-president for planning and engineering at Foundation Coal Holdings, Inc.
(German, 8 March 1955)

(7) Pavel Telička
Non-Independent Non-Executive Director
Pavel Telička is a Director of NWR and was appointed with effect from 8 April 2011. He was re-elected as Director by the annual general meeting of shareholders in 2012. Since 11 September 2007, Mr. Telička had served as a director of NWR NV, but resigned in 2011 following the UK redomiciliation of NWR NV. In 2004, Mr. Telička co-founded BXL Consulting Ltd, a consultancy on European Union affairs, where he currently serves as director and is in charge of its Brussels office. Before that, also in 2004, he was nominated and held the position of member of the European Commission co-responsible for the portfolio of health and consumer protection. Between 1991 and 2004, Mr. Telička worked at the Czechoslovak and then Czech Republic Ministry of Foreign Affairs, and occupied various positions during this time including ambassador and head of the Permanent Mission of the Czech Republic to the EU in Brussels, Secretary of State for European Affairs and First Deputy Minister of Foreign Affairs (during which time he was chief negotiator for the accession of the Czech Republic to the EU).

Mr. Telička has also been a senior advisor to the European Policy Centre since 2005 and for a number of years a member of the Administrative Council of the Notre Europe Foundation, established by Jacques Delors. In July 2005, he was appointed European

coordinator for one of the priority projects within TEN-T for the railway network Rail Baltica. Mr. Telička is a member of the High Level Group on Administrative Burden Reduction in the EU, which is an advisory body to the European Commission. Mr. Telička graduated from the Faculty of Law at the Charles University in Prague in 1986.
(Czech, 24 August 1965).

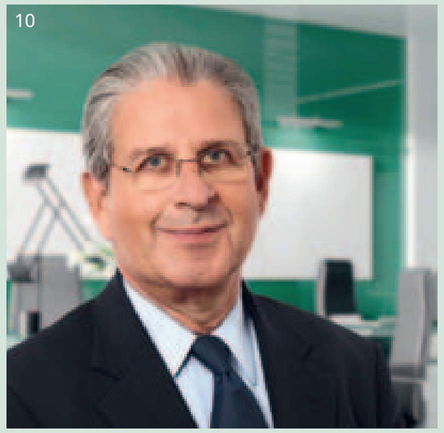
(8) Kostyantin Zhevago
Non-Independent Non-Executive Director
Kostyantin Zhevago was appointed a Director of NWR with effect from 8 April 2011. He was re-appointed by the shareholders at the 2012 annual general meeting. From 28 April 2009, Mr. Zhevago had served as a director of NWR NV, but resigned in 2011 following the reincorporation of NWR NV in the UK. He has been a member of the Ukrainian Parliament since 1998. He is currently a member of the Parliamentary Committee on Law Policy and chairman of the Parliamentary Group for Inter-Parliamentary Relations with Japan. Since 2002, Mr. Zhevago has been a member of the permanent delegation

of the Ukrainian Parliament in the Parliamentary Assembly of the European Council and a member of the Ukrainian faction of the Committee for Parliamentary Cooperation between Ukraine and the European Union.

At present, Mr. Zhevago is the controlling shareholder of Ferrexpo Plc, and was appointed as its Chief Executive Officer on 1 November 2008. He has previously served as chairman of the management board and deputy chairman of the supervisory board of CJSC Commercial Bank Finance and Credit ('Finance and Credit Bank') and as a member of the supervisory board of JSC Ukrnafta. Between 1993 and 1996, he was financial director of Finance and Credit Bank. Mr. Zhevago graduated from the Kyiv State Economic University in 1996, specialising in international economics.
(Ukrainian, 7 January 1974)

(9) Bessel Kok
Non-Executive Senior Independent Director
Bessel Kok is a Director of NWR and was appointed with effect from 8 April 2011, re-elected by shareholders at the 2012

Board of Directors



annual general meeting. From 11 September 2007, Mr. Kok had served as a director of NWR NV, but resigned in 2011 following the reincorporation of NWR NV in the UK. He served as chairman of the Ukrainian mobile operator LIFE since 2005 till 2010. From 1995 to 2004, he was vice-chairman and chief operating officer of Český Telecom (now Telefónica/02) in the Czech Republic. During that time he also served as chairman of the board of directors of Eurotel. Mr. Kok was President of Belgacom from 1989 until the end of 1994 and oversaw its privatization. In 1973, Mr. Kok joined SWIFT (Society for Worldwide Interbank Financial Telecommunication) in Belgium and became its president and CEO in 1981, positions that he held until 1989. Mr. Kok graduated in 1963 from the Municipal University of Amsterdam with a degree in Economic Sciences.
(Belgian, 13 December 1941)

(10) Steven Schuit
Non-Executive Independent Director
Steven Schuit is a Director of NWR and was originally appointed upon the incorporation. In 2012 he was re-elected by the general meeting of shareholders. Since 20 November 2007, Mr. Schuit has served as a director of NWR NV and he continues to hold this position. He is also currently a part-time professor of Corporate Governance and Responsibility at Nyenrode Business University.
He also holds the position of chairman of Stichting Giving Back. He is a legal counsel to Allen & Overy LLP in its Amsterdam office, having served as partner to this firm and its predecessor firm between 1976 and 2005. Mr. Schuit has previously been a member of the supervisory board of Numico from 2002–2006 and of several other companies. Mr. Schuit graduated in 1969 from Groningen University with a degree in Law and was admitted to the bar in the Netherlands in 1971.
(Dutch, 9 October 1942)

(11) Paul Everard
Non-Executive Independent Director
Paul Everard is a Director of NWR and was appointed with effect from 8 April 2011. He was re-elected at the general meeting of the shareholders in 2012. Since 20 November 2007, Mr. Everard has served as a director of NWR NV and he continues to hold this position. He is an honorary member of the International Aluminum Institute. Between 2001 and 2005, Mr. Everard served as deputy president of aluminium for BHP Billiton. From 1994 until 2001, up to Billiton's merger with BHP, he was executive director of Billiton Aluminium responsible variously for strategy, business development, and operations outside South Africa. He joined Billiton in 1974 becoming executive director in 1983, responsible for aluminium. Subsequently, in 1986 he assumed responsibility, as director, for all business performance, strategic planning, research, health, safety and environment and public affairs for the Billiton group.

He began his career with Shell Group in 1963 mainly working in oil marketing in East Africa until his transfer to Billiton. Mr. Everard graduated in 1962 from Cambridge University, with an MA in Mechanical Sciences. He completed the Advanced Management Program at Harvard Business School in 1979.
(British, 6 May 1940)

(12) Barry Rourke
Non-Executive Independent Director
Barry Rourke is a Director of NWR and was appointed with effect from 8 April 2011. He was re-elected at the general meeting of the shareholders in 2012. Since 20 November 2007, Mr. Rourke has served as a director of NWR NV, and continues to hold this position. He served as an audit partner at PricewaterhouseCoopers from 1984 until 2001. Mr. Rourke is currently an independent non-executive director of 3Legs Resources Plc, Avocet Mining Plc and, OJSC RusRailLeasing and is also the chairman of the audit committee for each of these companies. Mr. Rourke is a member of the remuneration committee for Avocet Mining Plc and OJSC RusRailLeasing and a senior independent director for 3Legs Resources Plc. He is an independent member of the audit committee for the Department for Energy and Climate Change and a member of the Coal Liabilities Strategy board for that department. Mr. Rourke is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified as a Chartered Accountant in 1973.
(British, 19 August 1950)

(13) Hans-Jörg Rudloff
Non-Executive Independent Director
Hans-Jörg Rudloff is a Director of NWR and was appointed with effect from 8 April 2011, re-elected by shareholders at the 2012 annual general meeting. Since 11 September 2007, Mr. Rudloff has served as a director of NWR NV and he continues to hold this position. Since 1998, he has served as chairman of Barclays Capital. Prior to that, he was chairman of MC-BBL Eastern Europe between 1995 and 1998. Mr. Rudloff was chairman and CEO of Credit Suisse First Boston Ltd from 1989 to 1993, and member of the executive board of Credit Suisse Zurich. Between 1968 and 1980, Mr. Rudloff served at Kidder Peabody International, where he became chairman in 1978. In 1980, he was also nominated to the board of Kidder Peabody Inc. New York. Mr. Rudloff is currently vice chairman of Rosneft. Mr. Rudloff also served as chairman of the International Capital Market Association from 2005 until May 2011. He was vice chairman, member of the audit committee and head of the compensation committee of Novartis from 1996 until 2011.
He was also chairman of BlueBay Asset Management Ltd from 2001 to 2010.
He has also been and remains a board member of Thyssen Bornemisza Group since 1995, ABD Capital SA since 2003, on the advisory board of Energie Baden-Wurttemberg since 2000 and the advisory board of Landeskreditbank Baden-Wurttemberg since 1993.
Mr. Rudloff is a chairman of the Marcuard Group, a privately held asset management group of companies. Mr. Rudloff graduated from the University of Berne cum laude in 1965 with a degree in Economics.
(German, 11 October 1940)

Changes to the Board of Directors in 2012

Having served with NWR (and prior to reincorporation in the UK with NWR NV) since 15 August 2006, Hans Jürgen Mende, Non-Independent Non-Executive Director, resigned with effect from 31 January 2012.

Mike Salamon, former Executive Chairman of the Board (and board of NWR NV), retired from all his positions in the NWR Group effective as at 30 September 2012. From 1 September 2007 Mr. Salamon led the Group through a succession of major strategic milestones such as completion of the IPO, reincorporation, and meaningful investment in new mine infrastructure. Mr. Penny took over the role of Executive Chairman of NWR and leadership at the Group level.

Following his retirement as CEO of OKD and Executive Director of the Company (as at 31 December 2013), Klaus-Dieter Beck continues to serve on the Board as a Non-Independent Non-Executive Director until 31 March 2013 to provide continuity in the transition period.
Mr. Fabián succeeded Mr. Beck as CEO of OKD and joined the Board as an Executive Director from 1 January 2013.

Corporate Governance

The Corporate Governance Policy of NWR is based primarily on the UK Corporate Governance Code and also complies with the spirit of the broad requirements of corporate governance codes in the Czech Republic and Poland. The policy formulates the standards of governance that NWR's Board of Directors intends to uphold and ensures the maintenance of a coherent and effective system of governance. The policy can be found at www.newworldresources.eu.

The Company's policy is to achieve best practice in its standards of business integrity in all its activities around the world. This includes a commitment to follow the highest standards of corporate governance throughout the Group. This section of the annual financial report describes how the Company has applied the main principles set out in the UK Corporate Governance Code.

Attendance at Board and committee meetings

There are six committees of the Board: the Audit and Risk Management Committee; the Remuneration Committee; the Finance and Investment Committee; the Safety, Health and Sustainability Committee; the Real Estate Committee and the Nomination Committee. The members of the committees are members of the Board.

Attendance at Board meetings including the strategy meeting and committee meetings during the year is outlined below. Please note that a Director who appointed an Alternate Director to attend the meeting in his stead, was treated as having attended the meeting for the purpose of the below table.

	NWR Board meetings[2]	Audit and Risk Management Committee	Remuneration Committee	Finance and Investment Committee	Safety Health and Sustainability Committee	Real Estate Committee	Nomination Committee
	(10)	(6)	(6)	(5)	(4)	(5)	(6)
Gareth Penny[1]	2	–	–	2	1	–	2
Marek Jelínek	10	–	–	5	–	–	–
Zdeněk Bakala	8	–	5	4	–	–	–
Peter Kadas	6	–	–	5	–	–	–
Klaus-Dieter Beck	10	–	–	–	4	–	–
Pavel Telička	10	–	–	–	–	–	–
Kostyantin Zhevago	5	–	–	–	–	–	–
Bessel Kok	10	5	6	–	–	–	6
Hans-Jörg Rudloff	9	3	5	–	–	–	–
Steven Schuit	10	6	–	–	4	5	–
Paul Everard	9	–	–	–	4	5	–
Barry Rourke	10	6	–	–	–	5	6
Directors who resigned in 2012							
Mike Salamon[2]	9	–	–	4	3	–	4
Hans-Jürgen Mende[3]	0	–	–	–	–	–	–

Attendance of Mr. Fabián is not included as he has been appointed as a Director with the effect as of 1 January 2013.
[1] Mr. Penny has been appointed as a Director with effect as of 3 September 2012 and has attended all Board and Committee meetings taking place after his appointment.
[2] Mr. Salamon resigned effective as at 30 September 2012 and thus did not attend the November meeting of the Board and Finance and Investment and Nomination Committees.
[3] Mr. Mende submitted his resignation already in December 2011 well before the date of the first Board meeting in 2012. Thus, he did not attend any Board meeting in 2012.

Meeting of Non-Executive Directors

The Non-Executive Directors, except for Mr. Zhevago, also met once during 2012 – without Executive Directors being present – to discuss the performance of the Board's Chairman and other Executive Directors. The session was chaired by the Senior Independent Director.

Directors

Composition of the Board

NWR has a one-tier Board comprising both Executive and Non-Executive Directors. The Board is presided over by its Executive Chairman, Gareth Penny, who succeeded Mike Salamon in October 2012. As at 31 December 2012, the Board had 12 members in total. Of these, three were Executive Directors and five were Independent Non-Executive Directors. This composition will remain the same following the change which came into effect on 1 January 2013, appointment of Mr. Fabián as new Executive Director and the one which will become effective on 31 March 2013 – Mr. Beck's resignation from his positions in the NWR Group.

Non-Executive Directors assist in developing NWR's strategy and also monitor the performance of Executive Directors and Group management. Non-Executive Directors are entrusted with such duties as are or will be determined by or pursuant to the Articles of Association or a resolution of the Board.

The Chairman facilitates the work of the Board and ensures its effectiveness in all aspects of its role. Assisted by the Company Secretary, the Chairman is responsible for setting the Board agendas, ensuring that Directors receive all the information and support necessary to carry out their role, including adequate induction and training. The Chairman has authority to act and speak for the Board between its meetings, and, together with the Chief Financial Officer, acts as the main point of contact between Non-Executive Directors and senior management of the Group. The Chairman also decides on certain executive matters once the Board has granted him authority.

Contrary to provisions of A.2.1 of the UK Corporate Governance Code, the Company has appointed Mr. Penny as an Executive Chairman, who exercises the role of the Chief Executive Officer and Chairman. The fusion was intensely discussed by the Nomination Committee during the course of 2012, and NWR continues to believe that the presence of an Executive Chairman is appropriate to provide strategic and operational leadership and balance at Group level in the Group structure which is strong at the operating company level. The presence of majority shareholder representatives on the Board, who were consulted prior to the appointment, alongside Independent Non-Executive Directors guarantees that there are appropriate checks and balances in place.

The authority to achieve NWR Group's corporate objectives has been delegated to the Chief Financial Officer of NWR, Marek Jelínek. He is responsible for the Group finance and administration, and reports to the NWR Board and its Executive Chairman. He oversees the planning, financial control, accounting, restructuring, mergers and acquisitions, strategic expansion, and investor relations functions throughout the Group. He is also responsible for ensuring that financial and other information disclosed publicly is timely, complete and accurate.

From 1 January 2013, Ján Fabián succeeded Klaus-Dieter Beck, as Chief Executive Officer of OKD, and Chairman of OKD's board of directors. Ján Fabián is responsible for the operation of OKD and also he reports to NWR's Board. During the course of 2012 Ján Fabián oversaw the operations of NWR KARBONIA and OKK and reported about them to the Board.

Audit and Risk Management Committee ('ARMC') report

Bessel Kok (Chairman)
Hans-Jörg Rudloff
Barry Rourke
Steven Schuit

The ARMC is staffed solely by Independent Directors to reflect the independent nature of the work that the ARMC undertakes.

The Board has determined that ARMC members are independent and have the skills and experience necessary to contribute meaningfully to the ARMC's deliberations. In addition, all members have requisite experience in accounting and financial management.

Main responsibilities

The role of the ARMC is to ensure the integrity of financial reporting and the audit process and to ensure the effectiveness of the internal audit and risk management systems. To this end, the ARMC of NWR supports and advises the Board in its work by:

» overseeing the integrity of consolidated financial statements and consolidated accounts;
» reviewing with the Board and auditors the integrity of the financial statements and other formal announcements relating to NWR's financial performance;
» advising the Board on audit, accounting and financial disclosure matters regarding the Real Estate Division of NWR;
» reviewing the effectiveness of the systems for internal control, compliance, budgeting, forecasting and financial reporting of the NWR Group, ensuring both qualitative and quantitative metrics are used, and ensuring procedures for identifying strategic and business risks are in place;
» reviewing reports on any material breaches of risk limits and the adequacy of proposed actions as well as compliance issues;
» advising the Board on conflicts of interests, related party transactions and loans to Directors;
» reviewing the adequacy and security of the NWR's arrangements for raising concerns about possible wrongdoing in financial reporting or other matters;
» reviewing the NWR's procedures for detecting fraud and bribery (and their prevention) and any breaches arising under the Code of Ethics and Business Conduct and the Business Integrity Policy;
» approving the remit of the risk management function and ensuring it has adequate independence, resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
» monitoring the effectiveness of the Whistleblower Procedure within the Group; and
» advising the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk, before a decision to proceed is taken by the Board.

For the responsibilities towards the external and internal auditor, please see below 'External Audit' and 'Internal Audit'.

In addition, the Board has delegated to the ARMC the authority to approve of the Company's quarterly financial statements and half yearly financial statements, with such authority to be valid (subject to further renewal) until 31 December 2013.

Activities undertaken during the year

In 2012, the ARMC met six times. NWR's Chief Financial Officer attended all meeting of the ARMC. The Group's internal auditor and the external audit partners observed all meetings of the ARMC, except for the extra-ordinary ARMC meeting held in January 2012. The Group Risk Manager regularly attended the Committee meetings to discuss the identified Group top risks accompanied, as necessary, by the appointed risk holders. In accordance with its charter, the ARMC also met with

Corporate Governance

the external audit partner as well as with the Group's internal auditor without management present. The Committee received a detailed presentation focusing mainly on the following risks: environmental damage, machinery availability, personal risk, competency risk and reputational risk. In November 2012, the ARMC recommended for approval by the Board that the Group's internal audit function be moved in-house.

The ARMC reviewed NWR's quarterly, semi-annual and annual financial statements, including the press releases that accompanied them. The ARMC discussed these statements with the external auditor. While discussing the annual and semi-annual results, it also recommended for approval by the Board the payment of the final 2011 dividend and interim 2012 dividend. The Committee reviewed the 2013 budget during its November 2012 meeting.

Integrity of financial reporting

The ARMC assists the Board in ensuring the integrity of financial reports to shareholders, bondholders and banks by reviewing the budget, and together with the external auditor, the quarterly and half-yearly statutory and consolidated financial statements, preliminary announcements and press releases related thereto.

The ARMC receives regular reports from the Real Estate Committee and the Health, Safety and Sustainability Committee on their activities to ensure adequate oversight by the ARMC of all key Group risks. The ARMC also regularly receives performance updates, treasury reports and information on the Company's legal affairs, M&A transactions, Group tax position and insurance policies.

The ARMC reports to the Board on its discussions and submits its recommendations to the Board for approval. The ARMC has the authorisation to approve the Company's quarterly and half yearly financial statements.

Financial policies

At NWR (consolidated) level, the financial statements are produced under IFRS whilst the subsidiaries of NWR produce their stand-alone accounts in accordance with the relevant applicable accounting standards. Further to a recommendation of the ARMC, Group financial policies and procedures have been consolidated to enable adequate oversight of internal control over financial reporting and the budgeting process.

Payment policy: As regards the payment of creditors, the policy applied by NWR (as well as the Group) is to agree credit terms prior to commencement of trading. Subject to any items of genuine dispute, it is Group policy to pay creditors within the terms agreed. Trade creditors of the Company as at 31 December 2012 were equivalent to 47 days' purchases, compared to 49 days in 2011.

External audit

NWR is a company incorporated in England and Wales, with its headquarters in the Netherlands and operations located in the Czech Republic and Poland, therefore the English, Dutch, Czech and Polish offices of the external auditor must be highly involved in the audit process. Except for an extra-ordinary meeting held in January 2012, the representatives of the external auditor attended all meetings of the ARMC.

The external auditor provided the ARMC with regular status reports on its audit work based on the approved 2012 audit plan. Following a preliminary risk assessment, the 2012 audit plan focused on the identified key risks for the NWR Group, having critical financial statement impact, considering its external and internal business environment. Similarly to last year these included in particular mining damages and closure provisions, expense treatment concerning the Dębieńsko project, impairments for property, plant and equipment inventories, taxation, hedge accounting, employee benefits, share based payments and related parties. The audit plan and the reports have been reviewed and approved by the ARMC.

The ARMC is also responsible for reviewing related party transactions against internal policies and procedures. Related party transactions are audited by the external auditor as part of the Group audit. These typically include transactions between the Real Estate Division and the Mining Division, transactions between the Group entities and related party transactions of the Board members of the individual Group entities. The external auditor did not identify any significant issues.

The ARMC assesses the effectiveness, objectivity and independence of the external auditor, taking into consideration UK professional regulatory requirements, its terms of engagement, audit plan, scope of work and the review process. The ARMC has primary responsibility for making recommendations to the Board, for it to put to the shareholders for their approval at the AGM, on the (re-)appointment and removal of the external auditor. With regard to the external auditor, the ARMC is further responsible for approving its remuneration and terms of engagement, scope of its work, approving the audit plan and reports and monitoring of provision of non-audit services to NWR and its subsidiaries and the related fees, in order to preserve the independence of the external auditor.

In 2012, the external auditor provided NWR with services in relation to the bond issue by NWR NV, assisted with the considered change of presentation of the income statement captions and also advised on certain tax aspect in relation to NWR KARBONIA. With knowledge of these services, the ARMC concluded that the independence of the external auditor was safe-guarded and the external auditor is taking measures to preserve its independence.

Management responses to issues raised are discussed with the Chief Financial Officer. The reviews of the ARMC confirmed that all significant matters had been satisfactorily resolved in 2012.

Following this process, the ARMC recommended that the Board puts to the shareholders for their approval the appointment of KPMG Audit Plc as the external auditor at the AGM on 26 April 2013 in Amsterdam in the Netherlands.

Internal audit

As of 1 January 2013, the Group internal audit function has been reorganized and going forward will be carried out in-house with Petr Hanzlík becoming the Group Internal Auditor. From November 2008 until 31 December 2012 the internal audit function at the Group level was outsourced. In line with its charter, the Group's Internal Auditor continues to be responsible for developing and overseeing the implementation of consistent internal auditing policies within the Group, delivering the audit plans and audit assignments, preparing internal audit charters and reporting on Group risk management and internal control.
The Group's Internal Auditor reports to the ARMC and its Chairman in particular on the key findings of the completed audits and the status of their implementation to the ARMC. He has all necessary access to organisational units and their management and the right to request information and explanations.

The Group Internal Auditor has a local internal audit team at OKD, which assesses whether the internal control, risk management, and governance processes are adequate and effective. The team reports to the senior management team and the audit committee of OKD. Annual reports are submitted to OKD's audit committee, the board of directors and the supervisory board of OKD. With both functions now in-house and sharing common personnel, the OKD internal audit team works closely with the Group's Internal Auditor.
The internal audit functions at NWR and OKD have aligned audit processes on both levels and supervised implementation of their audit recommendations. Internal audit in the Polish operations is carried out by the Group internal audit function.

The main responsibilities of the ARMC regarding the Group internal audit is to make recommendations to the Board on the appointment and dismissal of the Group Internal Auditor, reviewing the remit of the Group internal audit and the annual audit plan, and ensure that the internal audit function is adequately resourced.
The ARMC also assesses the performance of the Group's Internal Auditor on an annual basis. As the ARMC's Chairman is a member of OKD's audit committee, the connection between the ARMC and the audit committee of OKD provides for adequate monitoring and communication.

Risk management, internal control and compliance

The ARMC is responsible for overseeing Group risk management and reviewing the internal control and risk management system. This supports the Board in discharging its responsibility for ensuring that the wide range of risks associated with the Group's operations are effectively managed to safeguard shareholders' investment and the Group's assets.

NWR's risk management policy, which applies to all Group entities, sets out the high level objectives of the Group's risk management, risk evaluation, documentation and reporting processes. The risk management policy can be found on the NWR website at http://www.newworldresources.eu/nwr/pages/governance/policies.

The ARMC was kept updated and reviewed in particular the following risks identified by the Group for 2012:

» health and safety;
» CSR and environmental damage;
» personnel availability and competency;
» price;
» licensing;
» reputational;
» corporate social responsibility;
» reporting requirements;
» machinery availability; and
» budgeting and controlling.

The risk assessment and reporting criteria are designed to provide a consistent, Group-wide perspective of its key risks.

The ARMC has a crucial role in stating its opinion and making proposals to the Board on all matters where a potential conflict of interest exists between NWR, its Directors, its controlling shareholder and other shareholders. No potential cases of conflict of interest were examined by the ARMC in 2012.

For further details on risk management, including the Directors' review of the effectiveness of internal controls, please see 'Risk management' on pages 28 to 33.

Whistleblower Procedure

The Whistleblower Procedure is appended to NWR's Code of Ethics and Business Conduct and enables employees to express, on a confidential basis, concerns over the conduct of Directors, officers, management and other employees. These include suspicions of criminal offences, violation of law, (intentionally) wrongful behaviour, manipulation of information, misconduct and reports of suspected breaches of the Business Integrity Policy. The Company Secretary acts as confidential adviser for NWR and its subsidiaries and is responsible for investigating reports of suspected irregularity. The ARMC is responsible for establishing and reviewing the Whistleblower Procedure and is informed of reported cases through regular reports from the Company Secretary. In 2012, one report was provided to the ARMC. The ARMC also reviewed the reports prepared by NWR's subsidiaries, in particular by OKD.

The whistleblower rules can be found on the NWR website at http://www.newworldresources.eu/en/corporate-governance/policies.

The ARMC believes that it carried out all the responsibilities set out in the ARMC's charter and finds the charter adequate.

Remuneration Committee ('RC') report

Bessel Kok (Chairman)
Zdeněk Bakala
Hans-Jörg Rudloff

The Committee consists of Non-Executive Directors appointed by the Board. Independent Directors, including the Chairman of the RC, form majority of the RC members.

To further promote the independent role of the RC, Mr. Kok, Senior Independent Director, took over the chairmanship from Mr. Bakala, a major shareholder representative, who is not considered to be independent. Contrary to provision D.2.1. of the UK Corporate Governance Code Mr. Bakala remains a member of the RC. Due to his unique insights into shareholders' demands, the Board continues to perceive his membership

Corporate Governance

of the RC as critical to the further alignment of executive remuneration with shareholders' interests.

Main responsibilities

The RC's primary role is to set the remuneration for the Executive Directors of the Board, the Chairman of the Board and the Group's senior managers and advise the Board in relation to its responsibilities with respect to the remuneration of the Non-Executives Directors.

The RC's main functions are:

» setting the remuneration for the Executive Directors and the Chairman of the Board and their contractual terms, including (share-based) incentive plan payments, pensions rights and compensation payments (if any);
» producing an annual summary for the Board of the Company's remuneration policy and remuneration practices, which will form the basis of the Remuneration Report of the Board, which itself forms part the Company's Annual Report and is put to shareholders at their annual general meeting;
» preparation of proposals to the Board on:
  › the remuneration policy (no member of the RC may participate in any discussions or make proposals in respect of his own remuneration);
  › the individual salary levels, bonuses and other benefits for the Group's senior managers, as the case may be;
  › contractual terms for the Non-Executive Directors of the Board; and
  › share-based incentive plans.

Activities undertaken during the year

The RC met six times during 2012, applying the principles of the Company's Compensation Manual and exercising its duties under the Deferred Bonus Plan. For more details on the Compensation Manual and the Deferred Bonus Plan, please refer to the Remuneration Report on page 96.

The Committee performed its regular annual duties, including:

» the review of the remuneration of the Executive Directors and the fee levels for the Non-Executive Directors in 2011 and found them appropriate also for 2012;
» determined whether the performance conditions set up for options granted on under the Stock Option Plan and granting of the annual bonus under Deferred Bonus Plan for 2011 were met;
» approval of the participation of certain Group employees in the Deferred Bonus Plan in the bonus year 2012;
» setting the Group-wide performance criteria for 2012 and those for an Executive Director participating in the Deferred Bonus Plan.

In connection with the appointment of a new Executive Chairman, the RC has approved the terms of appointment of Mr. Penny. The RC also revised the CFO's terms and approved the extension of his notice period to three months. At the level of OKD, the RC thoroughly examined the remuneration of OKD's CEO and approved the package of Mr. Fabián who became the Executive Director and assumed that the position of OKD's CEO. As regards the remuneration of senior management of the Group, at the RC's proposal, the Board changed the Deferred Bonus Plan to increase the long-term share incentive for senior managers. The RC also approved certain good leaver proposal under the Stock Option Plan. The RC also discussed and agreed to the change of its Chairman. Further details on remuneration may be found in the Remuneration Report on page 96.

The RC is of the opinion that it has carried out all the responsibilities set out in the Committee's charter.

Finance and Investment Committee ('FIC') report

Peter Kadas (Chairman)
Zdeněk Bakala
Gareth Penny
Marek Jelínek

The members of FIC are appointed by the Board and include Executive and Non-Executive Directors and NWR's Chief Financial Officer.

The members of the FIC have changed during the course of 2012, with Mr. Penny joining the FIC to replace Mr. Salamon who retired from the Board.

Main responsibilities

The main functions of the FIC are:

» reviewing and presenting NWR Group's annual budget to the Board;
» reviewing, approving and recommending to the Board all major strategic or financial investments and divestments and other major capital decisions;
» reviewing the adequacy of NWR Group's capital structure;
» advising on relationships with banks, rating agencies and financial institutions;
» providing oversight and guidance on funding and treasury management; and
» making decisions on all matters related to NWR subsidiaries.

Activities undertaken during the year

In 2012, the FIC met five times. Exercising its regular duties the FIC made decisions regarding financial and operating matters of NWR's subsidiaries, including changes in the subsidiaries' boards. It also closely monitored the financial and operational results of the Group, and in particular the Group's debt position. In the light of the maturity profile of the Group's debt, the FIC discussed a new bond issue by the Group. In November, 2012 the Chief Financial Officer and the new Executive Chairman presented the FIC with a strategy outlining different scenarios that could be pursued by the Company. The FIC reviewed the Group's 2012 budget and also, in November 2012, the Group's 2013 budget; both were recommended for the Board's approval.

The FIC is of the view that its composition is appropriate and that its members have carried out all duties and responsibilities set out in the charter.

Safety, Health and Sustainability Committee ('SHSC') report

Paul Everard (Chairman)
Gareth Penny
Klaus-Dieter Beck
Ján Fabián
Steven Schuit

The SHSC consists of the Executive Chairman, one Executive Director, Non-Executive Non-Independent Director and two Independent Directors.

The composition of the SHSC changed during the course of 2012, with Mr. Penny joining the SHSC to replace Mr. Salamon who retired from the Board. On 14 March 2013, Mr. Fabián became a member of the SHSC which he used to attend on a regular basis in his former role of NWR Chief Operating Officer. Also due to his resignation from the Board, Mr. Beck will cease to be a SHSC member as at 31 March 2013.

Meetings of the SHSC were attended by two external mining experts, and members of the OKD's board of directors, Stan Suboleski and Karl Friedrich Jakob and Head of Corporate Communications and Sustainability at NWR, responsible for the sustainability matters for the whole NWR Group, Petra Mašínová. Stan Suboleski is currently Senior Vice President of Evan Energy Investments and also serves on the Board of Inter-American Coal Company. He was previously a Commissioner with the US Federal Mine Safety and Health Review Commission. Karl Friedrich Jakob held numerous prominent managerial positions in Germany as well as international mining companies and also worked for the German State Mining Authority. At the present time Mr. Jakob is a president and CEO of the RWTUEV Foundation. Mrs. Mašínová worked until 4 February 2013 as the Head of Corporate Communications and Sustainability at NWR and as the Chief PR and Communication Officer at OKD. Before joining NWR she worked as EU Funds Director at Erste Bank and as a director of the EU department at the Office of the Government of the Czech Republic. Sustainability Manager Tomáš Rak, also attended several meetings.

Main responsibilities

The SHSC's main role is in the area of sustainability and sustainable operations. According to its charter, the SHSC assists the Board in its oversight of corporate and social responsibilities with a special emphasis on health, safety and environmental risk within NWR and its subsidiaries as well as the Group's compliance with applicable legal and regulatory requirements associated with CSR and HSE matters.

The SHSC's main duties in the CSR area are:

» monitoring and reviewing the internal policies and systems within the Group for implementing the sustainability programmes, frameworks and objectives;
» monitoring and reviewing the Group's performance in relation to sustainability matters and follow up on the achievement of the respective key performance indicators and targets;
» overseeing preparation of sustainability reports (as well as a stand-alone CSR section); and
» supporting stakeholder dialogue and engagement on sustainability performance.

The SHSC's main duties in the HSE area continue to be to:

» overseeing the Group's performance on health, safety and environmental matters;
» reviewing reports and meeting with senior management of the subsidiaries to discuss the effectiveness of the Group's policies and systems for identifying and managing material HSE risks; and
» monitoring the impact of operations on the Group's reputation.

For both CSR and HSE matters, the SHSC is responsible for:

» reviewing the policies and systems within the Group for ensuring compliance with applicable social, health, safety, environment, legal and regulatory requirements as well as for effective and positive employee and community relations;
» liaising with the ARMC to ensure adequate oversight of the Group's systems for managing the CSR and HSE risks;
» reviewing and, if appropriate, making recommendations to the Board on the areas of CSR and HSE, and others.

Activities undertaken during the year

In 2012, the SHSC met four times and conducted its regular site visit to the OKD mines in the Czech Republic noting a visible improvement to the quality of POP longwalls there.

At its meetings, the SHSC reviewed the health, safety and environmental reports of NWR's core operations in particular by OKD and OKK. Throughout the year, the SHSC also received detailed reports on extraordinary events and fatalities, always reviewing the cause and potential preventive measures. OKD's CEO kept the SHSC informed of the Group's 2012 Safety Campaign focusing on safety in the work place, in particular through education and training of employees. The SHSC scrutinised the breathable dust exposure in the mines and ways to reduce it, including technologies and practices used in the US and German mines. As regards the environmental matters, air pollution in the Ostrava region was discussed at the SHSC, as OKK was involved as one of the regional industry players. To the SHSC's satisfaction, OKK's operation is well within the limits imposed.

The SHSC saw to the preparation of the first ever Sustainability Report 2011 of NWR which meets the highest GRI standards. The SHSC looked at the structure, format and content of the Sustainability Report 2011 and recommended it for approval by the Board.

The SHSC believes that it has successfully fulfilled its duties and responsibilities set out in its charter.

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Real Estate Committee ('REC') report

Barry Rourke (Chairman)
Steven Schuit
Paul Everard

The REC is wholly composed of Independent Directors appointed by the Board.

Main responsibilities

The role of the REC is to oversee the assets and liabilities of the Real Estate Division and the interaction between the Mining Division and the Real Estate Division of NWR. In its advice to the Board, the REC endeavors to ensure that the interests of NWR and its shareholders (of each separate class of shares) have been identified and adequately taken into consideration. The REC supports and advises the Board in its work by:

- advising the Board on matters regarding the Real Estate Division of NWR (except in relation to audit, accounting and financial disclosure matters, which fall within the remit of the ARMC);
- monitoring interactions between the Mining Division and the Real Estate Division and all transactions affecting the assets of the Real Estate Division with third parties and advising the Board in respect thereof;
- developing and interpreting the Divisional Policy Statements, proposing amendments, providing guidance on provisions and overseeing its implementation; and
- overseeing NWR subsidiaries' compliance with the Divisional Policy Statements.

Activities undertaken during the year

During 2012, the REC met five times and NWR's Chief Financial Officer attended all meetings. All meetings were held as a joint meeting with the Real Estate Committee of NWR NV.

In line with its responsibility for supervising transactions between the Mining Division and the Real Estate Division, the REC continued to monitor real estate transactions of NWR's core operations, including transactions with third parties. The REC also looked into a long-term building demolition plan for certain mining areas. In 2012, all proposed transfers of real estate were approved by the Board as well as by the holder of the B shares. The REC put forward a new Real Estate Transaction Policy unifying the practice of conducting real estate transactions irrespective of how they are structured. The REC also reviewed the process of securing and maintaining the rights of mining under land belonging to third parties.

In the light of the progress made with the disposal of the assets registered in the Real Estate Division and the strategy concerning the remaining assets going forward, the REC discussed its role and concluded that it remains important to safeguard the balance between the A and B Shareholders' rights.

The REC further reviewed, on a regular basis, P&L accounts of the Real Estate Division.

The REC regularly reported to the Board and the ARMC on its activities and findings.

Divisional Policy Statements

The Divisional Policy Statements were adopted by the Board on 8 April 2011 with effect from 6 May 2011. They refer to the Mining Division and the Real Estate Division that were originally created within the NWR Group on 31 December 2007.

The Divisional Policy Statements have been prepared and adopted on the basis that the Mining Division has the right to maintain: (i) the undisturbed continuation of its mining, coking and related operations that are conducted on certain assets of the Real Estate Division; and (ii) unrestricted access to such assets of the Real Estate Division in connection with such mining, coking and related operations.

The Divisions operate separately for accounting and reporting purposes. Under the Divisional Policy Statements, OKD and the other subsidiaries of NWR carry out the day-to-day operations of the Real Estate Division. In carrying out such day-to-day operations, they are required to seek prior approval from the Board, after the REC has provided its advice to the Board, when proposing to enter into transactions which: (i) are not considered by the Board to be in the ordinary course of business of the Real Estate Division; or (ii) relate to assets of the Real Estate Division, which have a book value of 5 per cent or more of the total book value of the assets of the Real Estate Division.

The Divisional Policy Statements as well as the Book of Procedures dealing with the accounting aspects of the Divisional Policy Statements, have been implemented by NWR's core operations. Compliance is monitored by the REC through monthly reports received from the Company Secretary who has been designated to act as an intermediary between the REC, NWR and its subsidiaries.

The Divisional Policy Statements are available on NWR's website at http://www.newworldresources.eu/en/corporate-governance/policies.

The REC believes that it has carried out all the responsibilities set out in the REC's charter.

Nomination Committee ('NC') report

Barry Rourke (Chairman)
Bessel Kok
Gareth Penny

The members are appointed by the Board and include Executive and Independent Directors.

The composition of the NC changed during the course of 2012, with Mr. Penny joining the NC to replace Mr. Salamon who retired from the Board. Later in 2012, Mr. Rourke took the chair over from Mr. Kok who stepped down due to accumulation of chairmanships (Mr. Kok is also a chairman of the ARMC and RC).

Main responsibilities

The main functions of the NC are:

- reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- making recommendations to the Board concerning succession planning for both Executive and Non-Executive Directors and in particular for the key roles of the Chairman of the Board and the Chief Executive Officer and senior managers of the Group;
- identifying and nominating for the approval of the Board, candidates to fill Board vacancies and evaluating the balance of skills, knowledge, experience and diversity (gender) on the Board, and, in the light of this evaluation preparing a description of the role and capabilities required for a particular appointment; and
- reviewing the results of the Board performance evaluation process that relate to the composition of the Board; and
- making recommendations to the Board on re-election by shareholders of Directors under the annual re-election provisions of the UK Corporate Governance Code and the retirement by rotation provisions in NWR's Articles of Association.

Activities undertaken during the year

In 2012, the NC met six times, mostly to discuss the succession planning in respect of the Executive Chairman of the Board. The NC considered the split of the role into the a Group CEO and non-executive chairman and decided that in the light of the Group structure and shareholding, the existence of the role of the Executive Chairman is preferable. The NC also looked at potential successors (inside and outside of the Group) to Mr. Salamon who announced his retirement. Given the limited and known pool of candidates meeting the specified criteria neither an external search agency nor open advertising has been used the search for the new Executive Chairman contrary to provision B 2.4 of the UK Corporate Governance Code, in connection with the appointment. These efforts resulted in a recommendation to the Board for the appointment of Mr. Penny as new Executive Chairman. In connection with Mr. Beck stepping down as OKD's CEO (effective as of 1 January 2013), the NC expressed its support for Mr. Fabián taking over and recommended his appointment to the Board. The NC performed the 2011 Board in-house evaluation and initiated the 2012 evaluation in co-operation with an external evaluator - Corporate Training Partnership Ltd (which has no other relations with the Company). Reviewing the structure and composition of the Board, the NC also took notice of the diversity (with particular focus on gender) and recognising its importance intends to put forth new measures in support of diversity.

The NC is of the view that its composition is appropriate and that its members have carried out all duties and responsibilities set out in the charter. The NC also considers its charter to be adequate.

Board Effectiveness

Director independence

The Board determines whether or not a Director is independent, based on the independence criteria contained in NWR's Corporate Governance Policy. A Director shall not be deemed to be independent if the Director concerned (or his wife/her husband, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree) has been an employee of the NWR Group within the last five years; receives personal financial compensation from any NWR Group company other than the compensation received as Director; has had an important business relationship with NWR or a company associated with it in the year prior to the appointment; holds a cross-directorship or has any significant links with other Directors through involvement in other companies or bodies where these cross-directorships or links would materially interfere with the Director's objective, unfettered or independent judgment or ability to act in the best interests of NWR; holds directly or indirectly more than 10 per cent of the A Shares or B Shares; or is a member of the (management or supervisory) board or senior management of an entity, which holds directly or indirectly at least 10 per cent of the A Shares or B Shares.

Contrary to provision B.1.2 of the UK Corporate Governance Code, less than half the Board, excluding the Chairman, comprises of Independent Non-Executive Directors. The Board believes that the current proportion of the Independent Non-Executive Directors is adequate given the ownership structure of the Group. Moreover the quality and deployment of these Directors ensures Board effectiveness. The Independent Non-Executive Directors are entrusted with the key tasks that require independence: staffing of the Audit and Risk Management Committee, which ensures the integrity of financial reporting and monitors the audit functions as well as potential conflicts of interest, and staffing of the Real Estate Committee, which protects the interest of holders of A Shares and B Shares. The Independent Directors also chair the Remuneration Committee and form its majority, thus monitoring the remuneration and incentives for key executive. The same applies to the Nomination Committee, which oversees Board's composition and effectiveness. However, the Nomination Committee will look into ways to accommodate this provision of the UK Corporate Governance Code, which was also recommended in the external Board evaluation.

Director appointment and re-appointment

Both the Company by ordinary resolution and the Directors have the power at any time to elect any person to be a Director, but the number of Directors shall not exceed the maximum number fixed by the Articles of Association of the Company. Any person so appointed by the Directors shall retire at the next Annual General Meeting and shall then be eligible for election. Under the Articles of Association each Director shall retire at the Annual General Meeting held in the fourth calendar year following the year in which he was elected or at such earlier Annual General Meeting as the Directors may decide. The office of a Director shall be terminated on the occurrence of any of the events listed in article 81 of the Articles of Association. The Company, by an ordinary resolution, may, in accordance with its Articles of Association, remove any Director from office and elect another person in place of a Director so removed.

In accordance with the UK Corporate Governance Code, the Directors are intended to be subject to annual (re-)elections. In any case, all Directors will resign at the forthcoming AGM on 26 April 2013 and will offer themselves for re-election.

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NWR Board Composition as at 1 January 2013

Gareth Penny
Executive Chairman
Mining / strategy & restructuring

NWR Board

Marek Jelínek
Executive Director
Finance / capital markets

Bessel Kok
Independent Director
Finance / CE region

Steven Schuit
Independent Director
Corporate governance

Barry Rourke
Independent Director
Finance/ audit & review

Hans-Jörg Rudloff
Independent Director
Finance / global banking

Ján Fabián
Executive Director
Mining & coking operation

Klaus-Dieter Beck[1]
Non–Independent Director
Coal mining operation

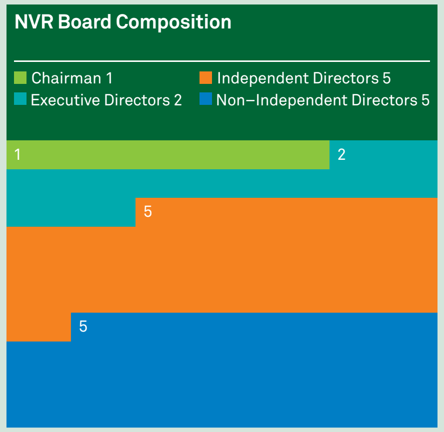
Paul Everard
Independent Director
Mining / safety & health

Pavel Telička
Non–Independent Director
International & EU affairs

Kostyantin Zhevago
Non–Independent Director
International coal market

Peter Kadas
Non–Independent Director
M&A / strategy

Zdeněk Bakala
Non–Independent Director
M&A / strategy



[1] Mr. Beck resigned from the Board as at 31 March 2013 and will not stand for re-election at the forthcoming AGM.

To assist with the Directors' appointment and re-appointment, NWR has a Nomination Committee, which is responsible for identifying suitable candidates for appointments to the position of Director and evaluating the balance of skills, knowledge, experience and diversity of members of the Board.

Following the external evaluation of the Board conducted between April and November 2012 by Corporate Training Partnership Ltd, the results of which were also discussed by the Nomination Committee, the Board was satisfied that throughout 2012 each Director's performance continued to be effective and that each Director continued to demonstrate commitment to the role, and recommends the re-election of each oft the Directors standing for re-election at the forthcoming AGM. The expertise and experience of the Directors standing for re-election is described in more detail below.

Board expertise

The Board has the appropriate skills and experience necessary to discharge its functions. Executive and Non-Executive Directors have the experience required to contribute meaningfully to the Board's deliberations and resolutions, including international operational and financial experience, knowledge of the mining sector and capital markets, as well as command of health, safety and sustainability issues.

Mr. Penny is a recognised and experienced professional in the international mining sector and brings to the Board his deep experience in many aspects of the mining business. His particular contribution is in the area of strategic initiatives and restructuring. He provides the Board with strategic and organisational leadership at the Group level.

Mr. Fabián has a considerable technical and operational knowledge of the mining and coking operations, gained not only during his long track record with the Group. Given his last position as Group's COO, he has an excellent overview of the safety, health and sustainability trends and issues. He provides leadership at the operational level.

Mr. Jelínek, as CFO, continues to be on top of the capital financing of the Group, leading a new bond issue by NWR NV and has contributed with his extensive knowledge of and experience with the international financial and capital markets and their practical impact of the business of the Group. Based on his regular involvement with the broad range of investors, he delivered market feedback on Group's performance to the Board.

As experienced investors and shareholders' representatives, Messr. Bakala and Kadas provide the Board with their M&A know-how and valuable insights into shareholders' requirements, in particular on further development projects, strategy and remuneration. This facilitates alignment of the Board with shareholders' interests.

To cover the cross-boarder nature of the Group's business and potential future growth opportunities, Mr. Telička provides his knowledge of EU affairs and international political scene and Mr. Zhevago contributes with comparative knowledge of the Ukrainian coal market.

As Senior Independent Director, Mr. Kok capitalizes his top managerial experience and knowledge of the CEE market, and brings to the Board an independent view on the situation in the region where the Group operates. As Chairman of the Audit and Risk Management Committee, together with the other Independent Directors, Messr. Rudloff, Schuit and Rourke, they brought to the Board strong independent control of financial reporting and risk management.

Mr. Rudloff is a renowned and experienced banker having detailed and accurate information about the global financial market, its developments and sentiments, which he shares with the Board.

With his extensive legal background, Mr. Schuit contributes in particular in the areas of corporate governance, ethics (whistleblower procedure) and compliance where he focuses on combating fraud and bribery.

Further to his numerous executive posts with BHP Billiton, Mr. Everard provides his independent opinion on health, safety and sustainability risks which the Group is facing as well as other challenges faced by its mining business.

Mr. Rourke, as a former audit partner, brings to the Board his vast expertise in the area of financial review and integrity. He has overseen the Real Estate Divisions, making sure that the interests of both A and B Shareholders are adequately protected.

Full biographical details of each Director are given on pages 69 to 73.

Information and professional development

Directors undergo a tailor-made induction process upon joining the Board. They have full access to a regular supply of financial, operational, strategic and regulatory information to help them discharge their responsibilities. Much of this information is provided in presentations by senior management and through the normal management reporting process. They also have access to training and seminars in respect of their duties as Board members. In 2012 all Board members attended an anti-bribery training seminar.

Directors are also entitled to seek, at NWR's expense, independent professional advice where they judge it necessary. To this effect, the Board and its Committees have retained legal, compensation, mining, internal audit and general advisors in 2012.

Company Secretary

In 2012 Lucie Vávrová acted as Company Secretary, appointed by the Board since September 2011. The Company Secretary is responsible for advising the Board on all governance matters and ensuring that Board procedures and functions comply with relevant laws and regulations, and as such, the Company Secretary, inter alia, administers, attends and drafts minutes of Board meetings, its committees and the general meetings of Shareholders, and discharges such other responsibilities the Board has assigned to her.

Board effectiveness and evaluation

The Board engaged Corporate Training Partnership Ltd (which has no other relations with the Company) to conduct an external evaluation of its performance and the performance of individual Directors and Chairman (at that time still Mr. Salamon). The evaluation included a detailed questionnaire and interviews with the Directors, Company Secretary and Ján Fabián (at that time still the Group's COO). The results were collected by the external

Corporate Governance

evaluator and presented in generic form to the Chairman (Mr. Penny), discussed at the Nomination Committee and then presented to the Board in January 2013.

The main conclusion was that NWR is a well run company with good solid governance in place. The culture is professional and international with the subsidiaries culture being well balanced with Executive Directors also from the Czech Republic who contribute their knowledge and experience of local industry. The Company has a strong management team, Non-Executive Directors and Independent Non-Executive Directors of a high calibre and with a wide breadth of knowledge. It has benefitted from the leadership of an excellent Chairman over the last five years. The evaluator also noted the exemplary focus on health, sustainability and stakeholder engagement.

The main recommendations of the external evaluation concerned the composition of the Board, where an appointment of a further Independent Director was advised as well as due consideration of diversity (gender) requirements. These recommendations were noted and will be further looked into starting in 2013. NWR has already implemented the recommendation to appoint an Independent Director as the chairman of the Remuneration Committee.

Competing Engagements

According to the Corporate Governance Policy, a Non-Executive Director should have no more than five board memberships in other companies (with chairmanship of a publicly listed company board counts double) not related between themselves, so that the proper performance of his/her duties is assured. Full-time Executive Directors may not be members of the board of more than two listed companies unrelated to the Group, nor can they be chairmen of the board of a FTSE 100 listed company. The acceptance by an Executive Director of a board membership in a listed company requires the approval of the Board. Other important non-executive positions held by an Executive Director shall be notified to the Board.

Directors' indemnity and insurance

The Articles of Association provide for the relevant officers (Directors, Company Secretary, and directors and company secretaries of associated companies) to be indemnified, to the extent permitted by law (and subject to certain exemptions), against any liability incurred in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company or any associated company of the Company. No amount has been paid under any of these indemnities during the year. The Company has purchased Directors' and Officers' insurance during the year. In broad terms, the D&O insurance policy protects, inter alia, private assets of directors and officers against financial losses from legal liability claims filed against such directors or officers arising out of alleged wrongful acts or omissions, either committed or attempted in the capacity as a director or officer of the company. D&O insurance typically does not cover claims relating to IPO or other securities claims, arising out if or in connection with public offers of securities; in this area the Company (and NWR NV) takes out stand–alone insurance policies for Public Offer of Securities (POSI).

Accountability

Conflict of interest

The Corporate Governance Policy sets out the rules for dealing with conflicts of interest. Directors are required to immediately report any conflict of interest or potential conflict of interest that is of material significance to the Senior Independent Director, and shall provide all relevant information, including information concerning a related party. If the Senior Independent Director has a conflict of interest or potential conflict of interest that is of material significance, he should immediately report to the Board and provide all relevant information.

The Audit and Risk Management Committee is responsible for making recommendations to the Board on potential conflicts of interests and related party transactions. Directors do not take part in the assessment by the Audit and Risk Management Committee of whether a conflict of interest exists.

Code of Ethics and Business Conduct

In addition to its Corporate Governance Policy, NWR has adopted a Code of Ethics and Business Conduct, which governs the behaviour of all officers and employees of NWR and its subsidiaries. Appended to it is the Whistleblower Procedure, which is a reporting mechanism enabling employees to express concerns to the Board's Chairman, Senior Independent Director and the designated officer in relation to the conduct of NWR, its officers and employees. To confirm its commitment to the high standards of conducting business and combating fraud and bribery, the Board has also adopted the Business Integrity Policy.

The core operations of NWR have implemented a corresponding procedure. To increase the effectiveness of the system, OKD has modified the whistleblower procedure so that complaints are now dealt with by an independent internal committee. The Audit and Risk Management Committee monitors, through reports received from the Company Secretary, the effectiveness of the procedure. Further details can be found in the report of the Audit and Risk Management Committee on page 75.

The Code of Ethics and Business Conduct and the Whistleblower Procedure, as well as the Business Integrity Policy are available on NWR's website at www.newworldresources.eu.

Risk management and internal controls

The Board has overall responsibility for the Group's system of internal controls and risk management policies and is also responsible for reviewing their effectiveness. The Board is supported in this area by the work of the Audit and Risk Management Committee. (For further details see the Audit and Risk Management Committee Report on pages 75 to 77) During 2012, the Directors have continued to review the effectiveness of the system of controls, risk management and the Group's high-level internal controls processes. These reviews have included an assessment of internal controls, and in particular, financial, operational and compliance controls and risk management and their effectiveness, supported by management assurance of the maintenance of controls, and report from Group Internal Audit and from the external auditor on matters identified in the course of its statutory audit work. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable (not necessarily absolute) assurance of effective operation and compliance with laws and regulations.

Underpinning these reviews is an annual process by which responsible senior management personnel confirm the adequacy of the systems of internal financial and non-financial controls, compliance with Group policies and relevant laws and regulations and that they have reported any control weaknesses to the Audit and Risk Management Committee.

The internal control framework has been in operation throughout 2012 and continues to operate up to the date of the approval of this Annual Report. The Directors believe that the Group maintains an effective, embedded system of internal controls and complies with the Turnbull Report guidance and, in the view of the Directors, no significant deficiencies have been identified in the system.

Further information about the ways in which we manage our business risks is set out in the Risk management section from page 28, which also contains a list of the principal risks and uncertainties that we face.

Going concern

The Group manages its liquidity through cash (EUR 267 million (2011: EUR 537 million)) and a EUR 100 million Revolving Credit Facility (undrawn at 31 December 2012) which is available until February 2014, subject to compliance with certain covenants.

In anticipation of not being able to meet the requirements of one of the covenants at the end of the first quarter, the Company is currently negotiating revised terms for both the ECA and RCF including suspension of covenants testing.

Should the negotiations fail, the ECA loan would have to be repaid and the RCF would not be available to the Company. Based on its base case forecasts the Company does not believe that it would need to borrow further funds until at least 31 March 2014, whether or not the ECA and RCF remain available.

However, if the currently depressed coking coal prices do not improve (which the Directors consider to be highly unlikely) the Group would, absent mitigating actions, need further funding before that time. The Company has a number of mitigating actions available including accelerating the sale of its inventories, reducing operating costs, factoring receivables and further reducing/deferring capital expenditure, which it believes would provide sufficient liquidity until at least 31 March 2014.

Based on this analysis, the Directors are of the opinion that the NWR Group has adequate financial resources to continue operating for the foreseeable future (that is until 31 March 2014) and that it is therefore appropriate to continue to adopt the going concern basis in preparing the financial statements.

Insider trading

In compliance with relevant laws, rules and regulations of the UK, the Czech Republic and Poland, the Company has a Share Dealing Code that covers dealings in NWR's shares and other securities, disposal of inside information and disclosure of information relating to the securities by the Directors and certain employees of NWR Group. The document restricts dealings during designated prohibited periods and at any time that the Directors and employees are in possession of unpublished price-sensitive information. The Share Dealing Code has been implemented throughout NWR Group and is monitored by NWR's Compliance Officer. A copy of the document can be found on NWR's website at www.newworldresources.eu.

Articles of Association

The Articles of Association of the Company were adopted by a special resolution passed on 8 April 2011 and may be amended by a special resolution at a general meeting of shareholders.

NWR's Articles of Association are available on NWR's website at www.newworldresources.eu.

Relations with shareholders

Market disclosure and relations with shareholders

The Board regards effective communication with shareholders as a priority.

Radek Němeček, Head of Investor Relations, is responsible for the external financial communications of NWR. Together with his team, he manages the ongoing dialogue with equity and credit analysts and NWR's shareholders, bondholders and potential new investors. As part of this process, the Board's Chairman, Chief Financial Officer, as well as other Directors and Investor Relations team meet with shareholders and other market participants in the UK, US, the Czech Republic, Poland and other European countries on a regular basis to discuss the Group's performance, strategy and governance. Additionally, presentations to investors and analysts take place at the time of quarterly, interim and final results as well as sector and broker conferences that the Company participates in throughout the year.

The Board receives regular reports from the Investor Relations department on changes to the shareholding structure, analyst coverage of the stock, feedback from investors including market perception studies, share trading statistics and other information about the views of the capital markets.

The Corporate Communications team is responsible for both external and internal corporate communications as well as the corporate social responsibility policy of NWR.

The financial reports, press releases, regulatory announcements, investor presentations and other information on matters of interest to investors can be found on the Company's website at www.newworldresources.eu.

Senior Independent Director

The Senior Independent Director, Bessel Kok, is available to shareholders if they have concerns, which the Board's Chairman, the Vice-Chairmen or the Chief Financial Officer have not resolved, or if they have concerns related to Board independence. In 2012, Mr. Kok had one meeting discuss the Board's composition.

Share capital, controlling shareholder

BXR Mining B.V. ('BXRM') remains the majority shareholder of NWR, with the ultimate parent company being BXR Group Limited ('BXRG'). As at 31 December 2012, BXRM held 63.58 per cent of NWR A Shares.

Full details on the changes in the shareholding structure of NWR occurring in 2012 may be found in the 'Shareholder information' section on page 168.

Corporate Governance

100 per cent of the B Shares are owned by RPG Property B.V., which is the indirect subsidiary of BXRG.

The Board is satisfied that NWR is capable of carrying on its business independently of BXRM/BXRG and that all transactions and relationships between them are transparent and are carried out independently. The Board makes its decisions in a manner consistent with its duties to NWR and stakeholders of NWR and gives equal consideration to the potentially divergent interests of the holders of both classes of shares in NWR.

To ensure that all transactions and relationships between the Company and BXRM (and the wider BXRG group) are on arm's length terms, the Company is party to a Relationship Agreement with BXRM. If a conflict arises between BXRM and the Company, the Directors with a conflict of interest will take no part in the Board's decisions on that matter. For further information see the 'Certain relationships and related party transactions' section on page 88.

Annual General Meeting of Shareholders

The AGM is an opportunity for shareholders to communicate with the Board. The Chairman will aim to ensure that the respective Chairmen of the Board committees are present at the AGM to answer shareholders' questions. The next AGM will be held on 26 April 2013, at 10:00 CET in Amsterdam, the Netherlands.

Compliance with corporate governance standards

UK Corporate Governance Code

In accordance with the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority, NWR follows the 'comply or explain' approach and states in its Annual Report whether it complied or will comply with the principles of good corporate governance set out in the UK Corporate Governance Code and, if it does not comply, NWR will explain the reasons for such non-compliance in the relevant sections of this Annual Report. Other than provisions A2.1, B1.2, B2.4 and D2.1 discussed on pages 75, 77, 81 and 96, the Company has complied with the principles and provisions of the UK Corporate Governance Code.

Czech Corporate Governance Code

NWR is not obliged by the Czech National Bank or the Prague Stock Exchange to comply with the Czech Code of Corporate Governance.

Although NWR does not apply the Czech Corporate Governance Code as such, the Code is generally similar to the UK Corporate Governance Code and any material deviations are similar to those described above.

Polish Corporate Governance Code

The Company observes the majority of the principles of corporate governance contained in the Code of Best Practice for Warsaw Stock Exchange Listed Companies (the 'WSE Code')[1]. Certain principles of the WSE Code may only be applied to the Company to the extent permitted by and where compatible with its status as a public company, incorporated in the United Kingdom, under the laws of England and Wales. In particular, the WSE Code assumes that a company will have separate supervisory and management boards whereas the Company has a single board consisting of both Executive and Non-Executive Directors. Therefore, the Company only complies partially/is unable to comply fully with Rules I.6, I.7, II.4, II.6, III.1–9 of the WSE Code concerning the supervisory board and its members. In cases where the Company is unable to comply with certain principles directly, it endeavours to comply with the spirit of such principles.

[1] The WSE Code requires companies listed on the Warsaw Stock Exchange to publish a detailed statement on any non-compliance or partial compliance with the WSE Code. The Company is also required to indicate the ways in which it eliminates possible consequences of such non-compliance, or describe steps, which the Company intends to take to mitigate the risk of non-compliance. During the year under review, the Company complied with the WSE Code except in respect of the following rules:

Rule I.6. – A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the Company.

Rule I.7. – Each member of the Supervisory Board should act in the interests of the Company and form independent decisions and judgments, and in particular:

- refuse to accept unreasonable benefits, which could have a negative impact on the independence of his or her opinions and judgments; and
- raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest of the Company.

Rules I.6 and I.7 do not relate to the Company since it has a single-tier board structure. However, the requirements of these Rules are substantially similar to those for Non-Executive Directors under the UK Corporate Governance Code (the 'UK Code') which the Company complies with.

Rule II.4 – A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.

In order to avoid any conflicts of interest the Company has adopted a Corporate Governance Policy (the 'Policy'), enabling the Board to perform both its management and supervisory functions in an effective and transparent manner. Under the Policy, Directors are required to report any potential conflict of interest to the Senior Independent Director (or to the Board as the case may be). If there is a conflict between an Executive Director and the Company, the General Meeting may appoint another person for decisions relating to the transaction involving the conflict. Under English company law, the Board is also subject to the statutory director's duties regime under the UK Companies Act 2006; in particular Section 175 which imposes a duty on directors to avoid conflicts of interest and Section 177 requiring directors to declare an interest in a proposed transaction or arrangement.

Rule II.6 – General Meetings should be attended by members of the Management Board who can answer questions submitted at the General Meeting.

The Board places considerable importance on effective communication with Shareholders. However, the presence of Directors at meetings is not mandatory under English law and while

the Company aims to ensure that the Directors are present at General Meetings of Shareholders (the "General Meeting"), it cannot guarantee that all Directors will be present.

Rule III.1 – In addition to its responsibilities laid down in legal provisions, the Supervisory Board should:

- once a year, prepare and present to the Annual General Meeting of Shareholders a brief assessment of the Company's standing including an evaluation of the internal control system and the significant risk management system;
- review and present opinions on issues subject to resolutions of the General Meeting.

While the Company does not have a Supervisory Board, the above responsibilities are performed by the various committees established by the Board, which are intended to assist with the performance of its duties regarding internal control and risk management mechanisms.

Rule III.2 – A member of the Supervisory Board should submit to the Company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5 per cent of all votes at the General Meeting. This obligation concerns financial, family, and other relationships, which may affect the position of the member of the Supervisory Board on matters decided by the Supervisory Board.

The one-tier Board structure means the Company cannot directly observe Rule III.2.

Rule III.3 – General Meetings should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.

As with the requirement for the Management Board to attend, it is the intention of the Board that Directors attend the General Meetings and answer questions.

Rule III.4 – A member of the Supervisory Board should notify the Supervisory Board of all conflicts of interest, which have arisen or may arise, and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue, which gives rise to such conflict of interest.

The non-compliance with Rule III.4 is addressed by the statement made above in relation to Rule II.4.

Rule III.5 – A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including adoption of resolutions by the Supervisory Board.

This rule is observed by all members of the single-tier Board.

Rule III.6 – At least two members of the Supervisory Board should meet the criteria of being independent from the Company and entities with significant connections with the Company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 (the "Recommendation") on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the Company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5 per cent of all votes at the General Meeting.

As at the date of this statement, five out of 10 Non-Executive Directors meet the independence criteria.

Rule III.8 – Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board should apply to the tasks and the operation of the committees of the Supervisory Board.

Each of the five independent Non-Executive Directors of the Company must meet the independence criteria contained in the Policy. The criteria are based on the best practice requirements contained in the UK Code and are typically more stringent than the requirements of the Commission Recommendation of 15 February 2005 regarding the role of Non-Executive Directors.

Rule III.9 – Execution by the Company of an agreement/transaction with a related entity, which meets the conditions of section II.3 requires the approval of the Supervisory Board.

Any transactions with related entities are monitored by the Audit and Risk Management Committee established by the Board which receives reports from the external auditor. The Committee advises the Board and examines such transactions to ensure they comply with the arm's length requirements of Rule II.3.

As required by the Resolution No. 1013/2007 of the WSE dated 11 December 2007, a description of other relevant information may be found on the following pages of this Annual Report:

Operations and main powers of the General Meeting, shareholders' rights and the exercise thereof are described in 'Shareholder information' section on page 168.

Composition and operations of the managing and supervising bodies of the Company and their committees are described in the Corporate Governance Report on pages 74–81.

Detailed description of the 'Principal Risks and Uncertainties' may be found on pages 28–33.

Directors' report

The Directors' report, which has been prepared in accordance with the requirements of the Companies Act 2006, comprises the following sections:

- Strategy
- Business Review
- Corporate Governance
- Shareholder information
- Ancillary information for shareholders

and has been signed on behalf of the Board.

Lucie Vávrová
Company Secretary
25 March 2013

Certain relationships and related party transactions

The following are material related party transactions and relationships (being contracts and arrangements with those entities owned by ultimate parent of the Group, BXR Group Limited). This information shall be read in conjunction with the Note 9 to consolidated financial statements.

OKD agreements

AWT Transport Agreements

OKD has entered into transport agreements with AWT relating to the transport of coal and other materials from NWR NV to its largest customers (the "AWT Transport Agreements" and each an "AWT Transport Agreement"). The AWT Transport Agreements are umbrella agreements covering periods of 4 years. Under the AWT Transport Agreements, AWT shall provide OKD with non-exclusive transport services. The transport fees to be paid by OKD to AWT are set out in the respective AWT Transport Agreement or in a price agreement for each calendar year amending the relevant AWT Transport Agreement(s) based on the weight of transported goods. The AWT Transport Agreements may be terminated in the event of a material breach or, with or without cause, by either party giving one month prior written notice to the other party. In 2010, agreements were concluded pursuant to public procurement tenders to transport coal and coke with a group of AWT group companies. These contracts' duration ranges from 1 January 2011 to 31 December 2014.

The agreements deal with railway transportation of coal and coke in:

(a) The Czech Republic, where the coal and coke is destined for export. In these agreements, the carrier is an association of AWT Čechofracht, a.s. and AWT;
(b) The Federal Republic of Germany and the French Republic. In these agreements, the carrier is an association of AWT Čechofracht, a.s. and AWT;
(c) The Republic of Poland. In these agreements the carrier is AWT. OKD has an agreement with Metalimex, a.s., who has an agreement with Express Slovakia, a.s., who has an agreement with the carrier, AWT;
(d) The Czech Republic. In these agreements, the carrier is AWT; and
(e) Austria, Greece and Slovenia. This agreement, in which the carrier is AWT Čechofracht, a.s., was originally concluded between OKD and METALIMEX, a.s., and assigned by METALIMEX, a.s. to AWT Čechofracht, a.s.

Factory Railway Agreements

OKD entered into several factory railway agreements with Advanced World Transport, a.s. ('AWT') to provide factory railway transport at OKD mines for an indefinite period of time (the "Factory Railway Agreements" and each a "Factory Railway Agreement"). The fees to be paid by OKD to AWT were either set out in accordance with each respective Factory Railway Agreement or in a separate pricing agreement for each calendar year, which amended the particular Factory Railway Agreement(s). Either party giving 18 months' prior written notice to the other party may terminate the Factory Railway Agreements with or without cause.
The Factory Railway Agreements have been replaced by a single master agreement between OKD and AWT with effect from 1 January 2011 for the period from 2011 to 2020 (which will automatically be extended for another five years, i.e. until 31 December 2025, provided that neither contracting party terminates the agreement by giving six months' notice of termination to the other) (the 'OKD Master Agreement'). The OKD Master Agreement covers all activities to be provided by AWT to OKD at particular business units, including:

(a) railway services and assurance of railway transport on factory railways;
(b) road transport and non-railway technological transport and transportation of raw and washed coal, sludge, etc., including related manipulations;
(c) railway technological transport including related activities; and
(d) manipulation activities with coal and other materials.

All of the above activities are dealt with in subcontracts, which concern specific conditions for particular time periods. Please note that the OKD Master Agreement does not deal with transportation of coal to customers.

OKD trading agreements

OKD has entered into several agreements with AWT in relation to the delivery of coal, coke, sludge and other products. In 2000, OKD entered into purchase agreements with AWT under which AWT sells granulated sediments to OKD. The agreements were originally made for a fixed period of time and later extended for an indefinite period of time. The prices are adjusted annually. The agreements further mention that the granulated sediments are resold to power and heating plants operated by Dalkia and ČEZ, a.s.

Master Services Agreements for Drilling

OKD and DPB entered into two master services agreements for work whereby DPB shall provide OKD with drills for degasation and geological surveying (the 'Master Services Agreements for Drilling'). Amendments to these Master Services Agreements for Drilling shall stipulate the drilling works and price list for the respective calendar year. Individual agreements envisaged by these Master Services Agreements for Drilling shall stipulate the amount of work in detail. In 2011, the total amount of footage for degasation drills was agreed at 40.800 m and for geological survey the total amount of footage was agreed at 14.570 m. In 2012, the total amount of footage for degasation drills was agreed at 28.620m and for geological survey the total amount of footage was agreed at 9.380m. Both these Master Services Agreements for Drilling expire on 31 December 2015.

Agreements on Gaseous and Liquid Nitrogen Delivery

OKD has entered into four agreements on gaseous and liquid nitrogen delivery with DPB in relation to the delivery of gaseous and liquid nitrogen to OKD mines, namely Darkov and Karviná mine) (the 'Agreements on Gaseous and Liquid Nitrogen Delivery'). The price to be paid by OKD to DPB shall be set out in accordance with each respective Agreement on Gaseous and Liquid Nitrogen Delivery or amendments to it. In addition, OKD shall pay a fixed monthly fee for the lease, maintenance and control of the gas tubing and surface equipment. The majority of the Agreements on Gaseous and Liquid Nitrogen Delivery terminate on 31 December 2015.

Master Services Agreement Related to Mine Safety

OKD and DPB entered into a master services agreement related to mine safety, covering a number of different services related to mine security (the 'Master Services Agreement Related to Mine Safety'). The Master Services Agreement Related to Mine Safety is concluded for a fixed period of time ending on 31 December 2015. The fee to be paid by OKD for 2007 was set at CZK 1,670,000 per month and is reviewed annually. The fee to be paid by OKD for 2012 was set at CZK 1,717,693 per month (in each case excluding VAT), Conclusion of individual agreements with respect to each particular OKD mine are contemplated by this agreement.

Master Agreements on the Sale of Methane

OKD entered into a master agreement on the sale of methane with DPB, which envisages the conclusion of individual purchase agreements with respect to each OKD mine (the 'Master Agreement on the Sale of Methane'). Under the Master Agreement on the Sale of Methane, the minimum total annual volume of methane to be delivered amounts to 19,000 m³ while the specific annual volume delivered by the mines shall be stipulated by the individual agreements. The Master Agreement on the Sale of Methane was concluded for the life of the OKD mines and, in the case of a change in the mine owner or operator, OKD shall ensure assignment of all OKD's obligations arising under the agreement. The price was set at a fixed amount for 2007 and then calculated for each calendar year thereafter using a formula stated in the agreement. DPB is entitled to purchase all available methane production not used by OKD for its own use. Either party may rescind the agreement if the production of methane stops due to a decrease in coal mining activities or if circumstances of a technical nature preventing performance of this agreement arise of which neither party was aware when entering into the agreement.

In addition to the Master Agreement on the Sale of Methane, DPB and OKD entered into a framework agreement for supplies of methane for heat operations in connection with: (i) the provisions of the Master Agreement on the Sale of Methane under which DPB is entitled to purchase all available methane not used by OKD for its own use; and (ii) the transfer of OKD's energy equipment to NWR Energy, a.s. ('NWR Energy') as part of the spin-off of the Company's energy assets in 2008 (the 'Framework Agreement for Supplies of Methane for Heat Operations'). Pursuant to the preamble, DPB shall deliver the processed methane to NWR Energy.
The price was set at a fixed amount for 2008 and 2009 and for the following years according to a formula stated in this agreement. The volume of delivered methane was stipulated for 2008.
The agreement has been entered into until 31 December 2028, subject to the prior termination of mining activities.

Cooperation Agreement on apartment lease

OKD entered into a cooperation agreement with RPG Byty s.r.o. ('RPG Byty'), which owns and operates a large apartment portfolio in the OKD region (the 'Cooperation Agreement'). Under the Cooperation Agreement, RPG Byty has an obligation to initially offer its apartments for lease to the employees of OKD.
The lease agreements may be concluded only with employees qualifying under certain non-discriminatory criteria, e.g. not already being a tenant of another RPG Byty apartment with state-regulated rent or not being subject to any criminal or other proceeding that could affect common tenant's obligations.

Each lease is provided for a period of one year and the rent is set at the relevant market price with a reduction of 15 per cent. Employees shall bear no administrative costs in relation to such leases. The Cooperation Agreement will expire on 31 May 2015 and may be rescinded by either party in the case of a material breach. The Cooperation Agreement replaces a similar cooperation agreement concluded on 18 April 2006.

Agreements with Directors

Consultancy Agreement

NWR NV entered into a consultancy agreement with BXL Consulting Ltd ('BXL') in respect of certain consultancy services provided by BXL to NWR NV (the 'Consultancy Agreement'). Pavel Telička, a Non-Executive Director, is the co-founder and director in charge of the Brussels office of BXL. Under the Consultancy Agreement, NWR NV agreed to pay BXL a monthly consultancy fee of EUR 25,000 in exchange for consultancy services in the field of policies and legislation of the European Union and European Communities. In addition, NWR NV shall reimburse BXL for all of its reasonable out-of-pocket expenses. The Consultancy Agreement also provides for the payment, from time to time as agreed between NWR NV and BXL, of a success fee for the successful completion of certain tasks. The Consultancy Agreement may be terminated, with or without cause, by either party upon one month's prior written notice to the other party. The Consultancy Agreement includes a confidentiality clause that survives the termination of the Consultancy Agreement.

Certain Relationships

These relationships are material by their nature, not by their financial effect.

Cross guarantee

Former OKD was a government--controlled enterprise, and as a result it owned and operated a large range of businesses (including mining businesses, businesses ancillary to mining and unrelated businesses). The restructuring was concerned primarily with disposing of certain of such ancillary and unrelated businesses in order to focus upon coal mining and coke production businesses. In addition, steps were taken to streamline the corporate structure of the BXR Group (removing certain intermediary holding companies from the structure).
In connection with the restructuring, and pursuant to Czech law, OKD, Green Gas DPB, a.s. ('DPB'), AWT, RPG Trading s.r.o. (defunct since January 2010), RPG RE Land s.r.o., RPG RE Commercial s.r.o. and RPG Byty s.r.o., the successor entities of Former OKD, are subject to a statutory cross guarantee. The statutory cross guarantee was given by each successor entity in relation to the liabilities of the demerged entity (Former OKD) that were assumed by each successor entity on the date of the demerger. The cross guarantee of each successor entity is limited to the value of the net assets of the guarantor as at the effective date of the demerger.

Related party transactions

Similar statutory cross guarantees have arisen as a result of the spin-off of OKK Koksovny, a.s. (formerly known as OKD, OKK, a.s.) ('OKK'), a wholly owned subsidiary of NWR NV.

Relationship Agreement

The Company, BXRM, Crossroads Capital Investment Inc. ('CCII') and Zdeněk Bakala are bound by a relationship agreement, which regulates, in part, the degree of control that BXRM and its affiliates exercise over the management of the Company (as amended and/or restated, the 'Relationship Agreement').
The principal purposes of the Relationship Agreement is to ensure that NWR Plc is capable at all times of carrying on its business independently of the BXR Group; and that all of the Company's transactions and relationships with the BXR Group are on arm's length terms.

Pursuant to the Relationship Agreement, BXRM, on the one hand, and the Company on the other, undertake that they shall (and shall procure that their relevant subsidiaries shall) conduct any transactions and relationships (whether contractual or otherwise, including any subsequent amendment thereof or variation thereto, including the implementation or enforcement thereof) between BXRM or any of its subsidiaries, on the one hand, and the Company or any of its subsidiaries, on the other, on arm's length terms. The Company undertakes that it shall treat all holders of the same class of shares that are in the same position equally in respect of the rights attaching to such shares.

CCII and Zdeněk Bakala undertake that they shall give notice to the Company of any opportunities involving the potential acquisition of a controlling stake in a business primarily focused on coal mining or coking facilities in Central and Eastern Europe. The Company shall have first right, for a period of 30 days from notification, to pursue the opportunity and neither CCII nor Zdeněk Bakala may pursue the opportunity within those 30 days unless the Company decides not to pursue it.

The Relationship Agreement shall continue until the earlier of, in each case in relation to the Group: (i) NWR Plc's shares ceasing to be admitted to the Official List and to trading on the London Stock Exchange; or (ii) in case of change of control concerning NWR Plc.

Co-operation agreement between RPGI and Ferrexpo

In October 2008, RPG Industries s.r.o. ('RPGI'), a member of the BXR Group, purchased a shareholding of 25 per cent minus one share in Ferrexpo Plc ('Ferrexpo'), a Ukrainian iron ore company (the 'Ferrexpo Transaction'). In connection with the Ferrexpo Transaction, Ferrexpo's controlling shareholder Fevamotinico Sarl, a company incorporated with limited liability in Luxembourg ('Fevamotinico') and RPGI entered into an agreement in which the parties agreed to pursue a strategic alliance whereby RPGI and Fevamotinico would seek to find areas in which they could work together to develop their respective businesses in Central and Eastern Europe. As part of such strategic alliance, RPGI and Fevamotinico agreed to ask NWR NV and Ferrexpo, respectively, to consider working together to explore strategic opportunities to develop business together in Ukraine, the Czech Republic, Poland and other territories. A further aspect of the strategic alliance was for each of RPGI and Fevamotinico to nominate persons to be appointed to the board of directors of the other's affiliate, being NWR NV and Ferrexpo, respectively. Miklos Salamon, the former Executive Chairman of NWR NV, and Marek Jelínek, the Chief Financial Officer of NWR NV, were appointed as non-executive directors of Ferrexpo, and Kostyantin Zhevago, the Chief Executive Officer of Ferrexpo, was appointed as a Non-Executive Director of NWR NV. Mr. Jelínek retired from the board of Ferrexpo in May 2010. In connection with the redomiciliation, Mr. Zhevago resigned from the board of NWR NV and was appointed as a Non-Executive Director of NWR Plc with the effect from 6 May 2011.

Material contracts

Below is the description of material contracts, entered into by NWR and NWR's subsidiaries (the 'NWR Group'), in place at the date of this Annual Report and Accounts, and containing information, which the shareholders could reasonably require.

2021 Senior Notes

On 23 January 2013, NWR NV issued EUR 275 million in aggregate principal amount of Senior Notes due 2021 ('2021 Notes'). Interest on the 2021 Notes accrues at a rate of 7.875% per annum and is payable semi-annually in arrears on 15 January and 15 July. The net proceeds of the 2021 Notes are used to repay in full the outstanding amounts under NWR NV's EUR 258 million principal amount of Senior Notes due 2015 (the '2015 Notes'), and for fees, expenses and general corporate purposes.

The 2021 Notes are senior obligations of NWR NV, and rank equal in right of payment to all of its existing and any future senior debt, including the 2018 Notes. The 2021 Notes are senior obligations of NWR NV.

The 2021 Notes may be redeemed, in whole or in part, at any time prior to 15 January 2021, at the option of NWR NV at a redemption price equal to 100 per cent of the principal amount of the 2021 Notes redeemed plus the applicable premium (as defined in the 2021 Notes Indenture). After 15 January 2017, NWR NV may, at its option redeem all or any portion of the 2021 Notes at the prices set forth in the 2021 Notes Indenture. In addition, prior to 15 January 2016, NWR NV may redeem up to 35 per cent of the original aggregate principal amount of the 2021 Notes with the proceeds of one or more equity offers (as defined in the 2021 Notes Indenture), at a redemption price equal to 107.875 per cent of the principal amount thereof.

If there is a change of control (as defined in the 2021 Notes Indenture), holders of 2021 Notes shall have the right to require NWR NV to repurchase all or any part of the 2021 Notes at a purchase price equal to 101 per cent of the principal amount.

The 2021 Notes Indenture contains covenants that limit NWR NV's ability and the Restricted Subsidiaries' (as defined in the 2021 Notes Indenture) ability to, among other things: incur additional indebtedness; make restricted payments (including dividends); create liens; transfer, dispose of voting stock of any Restricted Subsidiary; sell assets; engage in transactions with affiliates; guarantee any debt of NWR NV or any of its Restricted Subsidiaries; consolidate, merge or sell all or substantially all of its assets.

2018 Senior Secured Notes

On 27 April 2010, NWR NV issued EUR 475 million in aggregate principal amount of Senior Secured Notes due 2018 ('2018 Notes'). Interest on the 2018 Notes accrues at a rate of 7.875% per annum and is payable semi-annually in arrears on 1 May and 1 November.

On 18 May, 2010, NWR NV issued an additional EUR 25 million in aggregate principal amount of 2018 Notes, with the same rights and privileges, including interest rate, interest payment dates and maturity date as the 2018 Notes issued on 27 April, 2010, which increased the outstanding principal amount of 2018 Notes to EUR 500 million.

The 2018 Notes are senior obligations of NWR NV and are guaranteed on a senior basis by OKD, OKK and NWR KARBONIA. The 2018 Notes are secured by a pledge of the shares of OKD, OKK and NWR KARBONIA but are not secured by any of the other assets of NWR NV. Therefore, the 2018 Notes are effectively subordinated to secured indebtedness of OKD, OKK and NWR KARBONIA.

The 2018 Notes may be redeemed, in whole or in part, at any time prior to 1 May 2014, at the option of NWR NV at a redemption price equal to 100 per cent of the principal amount of the 2018 Notes redeemed plus the applicable premium (as defined in the 2018 Notes Indenture). After 1 May 2014, NWR NV may, at its option redeem all or any portion of the 2018 Notes at the prices set forth in the 2018 Notes Indenture. In addition, prior to 1 May 2014, NWR NV may redeem up to 35 per cent of the original aggregate principal amount of the 2018 Notes (after giving effect to the issuance of additional 2018 Notes) with the proceeds of one or more equity offers (as defined in the 2018 Notes Indenture), at a redemption price equal to 107.875 per cent of the principal amount thereof.

If there is a change of control (as defined in the 2018 Notes Indenture), holders of 2018 Notes shall have the right to require NWR NV to repurchase all or any part of the 2018 Notes at a purchase price equal to 101 per cent of the principal amount.

The 2018 Notes Indenture contains covenants that limit NWR NV's ability and the Restricted Subsidiaries' (as defined in the 2018 Notes Indenture) ability to, among other things: incur additional indebtedness; make restricted payments (including dividends); create liens; transfer, dispose of voting stock of any Restricted Subsidiary; sell assets; engage in transactions with affiliates; guarantee any debt of NWR NV or any of its Restricted Subsidiaries; consolidate, merge or sell all or substantially all of its assets.

2015 Senior Notes

On 18 May 2007, NWR NV issued EUR 300 million in aggregate principal amount of Senior Notes due 2015 ('2015 Notes'). On 22 February 2013, NWR NV has redeemed all of the 2015 Notes in connection with the issuance of the 2021 Notes. Interest on the 2015 Notes accrued at a rate of 7.375% per annum and was payable semi-annually in arrears on 15 May and 15 November.

On September 30, 2009, NWR NV closed an invitation for tenders of its 2015 Notes (the 'Invitation'). Pursuant to the Invitation, NWR NV accepted for purchase EUR 32,435,000 in aggregate principal amount of 2015 Notes, which reduced the outstanding principal amount of 2015 Notes to EUR 267,565,000. In the period 4 October 2011 to 11 October 2011, NWR NV bought back EUR10,000 thousand face value of its 7.375% Senior Notes, which reduced the outstanding principal amount of 2015 Notes to EUR 257,565,000.

The 2015 Notes were senior obligations of NWR NV, and ranked equal in right of payment to all of its existing and any future senior debt, including the 2018 Notes. The 2015 Notes were secured by a pledge on the shares of OKD, OKK and NWR Karbonia, which, pursuant to the terms of the Intercreditor Agreement and such share pledges, were subordinated to the share pledges securing the 2018 Notes, and were not guaranteed by any of NWR NV's subsidiaries. Therefore, the 2015 Notes were effectively subordinated to any existing and future liabilities of NWR NV's subsidiaries. The rights and obligations of the 2015 Noteholders in respect of such security were subject to the Intercreditor Agreement.

The 2015 Notes could have been redeemed, in whole or in part, at any time prior to 15 May 2011, at the option of NWR NV at a redemption price equal to 100 per cent of the principal amount of the 2015 Notes redeemed plus the applicable premium (as defined in the 2015 Notes Indenture). After 15 May 2011, NWR NV could have, at its option, redeemed all or any portion of the 2015 Notes at the prices set forth in the 2015 Notes Indenture. In addition, prior to 15 May 2010, NWR NV could have redeemed up to 35 per cent of the original aggregate principal amount of the 2015 Notes with the proceeds of one or more equity offers (as defined in the 2015 Notes Indenture), at a redemption price equal to 107.375 per cent of the principal amount thereof.

Revolving Credit Facility

On 7 February 2011, NWR NV entered into a revolving credit facility with, among others, Česká spořitelna, a.s., as facility agent, Citigroup Global Markets Limited as documentation agent, Česká spořitelna, a.s., Československá obchodní banka a.s., Citigroup Global Markets Limited, Komerční banka, a.s. and ING Bank N.V., Prague branch, as arrangers and original lenders (the 'RCF'). The lenders under the RCF acceded to the Intercreditor Agreement by signing the RCF.

The RCF provides for a bank loan facility of EUR 100 million, which will be available for three years after the date of signing. The proceeds of the RCF will be used for general corporate purposes. At any point in time, a maximum of 12 loans can be outstanding in any of the eligible funding currencies, being Euro, Polish Zloty and Czech Koruna. The RCF also provides for NWR NV to pay certain fees including a commitment fee, arrangement fees and agency fees.

The RCF is a secured obligation of NWR NV and benefits from the share pledges over the shares in NWR NV's subsidiaries and is guaranteed by them. The RCF contains certain negative undertakings that, subject to certain customary and other agreed exceptions (and other than as specifically provided for under the RCF), limit the ability of NWR NV and its subsidiaries to, among other things: create or permit to subsist any encumbrance or security interest over any of its assets; make any asset disposals; make any substantial change to the general nature of its business; enter into transactions other than on an arm's length basis; amalgamate or merge; incur other additional debt or become a creditor itself. NWR NV is also required to comply with certain financial ratios including the ratio of total net debt to EBITDA, and the ratio of EBITDA to net interest. If NWR NV breaches any of its covenants or is unable to comply with the ratios, it may be in default under its debt facilities. Amounts due under the RCF may then become immediately due and payable.

The RCF also contains certain affirmative undertakings, subject to certain qualifications, and including, but not limited to, undertakings related to: (i) supplying financial statements; (ii) notification of default; (iii) compliance with "know your customer" or similar regulations; (iv) receipt, compliance and maintenance of necessary authorisations; (v) compliance with laws (including environmental laws); (vi) taxation; (vii) pari passu ranking of certain claims; (viii) maintenance of insurance and (ix) maintenance of books of NWR NV and its subsidiaries. The RCF contains financial covenants. Subject to certain exceptions, there are mandatory prepayments required to be made upon the occurrence of certain customary events such as a change of control.

Export Credit Agency Facility

On 29 June 2009, NWR NV and OKD, as a co-obligor, entered into the Export Credit Agency ('ECA Facility') with, among others, Natixis, as facility agent and documentation agent, KBC Bank Deutschland AG, as ECA Agent, and Česká spořitelna, a.s., Československá obchodní banka a.s., KBC Bank Deutschland AG, and Natixis, as mandated lead arrangers, as amended on 3 August 2009. The ECA Facility provides for a term loan of approximately EUR 141.5 million, which, following an amendment dated 21 June 2010, was available to be drawn until 30 November 2010 and which is repayable in seventeen semi-annual equal instalments, with a final maturity of the date falling 102 months after the Starting Point of Credit (as defined in the ECA Facility). The proceeds of the ECA Facility are used to finance up to 85 per cent of the net purchase price of five longwall sets acquired pursuant to POP 2010.

The ECA Facility is an unsecured obligation of NWR NV and OKD as a co-obligor and is not guaranteed by any of NWR NV's subsidiaries. The ECA Facility is covered by a guarantee issued by the Federal Republic of Germany, represented by a consortium led by Euler Hermes Kreditversicherungs-AG, for which NWR NV has paid a premium.

The ECA Facility contains certain negative undertakings that, subject to certain customary and other agreed exceptions (and other than as specifically provided for under the ECA Facility), limit the ability of NWR NV, OKD and certain subsidiaries of NWR NV to, among other things:

- create or permit to subsist any encumbrance or security interest over any of its assets;
- make any asset disposals;
- make any substantial change to the general nature of its business;
- enter into transactions other than on an arm's length basis;
- amalgamate or merge;
- incur other additional debt; and
- dispose of the five longwall sets acquired or create any security over the five longwall sets acquired.

The ECA Facility also contains certain affirmative undertakings, subject to certain qualifications, and including, but not limited to, undertakings related to (i) supplying financial statements; (ii) notification of default; (iii) compliance with "know your customer" or similar regulations; (iv) supplying information on the performance of the supply contract for the five longwall sets acquired; (v) compliance with material obligations under the supply contract for the five longwall sets acquired; (vi) receipt, compliance and maintenance of necessary authorisations; (vii) compliance with laws (including environmental laws); (viii) taxation; (ix) pari passu ranking of certain unsecured and unsubordinated claims; (x) maintenance of insurance; and (xi) access to the premises and records of NWR NV and OKD.

Material contracts

The ECA Facility contains financial covenants requiring NWR NV and OKD ensure that at the end of any calculation period:

» the ratio of total net debt of NWR NV and its subsidiaries to EBITDA of the Company will not exceed an agreed multiple; and
» the ratio of EBITDA of NWR NV and its subsidiaries to the net interest payable by NWR NV and its subsidiaries will not exceed an agreed multiple.

Amounts outstanding under the ECA Facility may be prepaid at any time after 29 June 2010 (or, if earlier, the day on which the amounts available under the ECA Facility to NWR NV and OKD is zero) in whole or in part on 30 business days' notice subject to payment of a minimum amount of EUR 5 million.

Subject to certain exceptions, there are mandatory prepayments required to be made upon the occurrence of certain customary events such as a change of control and the ECA Facility will also be automatically cancelled where the ECA guarantee is terminated or cancelled.

The ECA Facility sets out certain events of default, including non-payment, breach of financial covenants, cross-default above certain agreed amounts, insolvency events, certain insolvency proceedings and the occurrence of events which, in the reasonable opinion of the Majority Lenders (as defined in the ECA Facility) is reasonably likely to have a Material Adverse Effect (as defined in the ECA Facility).

Sale of energy business

NWR NV entered into a share sale and purchase agreement with Dalkia Česká republika, a.s. ('Dalkia') on 8 January 2010, which provided for the sale by NWR NV to Dalkia of 100 per cent of the ownership in NWR Energy a.s. ('NWR Energy'), Czech Karbon s.r.o. and NWR ENERGETYKA PL Sp.zoo. (together referred to as the 'Energy Subsidiaries'), which successfully closed on 21 June 2010. The purchase price received by NWR NV is CZK 3.584 billion. Dalkia is a leading energy group in the Czech Republic as a heat producer and distributor and is a member of the 'Veolia Environment Group'.

Before the closing of the sale, the Energy Subsidiaries supplied the utilities (in particular the supply and distribution of electricity and the production, supply and distribution of heat, compressed air and bathroom water) to OKD, primarily through a framework agreement on supplies and services between OKD, NWR Energy and CZECH KARBON, dated 27 November 2008 (the 'Framework Agreement'), although certain other supplies were also made to OKD and other affiliates. The Framework Agreement was initially entered into in connection with the reorganisation of the energy business to provide a framework for the independent operation and arm's-length pricing of energy services. NWR KARBONIA supplied CZECH KARBON with electricity and distribution services up to 1 April 2009. In addition, OKK and Dalkia were already, prior to closing, party to an agreement pursuant to which OKK supplied Dalkia with coking gas and Dalkia supplied OKK with heat. OKD and NWR NV were parties to an agreement pursuant to which Dalkia, through NWR NV, supplied the ČSA mine with heat.

In connection with the consummation of the sale of the energy business to Dalkia the Framework Agreement and certain agreements implementing it were amended to reflect agreed commercial terms. The Framework Agreement, as amended, will terminate on 31 December 2029, subject to an option in favour of OKD to extend the Framework Agreement for an additional five-year period. OKD is obliged, among other things, to supply NWR Energy with certain raw materials (coal, coke and water) used in the production of the utilities and to purchase energy utilities (mainly heat and compressed air) and electricity distribution services from NWR Energy and electric power from CZECH KARBON; NWR Energy and CZECH KARBON are obliged, among other things, to deliver the utilities to OKD in the requested volumes (subject to technical minimum and maximum amounts) at agreed prices. The pricing mechanism for supplies under the amended Framework Agreement (in respect of raw materials, utilities, services and relevant leases) will be applicable over the entire duration of the amended Framework Agreement on arm's-length terms. Dalkia has acceded to the rights and obligations of NWR Energy and CZECH KARBON arising under the amended Framework Agreement and under implementation agreements relating to the same. The company NWR Energy was renamed to the new name Dalkia Industry CZ on 24 June 2010 and the company Czech Karbon was renamed to the new name Dalkia Commodities CZ on 1 August 2011.

Intragroup material contracts

Intercreditor agreement

To establish the relative rights of certain of the NWR NV's creditors under its financing arrangements, NWR NV and OKD, OKK and NWR KARBONIA, as subsidiaries guarantors under certain of NWR NV's financing arrangements, entered into an intercreditor agreement (the 'Intercreditor Agreement') with, among others, the Trustee for the 2015 Notes, the Trustee for the 2018 Notes, certain hedging counter parties and the security agent under the Intercreditor Agreement.

The Intercreditor Agreement sets out amongst other things, the following provisions:

» the relative ranking of certain debt of NWR NV, OKD and certain of their affiliates;
» the relevant ranking of security granted by NWR NV, OKD and certain of their affiliates;
» when payments can be made in respect of that debt;
» when enforcement action can be taken in respect of that debt;
» the effects of certain insolvency events;
» turnover provisions; and
» when security and guarantees will be released to permit an enforcement sale.

The 2015 Notes were secured on a second ranking basis by pledges over the shares of OKD, OKK and NWR KARBONIA.

OKK Share Pledge Agreement

On 27 April 2010, NWR NV entered into a share pledge agreement (the 'OKK Share Pledge Agreement') in order to create a Czech law pledge over the shares it owns in OKK in favour of Citibank N.A., London Branch, as security agent (the 'Security Agent').

The pledge was granted as security for the payment of all obligations (the 'Secured Obligations') of each of NWR NV, OKK, OKD and/or NWR KARBONIA towards the Security Agent, including, in particular, liabilities under the 2018 Notes and related guarantees, the 2015 Notes and the Revolving Credit Facility.

The OKK Share Pledge Agreement provides that the pledged shares are being kept in the deposit of Citibank Europe Plc during the tenure of the pledge in accordance with Czech law and pursuant to a separate deposit agreement. NWR NV provides certain customary covenants that it shall not grant any other security over, or in any other way dispose of, the pledged shares.

The OKK Share Pledge Agreement also sets out: (i) restrictions on NWR NV's ability to exercise its rights in respect of the pledged shares; (ii) the application of proceeds from the pledged shares before and after the occurrence of a default under certain finance documents; and (iii) the rights of the Security Agent to enforce the pledge. The proceeds of any such enforcement must be applied in accordance with the Intercreditor Agreement.

OKD Share Pledge Agreement

On 27 April 2010, NWR NV entered into a share pledge agreement (the 'OKD Share Pledge Agreement') in order to create a Czech law pledge over the shares it owns in OKD in favour of the Security Agent as security for the Secured Obligations.

The OKD Share Pledge Agreement contains similar terms to the OKK Share Pledge Agreement, but in relation to a pledge over the shares held by NWR NV in OKD.

NWR KARBONIA Share Pledge Agreement

On 27 April 2010, NWR NV entered into a share pledge agreement (the 'NWR KARBONIA Share Pledge Agreement') in order to create a Polish law pledge over the shares it owns in NWR KARBONIA in favor of the Security Agent as security for the Secured Obligations.

The NWR KARBONIA Share Pledge Agreement contains identical terms to the OKK Share Pledge Agreement and OKD Share Pledge Agreement, but in relation to a pledge over the shares held by NWR NV in NWR KARBONIA.

Dominance Agreement

There is a Dominance Agreement between OKD (as controlling party) and OKK (as controlled party). To maintain consistent strategic management of the businesses of OKD and OKK, the Dominance Agreement was established so that OKD could effectively manage OKK. Under Czech law, when a dominance agreement is in place, the board of directors of the controlled party is bound by the instructions issued by the controlling party. The controlling party is required to compensate the controlled party for any loss arising in the annual financial results of the controlled party.

Subordination Agreement

In connection with the distributions, as described below, NWR NV, in its capacity as the sole shareholder of OKD, OKK and NWR KARBONIA, resolved, to approve NWR NV's contingent equity contribution in excess of the registered capital of NWR NV. Each loan or other indebtedness to or among the subsidiaries is subordinated to the debt incurred under the outstanding notes. This measure represents a requirement under the 2018 Notes Indenture for the protection of the holders of the 2018 Notes. The contingent contribution will only be triggered upon an event of default under the 2018 Notes Indenture, a continuing event of default under the 2015 Notes Indenture or a continuing event of default under the documentation governing indebtedness that qualifies as material debt under the 2018 Notes Indenture.

OKK intercompany Credit Agreement

NWR NV and OKK entered into a credit agreement committing NWR to make funds available to OKK, which would be used for general payment purposes in connection with OKK's operations and activities.

The outstanding amount of CZK 1,712 million is to be repaid in equal monthly instalments up to the final instalment of CZK 514 million due on 31 December 2020. OKK is charged a fixed interest rate of 8.9 per cent per annum on the outstanding principal amount. OKK shall pay NWR NV interest with respect to the outstanding principal amount at the end of each month.

OKK intercompany Revolving Credit Agreement

NWR NV and OKK entered into the intercompany revolving credit agreement (the 'OKK RCF'). Under the OKK RCF, NWR NV makes funds available to OKK for general payment purposes in connection with OKK's operations and activities. The final maturity date is 31 December 2013 and the principal amount of the facility is set at a total aggregate amount of CZK 2,140 million. The advances may be rolled over at the option of OKK. OKK is charged a fixed interest rate of 4.75 per cent per annum on the outstanding principal of each advance. OKK shall pay NWR NV interest with respect to the outstanding principal of each advance at the end of each month.

2010 OKD loan agreement

On 18 May 2010, NWR NV, in its capacity as the sole shareholder of OKD, resolved to make a distribution from the 2009 profit, retained earnings and other distributable reserves in the aggregate amount of CZK 12,802,500,000. As OKD did not have sufficient funds to cover the distribution, NWR NV agreed to lend this amount to OKD on the basis of a loan agreement dated 12 July 2010. The loan agreement currently consists of four tranches: Tranche 1 consists of a EUR 226.8 million facility due on 14 February 2018. Tranche 2 consists of a CZK 1,732 million facility to be repaid in instalments by 15 February 2016. Tranche 3 consists of a EUR 208 million facility to be repaid in instalments by 15 February 2016. Tranche 4 consists of a EUR 120 million facility to be repaid in instalments by 14 February 2020.

Remuneration report

This Remuneration Report has been drawn up in line with the UK Corporate Governance Code, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the UK Financial Services Authority Listing Rules. The Remuneration Report, prepared by the Remuneration Committee, explains the main principles and rules regarding the remuneration of the Directors of the Company and also provides details of Directors' remuneration for the year ended 31 December 2012. This report will be subject to an advisory shareholder vote at the Company's Annual General Meeting.

Information not subject to audit

Remuneration Committee

The Remuneration Committee is chaired by Bessel Kok (Senior Independent Director) and the other members are Hans-Jörg Rudloff, and Zdeněk Bakala, all of whom are Non-Executive Directors. To further promote the independent role of the Remuneration Committee, Mr. Kok, Senior Independent Director, took over the chairmanship of this Committee from Mr. Bakala in November 2012. Mr. Bakala (Non-Independent Non-Executive Director), who is a major shareholder representative remains a member of the RC contrary to provision D.2.1. of the UK Corporate Governance Code. Due to his unique insights into the shareholders demands, the Board continues to regard his membership of the Committee as critical to the further alignment of directors' remuneration with shareholders interests.

The Committee sets the remuneration for the Executive Directors, the Chairman of the Board and the Group's senior managers and advises the Board in relation to its responsibilities with respect to the remuneration of the Non-Executives Directors. For more information on the Remuneration Committee please see page 77.

During the year, the Remuneration Committee did not seek the advice or other services of any other person.

Remuneration Policy

The Board of Directors adopted the compensation manual on 8 April 2011 with effect from 6 May 2011. The compensation manual remained unchanged in the course of 2012. The compensation manual records the remuneration policy of the Company, outlines principles regarding remuneration at senior and key positions within the NWR Group and provides a framework for the Board and the Remuneration Committee in this area.

The objective of the remuneration policy is to attract, retain and motivate talented executives by providing a well-balanced remuneration package. The remuneration policy aims to ensure that a competitive remuneration package for the Executive Directors is maintained and benchmarked against other multinational companies based in Europe and operating in global markets. Another criteria taken into account was pay and conditions applicable across the Group. The Remuneration Committee believes that the remuneration policy approved by shareholders for 2012 remains appropriate for 2013. The appropriateness of this policy for 2014 will be reviewed.

In order to align executive performance with shareholder value, the remuneration of Executive Directors is linked not only to individual performance but also to NWR Group's performance. The Remuneration Committee sets their contractual terms, salary, bonuses and other benefits. The remuneration policy also sets out the remuneration of Non-Executive Directors, as described further below. The Board has delegated its powers and responsibilities to certain authorised officers with respect to the remuneration of senior managers and key employees of NWR Group, who shall decide on their salary, bonuses and other benefits.

Remuneration of Executive Directors

In 2012 and in previous years, the remuneration package for Executive Directors included a significant variable element in the form of a cash bonus incentive and a long-term incentive in the form of deferred shares and stock option grants (for the relative importance of variable and fixed pay, please see the table 'Remuneration of Executive Directors in financial year 2012' below). The Remuneration Committee ensured that an appropriate balance between the fixed and performance-related elements of executive remuneration was maintained.

As a part of its remuneration policy for Executive Directors, the Company is using the Deferred Bonus Plan, as described in more detail below.

Base salary

To ensure remuneration remains effective in supporting the Group's business objectives, the Remuneration Committee annually reviews base salary levels for Executive Directors, taking into account external benchmarks. When setting salary levels, the Remuneration Committee takes into consideration individual performance, NWR Group performance and changes in responsibilities.

Bonus

Executive Directors may be awarded cash bonuses by the Remuneration Committee. The value of the cash bonus is determined by the Remuneration Committee following evaluation of financial and non-financial benchmarks, such as achievements of the approved budget (in particular KPIs, such as EBITDA, production thresholds and revenues) and individual contribution and achievement of each Executive Director. Executive Directors may be also awarded bonus (part in cash, part in A shares) under the Deferred Bonus Plan as described below. Starting in 2013, the Remuneration Committee aims to bring provision of all annual bonuses for the Executive Directors under the umbrella of the Deferred Bonus Plan.

Stock option plan for the Chairman of the Board

On 3 September 2012, the Company granted to Mr. Penny, Executive Chairman 750,000 share options over A shares in three equal tranches (representing an aggregate of 750,000 ordinary A shares). Each share option gives Mr. Penny the right to acquire one A share for an exercise price of EUR 0.01. Each tranche vests equally over three years representing one third of the options each year (first tranche on the first, second and third anniversary of the grant date, second tranche on the second, third and fourth anniversary of the grant date and lastly third tranche on the third, fourth and fifth anniversary of the grant date). The options vest subject to Mr. Penny remaining employed by the Company. Upon change of control the options lapse and may be, at the discretion of the Board, replaced by equivalent options in the company that obtains control. The Directors may change the option plan, however changes in the number of shares, beneficiary, exercise price and certain other rights, are subject to an ordinary resolution of the general meeting. The options are not pensionable.

The option plan of Mr. Penny was agreed as a condition of employment, in order to attract and secure a unique and high-quality candidate for the top level position in the Company. The terms and conditions of the option plan are to a large extent inspired by the existing precedent – the stock option plan of the former Chairman of the Board described below.

Stock option plan for the former Chairman of the Board

On 1 September 2008, Mr. Salamon was awarded share options equal to 0.5 per cent of NWR NV's A share capital as per the date of grant. Each share option gave Mr. Salamon the right to acquire one NWR NV A share on the vesting date. Following the UK redomiciliation, NWR and Mr. Salamon have amended the options granted to Mr. Salamon so that they relate to the A shares of the Company. The exercise price per option was EUR 0.01. Vesting over five years, the option award enabled Mr. Salamon to ultimately acquire to 0.5 per cent of NWR's share capital by 1 September 2012 subject to the condition of Mr. Salamon remaining an executive member of the Board. This stock option plan has expired with the last exercise of the options in 2012.

Share awards plan for the former Chief Executive Officer of OKD

Following the extension of the employment term between Mr. Beck and OKD in 2010, Mr. Beck was entitled to receive 250,045 A shares of NWR on 1 July 2012 and 250,045 A shares on 1 July 2011, or cash in lieu of shares. This share award plan expired following the retirement of Mr. Beck from the position of OKD's CEO. The new CEO of OKD participates in the Deferred Bonus Plan.

Deferred Bonus Plan

NWR Group operates a deferred bonus plan (the 'Deferred Bonus Plan') as a long-term incentive and motivation instrument for Executive Directors (in 2012 Mr. Jelínek) as well as senior managers and key employees of NWR Group. The Deferred Bonus Plan was adopted by the Board of 8 April 2011 with effect from 6 May 2011 in a form substantially similar to the original deferred bonus plan operated by NWR NV. The rules of the Deferred Bonus Plan were amended on 13 November 2012 when a new long-term share incentive feature was introduced effective as of 1 January 2013. Approval is being sought at the AGM for changes to the Deferred Bonus Plan to allow for the grant of awards which are not linked to the amount of a participant's bonus.

The original deferred bonus plan operated by NWR NV was modified in connection with the redomiciliation of NWR NV to the UK, so that all outstanding awards over the A shares of NWR NV became awards of NWR A shares (effective from 6 May 2011) and at the same time the board of NWR NV also resolved that no new awards will be granted under that plan.

Eligibility

Executive Directors, senior managers and key employees of the NWR Group are eligible to participate in the Deferred Bonus Plan subject to approval of their participation by the Remuneration Committee.

Annual Bonus and Deferred Bonus Award

An annual bonus opportunity will be set as a percentage of base salary. For any bonus to be payable to an Executive Director, the Company's annual EBITDA would have to be at least 80% of the target set at the start of the year. This condition aims to provide a strong connection between business imperative and performance.

If this condition is met, the annual bonus for Executive Directors may be up to 300 per cent of their annual salary. The actual amount is determined on the basis of evaluation of performance criteria described below. The above EBITDA target does not apply to participants who are not Executive Directors or board members of any NWR Group company. For other participants bonus maximum amount is set at 200 and 300 per cent of the annual salary depending on the position held.

Performance will be measured against a balanced scorecard, providing a shared framework within which specific performance criteria shall be set relevant to the participant and his or her area of responsibility, which may include one or more of EBITDA, CAPEX, cost control, production, safety, etc. Performance criteria for the Executive Directors are set by the Remuneration Committee, for other participants these criteria are set by the respective authorised officers. The Remuneration Committee also sets the NWR Group-wide performance criteria for all participants.

Remuneration report

Bonus eligibility will be determined using annual results. The Remuneration Committee shall decide on the actual amount of bonus payable to the Executive Directors and authorised officers will decide in relation to the other participants (with the Remuneration Committee approving only the volume of the deferred A shares). The number of A shares granted will be derived using the average of opening prices of an A share as reported by the London Stock Exchange on each of the five business days preceding and including the date of grant. The maximum number of A shares offered under the Deferred Bonus Plan to an Executive Director in one bonus year may not exceed 250,000 A shares.

Long Term Incentive (LTI)

In addition to the annual bonus, a new long-term incentive was introduced in 2012 for (existing as well as new) participants, (incl. Executive Directors). The LTI is designed to provide awards over fully paid A shares which will normally vest three years after grant. The amount of the LTI will be determined by the Remuneration Committee but the value of the A shares at the date of the grant can not be higher than the amount of annual bonus. Vesting of the LTI will be subject to performance criteria, which have not yet been determined, but will be disclosed in due course. The criteria will be set by the Remuneration Committee either for individual participant or on Group-basis and may be either equal or more stretching than the annual bonus criteria. It should be mentioned that the LTI and the annual bonus are linked, and no LTI will be awarded unless an annual bonus under the Deferred Bonus Plan was paid. The first LTI may be awarded by the Remuneration Committee for the year 2013.

Ad hoc grants

The Deferred Bonus Plan allows ad hoc grants, although the use of such grants should be minimized to exceptional circumstances. The value of the shares subject to any ad hoc grant shall not exceed 250% of annual salary in each case in each financial year. No ad hoc grant have been made in 2012.

Vesting

A Deferred Bonus Plan award as well as an LTI award) will vest three years after grant. The A shares will be released to the participant provided that the participant is still employed by NWR Group but may be released earlier if the participant is a good leaver. No dividend will be paid out on the deferred shares during the deferral period.

Put option

Each participant will have a put option, which will give the participant an option to sell the A shares received on vesting at market price at that time to give him/her the benefit of any future price increase, but protect him/her from any potential reduction in value that he/she has already earned. The period to exercise the put option will be limited to three years and the put option will cease to exist if the participant leaves NWR Group.

Adjustment and clawback provisions

If the Remuneration Committee believes that extraordinary circumstances have occurred during the period in which the predetermined performance criteria have been or should have been achieved, which lead to an unfair result with respect to the deferred bonus amounts or LTI awarded, the Remuneration Committee retains the discretionary power to adjust the values as appropriate.

If any variable remuneration, be it in the form of cash or A shares, has been awarded on the basis of incorrect financial or other data, the Board is entitled to recover such remuneration from the participant. This right of recovery exists irrespective of whether the participant has been responsible for the incorrect financial or other data or was aware or should have been aware of the inaccuracy. The right of recovery expires upon vesting.

Termination

If a participant ceases to be employed with NWR Group before vesting in particular due to death, retirement at normal retirement age, redundancy or retirement through illness or injury, maternity leave, leave of absence, illness or personal reasons (good leaver), he/she will be entitled to receive the deferred A shares, unless the Remuneration Committee decides otherwise. A participant leaving for other reasons (bad leaver) will lose their entitlement to the deferred A shares.

Changes in share capital

In the event of any capitalisation, consolidation, sub-division or reduction of the share capital and in respect of any discount element in any rights issue or any other variation in the share capital, the deferred A shares may be varied in such manner as Remuneration Committee shall determine.

Change in control

Upon a change in control of NWR Group, deferred shares will vest on a time pro-rated basis unless the Remuneration Committee decides that this is inappropriate given overall performance. Vested A shares shall be issued or delivered, as the case may be, as soon as is practicable.

Amendments

The Board may at any time at its sole discretion alter the Deferred Bonus Plan or propose to discontinue it. Otherwise, the Remuneration Committee may, at its sole discretion, determine the vesting or cancellation of the deferred bonus award in accordance with the principles of reasonableness and fairness and in exceptional circumstances.

Proposed changes

Approval is being sought at the AGM for changes to the Deferred Bonus Plan, for a description of the changes please see the AGM notice.

Stock option plan for Executive Directors, senior management and key employees

Due to the implementation of the Deferred Bonus Plan, the stock option plan of NWR NV (the 'Stock Option Plan') was discontinued as of 31 December 2010. Since 2011 no options were granted under the Stock Option Plan which continues only in relation to options granted previously. In connection with the UK redomiciliation, NWR has granted equivalent (rollover) options over NWR A shares to the Executive Directors, senior managers and key employees who participated in the Stock Option Plan. These rollover options continue on the same terms and conditions as applied to the options granted originally under the Stock Option Plan (with appropriate adjustments).

As at 31 December 2012, the total number of options granted over NWR A shares (excluding options of holders who had left NWR Group and have not obtained a 'good leaver exemption') was 5,502,382 and their total monetary value was GBP 11,123,143 (approx. EUR 13,010,528), which was calculated on the Black-Scholes model.

Exercise of options

The exercise price of options granted upon completion of the IPO in May 2008 is GBP 13.25. The exercise price of options granted in 2009 is GBP 2.8285 and the exercise price of options granted in 2010 is GBP 7.128.

Subject to certain conditions, the options vest over a three year period. For each year during the vesting period, one third of the granted options become eligible for vesting. 50 per cent of the stock options vest if the threshold performance is achieved, and 100 per cent of the stock options vest if the target performance is achieved. Vesting between threshold and target is on a straight-line basis. For Executive Directors (including Marek Jelínek) and certain members of senior management and key employees, EBITDA threshold and target performance were used for vesting purposes. For other senior management and key employees of NWR Group, production and cost control thresholds and targets were set, as relevant to the participant and his/her area of responsibility.

Options can be exercised from the vesting date until the eighth anniversary of the date of award. Options, which have not been exercised will normally lapse on the eighth anniversary of their grant. Options may, however, be exercised early under certain circumstances, including certain terminations of employment and in the event of a takeover (change of control), scheme of arrangement or winding up. Options are not transferable and may only be exercised by the persons to whom they are granted.

No options were exercised under the Stock Option Plan during 2012.

For more details about the Stock Option Plan and its terms and conditions, please see pages 72 and 73 of the 2010 Annual Report of NWR NV and page 97 of the 2011 Annual Report.

Other benefits

In addition to the salary, bonus and share-based incentives, additional non-cash benefits may be provided by NWR Group to Executive Directors, such as relocation allowances, accommodation allowances, school fees, medical insurance and company car arrangements. The total annual value of the non-cash benefits provided may not exceed EUR 300,000 for each individual Executive Director. These do not include pension benefits.

Executive Directors are not entitled to any benefit upon termination of their employment agreement other than the contractual benefits that apply during the notice period.

Remuneration report

Service contracts of Executive Directors

Name	Date of appointment[1]	Termination date	Notice period[2]
Gareth Penny	3 September 2012	–	Twelve months' notice by NWR; six month's notice by Director
Mike Salamon	8 April 2011	30 September 2012	Not applicable executive service contract terminated.
Klaus-Dieter Beck	8 April 2011	31 December 2012[3]	Not applicable executive service contract terminated.
Marek Jelínek	31 March 2011	–	Six months' notice by NWR; three month's notice by Director

1 Prior to the date of their appointment as Directors of NWR, Messr. Salamon, Beck and Jelínek have been directors of NWR NV (as of 1 September 2007, 1 July 2007 and 6 March 2007, respectively). Mr. Jelínek continued to hold the directorship in NWR NV throughout the whole of 2012, Mr. Salamon retried from all positions in the NWR Group as at 30 September 2012.
2 Service contracts of Executive Directors provide for payment of salary alone in lieu of notice.
3 Until 31 March 2013 Mr. Beck remains on the Board as Non-Executive Non-Independent Director in accordance with his letter of appointment.

Audited Information

Remuneration of Executive Directors in financial year 2012

The tables below provide a description of the pre-tax remuneration of Executive Directors for the fiscal year ended 31 December 2012 and 2011.

	Salary		Cash bonus		Other benefits		Value of stock options exercised		Value of share awards		TOTAL	
	EUR		EUR		EUR[6]		EUR		EUR		EUR	
Name	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Gareth Penny[1]	125,873	–	33,503	–		–	–	–	–	–	159,376	–
	79%	–	21%	–		–	–	–	–	–	100%	–
Mike Salamon[2]	230,386	287,522	–	–		–	978,124	1,610,457	–	–	1,208,510	1,897,979
	19%	15%	–	–		–	81%	85%	–	–	100%	100%
Klaus-Dieter Beck [3,4]	681,667	737,231	1,050,000	1,464,010	243,316	213,155	–	–	1,022,047	2,509,446	2,997,030	4,923,842
	23%	15%	35%	30%	8%	4%	–	–	34%	51%	100%	100%
Marek Jelínek	290,000	290,000	–	1,301,342	102,198	112,073	–	–	–	–[5]	392,198	1,703,415
	74%	17%	–	76%	26%	7%	–	–	–	–	100%	100%

The remuneration for 2011 includes remuneration received as Directors of both NWR and NWR NV.

1 Mr. Penny joined as Executive Director on 3 September 2012.
2 Mr. Salamon retired as Executive Chairman as at 30 September 2012.
3 Except for the cash bonus in 2012, Mr. Beck received his remuneration in CZK. The amounts stated in this table for 2011 were converted into EUR from CZK at an exchange rate of 24.59 CZK/EUR, which was the average exchange rate in 2011. The amounts stated in this table for 2012 were converted into EUR from CZK at an exchange rate of 25.15 CZK/EUR, which was the average exchange rate in 2012.
4 Gross salary of Mr. Beck includes remuneration received from OKD and OKK Koksovny for his Board membership in 2011 and 2012. In January 2011, Mr. Beck received a cash amount of CZK 41,724,729 (which is approximately EUR 1,650,242) as a cash equivalent of 2009 share grant (please see below 'Stock option grants/Share awards 2012' table for more details). This amount is not included in this table.
5 Mr. Jelínek received also the 30,000 A shares, which have been deferred for three years, as an ad hoc grant under the Deferred Bonus Plan which are not included herein.
6 Includes in-kind compensation, e.g. personal travel costs, additional health insurance, housing, etc.

In 2012, Mr. Penny received an annual fee of CHF 108,000 from Julius Baer Holding Ltd for his non-executive directorship and USD 75,000 for his position on the advisory board of TowerBrook Capital Partners. Mr. Salamon received an annual fee of GBP 40,000 from Central Rand Gold, GBP 52,500 from Gem Diamonds and USD 150,000 in connection with his non-executive positions he holds in the afore-mentioned companies. As a non-executive director of SUEK which he joined in June 2012, Mr. Beck received RUB 505,000 per month and as member of supervisory board of TUEV-Nord he received an annual fee of EUR 12,000.

Stock option

Name	Date of grant	Options as at 1 January 2012 (or on joining if later)	Number of options as at 31 December 2012 (or on leaving if earlier)	Number of options granted during the year	Number of options exercised during the year	Number of options lapsed during the year	Exercise price per share	First date for exercise	Expiry date	Closing price on LSE on the date of grant	Closing price on LSE on the date of exercise
Gareth Penny[1]	3 September 2012	750,000	750,000	750,000	–	–	EUR 0.01	03 September 2013[1]	7th anniversary of the first vesting date for each tranche	GBP 2.79	N/A
Mike Salamon[3]	1 September 2008	264,114[4]	–	–	267,019	–	EUR 0.01	01 September 2008	01 September 2016	GBP 15.63	GBP 2.79[2]
Marek Jelínek[5]	9 May 2008	39,776	39,776	–	–	–	GBP 13.25	9 May 2011	09 May 2016	GBP 14.30	N/A
	24 June 2009	221,889	221,889	–	–	–	GBP 2.8285	24 June 2012	24 June 2017	GBP 2.88	N/A
	17 March 2010	88,310	88,310	–	–	–	GBP 7.128	17 March 2013	17 March 2018	GBP 7.45	N/A

The share price on 31 December 2012 was GBP 3.37 and the highest and lowest share prices during the year were GBP 5.47 and 2.24 respectively. All options and awards were granted for no consideration and no changes to their terms were made during the year.

1 Mr. Penny was grated the options under his stock option plan (details of this plan can be found in this section under 'Stock option plan for the Chairman of the Board'. The options were granted in three tranches. Each tranche vests equally over three years representing one third of the options each year (first tranche on the first, second and third anniversary of the grant date, second tranche on the second, third and fourth anniversary of the grant date and lastly third tranche on the third, fourth and fifth anniversary of the grant date)
2 On 1 September 2012 LSE was closed. The closing price is provided for the first following LSE trading day, i.e. 3 September 2012.
3 Mr. Salamon received options under his stock option plan (details of this plan can be found in this section under 'Stock option plan for the former Chairman of the Board'. 263,800 options in A shares of NWR NV vested on 1 September 2008, 264,351 options vested on 1 September 2009 and 265,150 options vested on 1 September 2010. Following the UK redomiciliation, the options granted to Mr. Salamon have been changed and relate to the A Shares of the Company, such 261,585 options vested on 1 September 2011 and 267,019 vested on 1 September 2012.
4 The stock option plan provided for 1,319,000 stock options and adjustment mechanism giving Mr. Salamon ultimately the option over 0.5 per cent of NWR's capital. Thus the final number of the stock options adjusted in accordance with plan conditions amounts to 1,321,905. The stock option grants vesting in 2011 and 2012 have been included in the table above 'Remuneration of Executive Directors' – column 'Value of stock options exercised'.
5 Mr. Jelínek received options under the Stock Option Plan. Due to discontinuation of the Stock Option Plan at the end of 2010, he received no options in 2011.
In the absence of a transitional arrangement for equity incentives to Executive Directors who participate in the Deferred Bonus Plan, for their performance in financial year 2010, the board of NWR NV resolved, on 3 March 2011, on an ad hoc grant of 30,000 deferred NWR NV A Shares to Mr. Jelínek. The deferred shares, which have been rolled over to A shares of the Company, will vest in three years, provided that Mr. Jelínek is employed by the Group on the vesting date.

Long Term Incentives

Name	Date of grant	Scheme interests as at 1 January 2012 (or on joining if later)	Scheme interests as at 31 December 2012 (or on leaving if earlier)	Number of shares under awards granted during the year	Number of shares under awards vesting during the year	Number of shares under awards lapsed during the year	Last vesting date	Closing price on LSE on the date of grant	Closing price on LSE on the date of vesting
Marek Jelínek[1]	03 March 2011	30,000	30,000	–	–	–	3 March 2014	GBP 9.79	N/A
Klaus-Dieter Beck[2]	01 July 2010	250,045	–	–	250,045	–	1 July 2012	GBP 6.70	GBP 3.34[3]

1 These awards were granted under the Deferred Bonus Plan which is described above and relate to 30,000 A shares.
2 These awards were made under the share award plan for Mr. Beck, details of which can be found in this section under 'Share awards plan for the former Chief Executive Officer of OKD, a.s.'. The share awards in 2011 and 2012 have been included in the table above 'Remuneration of the Executive Directors' – column 'Value of share awards'.
3 On 1 July 2012 the LSE was closed. The closing price is provided for the first following LSE trading day, i.e. 2 July 2012.

Remuneration report

Remuneration of Non-Executive Directors

Each Non-Executive Director has entered into a letter of appointment with NWR, the relevant terms of which are set out below.

In accordance with NWR's Articles of Association, the term of appointment of the Non-Executive Directors is four years, subject to satisfactory performance and re-election when appropriate at the Annual General Meeting of Shareholders. One-month notice period applies for the termination of each Non-Executive Director's letter of appointment. Unless the appointment as a Non-Executive Director is renewed on or prior to the termination date, the term as a Non-Executive Director shall lapse immediately after the termination date. The appointment may also be terminated at any time by the General Meeting. None of the Non-Executive Directors is entitled to any benefit on termination of his letter of appointment.

The basic annual fee payable to the Non-Executive Directors is EUR 76,065, which is reviewed annually by the Remuneration Committee. Any amendments to the remuneration of the Non-Executive Directors require a resolution of the Board. The Remuneration Committee believes remuneration rates remain appropriate for 2012.

NWR does not operate a share plan for the Independent Non-Executive Directors.

Non-Executive Directors are reimbursed for all reasonable and documented expenses incurred in performing their role.

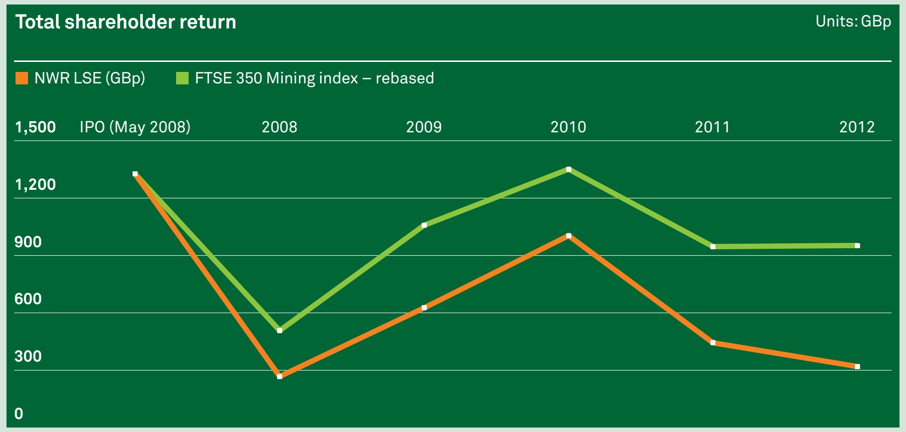
Remuneration of Non-Executive Directors in financial year 2012

	Annual fee (EUR)		Committee chairmanship annual fee (EUR)		Committee membership annual fee (EUR)		Total compensation (EUR)	
Name	2012	2011	2012	2011	2012	2011	2012	2011
Zdeněk Bakala[1]	**–**	–	**–**	–	**–**	–	**–**	–
Peter Kadas[1]	**–**	–	**–**	–	**–**	–	**–**	–
Hans Mende	**76,065**	76,065	**–**	–	**–**	–	**6,339**[2]	76,065
Pavel Telička[3]	**76,065**	76,065	**–**	–	**–**	–	**76,065**	76,065
Kostyantin Zhevago[4]	**76,065**	76,065	**–**	–	**–**	–	**76,065**	76,065
Bessel Kok	**76,065**	76,065	**89,585**[5]	80,059[6]	**23,697**	25,355	**189,347**	181,479
Hans-Jörg Rudloff	**76,065**	76,065	**–**	–	**57,049**	57,049	**133,114**	133,114
Steven Schuit	**76,065**	76,065	**–**	–	**95,082**	95,082	**171,147**	171,147
Barry Rourke	**76,065**	76,065	**66,721**[7]	63,387	**42,708**	40,030[8]	**185,494**	179,482
Paul Everard	**76,065**	76,065	**63,387**	63,387	**31,694**	31,694	**171,146**	171,146

The remuneration for 2011 includes remuneration received as Non-Executive Directors of both NWR and NWR NV.

[1] Mr. Bakala and Mr. Kadas waived their fees for the whole of 2012 as well as 2011.
[2] Mr. Mende resigned from the Board as at 31 January 2012.
[3] NWR entered into a consultancy agreement with BXL Consulting Ltd; Mr. Telička is the co-founder and director in charge of the Brussels office of BXL. For further details regarding these contracts, see the 'Related Party Transactions' section of this 2012 Annual Report.
[4] Mr. Zhevago agreed to waive his annual fee for the benefit of a charity for 2011 as well as 2012.
[5] The 2012 annual chairmanship fee of Mr. Kok for 2012, includes the fee for chairmanship in the Audit and Risk Management Committee and the pro-rata chairmanship fees for Remuneration Committee and Nomination Committee. Mr. Kok became the chairman of the Remuneration Committee on 13 November 2012 and ceased to be the chairman of the Nomination Committee on the same day. The 2012 membership fees of Mr. Kok are presented in the same pro-rata way.
[6] The annual chairmanship fee of Mr. Kok for 2011, includes the fee for chairmanship in the Audit and Risk Management Committee and the pro-rata chairmanship fee for Nomination Committee, which came into existence on 6 May 2011.
[7] The annual chairmanship fee of Mr. Rourke for 2012, includes the fee for chairmanship in the Real Estate Committee and the pro-rata chairmanship fee for Nomination Committee. Mr. Rourke became the chairman of the Nomination Committee on 13 November 2012. The 2012 membership fees of Mr. Rourke are presented in the same pro-rata way.
[8] The annual membership fee of Mr. Rourke for 2011, includes the membership fee for Audit and Risk Management Committee and pro-rata membership fee for Nomination Committee, which came into existence on 6 May 2011.

Share performance



The total shareholder return (‚TSR') is calculated as a growth in capital from purchasing a share in the Company assuming that the dividends are reinvested each time they are paid. For simplicity, we assume that the total dividend (I.e. Interim and final) is reinvested at the end of the year. TSR is expressed in GBp and the initial investment is one A share bought at the IPO price of Gbp 1,325. The aim of this chart is to provide comparison of the Company's performance with the relevant benchmark (FTSE 350 Mining Index).

Directors' interests in shares

The table below sets out information pertaining to the shares held by the Directors and their connected persons in NWR.

Name	At 1 January 2012	At 31 December 2012[2]
Gareth Penny	–	750,000 options
Mike Salamon	700,986 shares and 264,114 options	835,005 shares
Marek Jelínek	7,075 shares and 349,975 options and 30,000 deferred shares under Deferred Bonus Plan	7,075 shares and 349,975 options and 30,000 deferred shares under Deferred Bonus Plan
Klaus-Dieter Beck	12,490	12,490
Zdeněk Bakala[1]	–	–
Peter Kadas[1]	–	–
Hans Mende	–	–
Pavel Telička	–	–
Kostyantin Zhevago	–	–
Bessel Kok	54,308	54,308
Hans-Jörg Rudloff	81,299	35,077
Steven Schuit	25,843	25,843
Paul Everard	67,843	67,843
Barry Rourke	55,843	55,843

[1] Please refer to the 'Shareholder information' on page 168 in respect of the individual interests of entities affiliated with Messrs. Bakala and Kadas in the A shares and B shares of NWR.
[2] There were no changes from 31 December 2012 to 18 March 2013, which is the latest practicable date before publication of the AGM notice.

Loans to Directors

No personal loans, guarantees or other similar instruments may be provided to the Directors.

Pension scheme

In 2012 NWR Group did not operate any pension schemes on behalf of, or for the benefit of, its Directors or employees. Accordingly, NWR Group does not set aside or accrue amounts to provide pension, retirement or similar benefits.

This Remuneration Report has been approved by the Board.

Bessel Kok
Chairman of the Remuneration Committee
14 March 2013

Statement of Directors' responsibility

The Directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the Directors are required to:

» select suitable accounting policies and then apply them consistently;
» make judgements and estimates that are reasonable and prudent;
» state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
» prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

» the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
» the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board
Lucie Vávrová
Company Secretary

Independent auditors' report

Independent auditor's report
We have audited the group financial statements of New World Resources Plc for the year ended 31 December 2012 set out on pages 106 to 160. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 104, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the group financial statements:

» give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its loss for the year then ended;
» have been properly prepared in accordance with IFRSs as adopted by the EU; and
» have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

Matters on which we are requires to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

» certain disclosures of directors' remuneration specified by law are not made; or
» we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

» the directors' statement, set out on page 85, in relation to going concern;
» the part of the Corporate Governance Statement on pages 86 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
» certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter
We have reported separately on the parent company financial statements of New World Resources Plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Jimmy Daboo
Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
25 March 2013

Consolidated income statement
For the year ended 31 December 2012

EUR'000	Note	2012	2011
Revenues	3	1,299,361	1,632,491
Change in inventories of finished goods and work-in-progress		58,427	37,708
Consumption of material and energy		(374,082)	(412,973)
Service expenses		(358,082)	(394,566)
Personnel expenses	4	(377,144)	(384,237)
Depreciation and amortisation	10, 11	(173,997)	(176,389)
Gain recognised on impairment correction	10	7,438	–
Net gain from material sold		9,311	7,602
Gain / (loss) from sale of property, plant and equipment		105	(1,536)
Other operating income		4,220	4,065
Other operating expenses	5	(39,416)	(36,097)
OPERATING INCOME		56,141	276,068
Financial income	6	46,231	31,580
Financial expense	6	(93,676)	(120,683)
PROFIT BEFORE TAX		8,696	186,965
Income tax expense	7	(9,945)	(57,147)
(LOSS) / PROFIT FOR THE YEAR		**(1,249)**	**129,818**
Attributable to:			
Non-controlling interests		109	1,146
SHAREHOLDERS OF THE COMPANY		**(1,358)**	**128,672**
(LOSS) / EARNINGS PER SHARE (EUR/share)	22		
A share			
Basic (loss) / earnings		(0.02)	0.47
Diluted (loss) / earnings		(0.02)	0.47
B share			
Basic earnings		375.30	345.80
Diluted earnings		375.30	345.80

All activities were in respect to continuing operations.

The Notes on pages 114 to 160 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2012

EUR'000	2012	2011
(LOSS) / PROFIT FOR THE YEAR	**(1,249)**	**129,818**
OTHER COMPREHENSIVE INCOME		
Foreign currency translation differences	30,295	(27,174)
Derivatives – net change in fair value of cash flow hedges	1,381	(18,619)
Derivatives – net change in fair value of cash flow hedges reclassified to profit and loss	6,541	(8,174)
Income tax relating to components of other comprehensive income	613	1,775
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	38,830	(52,192)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**37,581**	**77,626**
Attributable to:		
Non-controlling interests	186	751
SHAREHOLDERS OF THE COMPANY	**37,395**	**76,875**

The Notes on pages 114 to 160 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
at 31 December

EUR'000	Note	2012	2011
ASSETS			
Property, plant and equipment	10	1,476,570	1,354,356
Mining licences	11	143,020	148,196
Accounts receivable	12	7,949	10,217
Deferred tax	7	11,262	9,630
Restricted deposits	13	13,300	12,506
Derivatives	16	-	15
TOTAL NON-CURRENT ASSETS		1,652,101	1,534,920
Inventories	14	151,333	93,089
Accounts receivable and prepayments	15	130,046	202,501
Derivatives	16	760	-
Income tax receivable	7	9	169
Cash and cash equivalents	17	267,011	536,910
Restricted cash	13	-	6,465
TOTAL CURRENT ASSETS		549,159	839,134
TOTAL ASSETS		**2,201,260**	**2,374,054**
EQUITY			
Share capital	21	105,863	105,756
Share premium	21	2,368	2,368
Foreign exchange translation reserve	21	81,735	56,056
Restricted reserve	21	132,691	129,136
Equity-settled share-based payments	26	13,827	14,235
Hedging reserve	21	7,825	(2,168)
Merger reserve	21	(1,631,161)	(1,631,161)
Other distributable reserve	21	1,684,463	1,692,319
Retained earnings		360,642	384,386
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY		758,253	750,927
Non-controlling interest	21	-	1,632
TOTAL EQUITY		**758,253**	**752,559**

EUR'000	Note	2012	2011
LIABILITIES			
Provisions	23	179,824	166,756
Long-term loans	19	62,333	76,184
Bonds issued	20	741,805	738,646
Employee benefits	25	93,211	87,912
Deferred revenue	24	2,704	2,128
Deferred tax	7	111,064	116,715
Other long-term liabilities		979	466
Cash-settled share-based payments	26	2,018	880
Derivatives	16	10,398	25,332
TOTAL NON-CURRENT LIABILITIES		1,204,336	1,215,019
Provisions	23	5,681	9,139
Accounts payable and accruals	18	204,830	219,234
Accrued interest payable on bonds		8,937	8,937
Derivatives	16	4,691	28,069
Income tax payable	7	159	26,881
Current portion of long-term loans	19	13,852	13,852
Short-term loans	19	-	99,695
Cash-settled share-based payments	26	521	669
TOTAL CURRENT LIABILITIES		238,671	406,476
TOTAL LIABILITIES		**1,443,007**	**1,621,495**
TOTAL EQUITY AND LIABILITIES		**2,201,260**	**2,374,054**

The Notes on pages 114 to 160 are an integral part of these consolidated financial statements.

The financial statements on pages 106 to 160 were approved by the Directors on 25 March 2013 and signed on their behalf by:

Gareth Penny
Executive Chairman of the Board

Marek Jelínek
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 31 December 2012

EUR'000	Share capital	Share premium	Foreign exchange translation reserve	Restricted reserve	Equity-settled share-based payments	Hedging reserve	Merger reserve	Other distributable reserve	Retained earnings	Shareholders' equity	Non-controlling interest ('NCI')	**Total equity**
Balance at 1 January 2012	**105,756**	**2,368**	**56,056**	**129,136**	**14,235**	**(2,168)**	**(1,631,161)**	**1,692,319**	**384,386**	**750,927**	**1,632**	**752,559**
(Loss) / profit for the year	–	–	–	–	–	–	–	–	(1,358)	**(1,358)**	109	**(1,249)**
Total other comprehensive income	–	–	25,514	3,265	–	9,974	–	–	–	**38,753**	77	**38,830**
Total comprehensive income for the year	–	–	25,514	3,265	–	9,974	–	–	(1,358)	**37,395**	186	**37,581**
Transaction with owners recorded directly in equity												
Share options exercised	107	–	–	–	(5,245)	–	–	–	5,141	**3**	–	**3**
Share options for A shares	–	–	–	–	4,837	–	–	–	(5)	**4,832**	5	**4,837**
Dividends paid to A shareholders	–	–	–	–	–	–	–	(7,856)	(26,513)	**(34,369)**	–	**(34,369)**
Dividends paid to NCI	–	–	–	–	–	–	–	–	–	**–**	(81)	**(81)**
Acquisition of NCI settled in cash	–	–	165	290	–	19	–	–	(1,009)	**(535)**	(1,742)	**(2,277)**
Total transactions with owners	107	–	165	290	(408)	19	–	(7,856)	(22,386)	**(30,069)**	(1,818)	**(31,887)**
Balance at 31 December 2012	**105,863**	**2,368**	**81,735**	**132,691**	**13,827**	**7,825**	**(1,631,161)**	**1,684,463**	**360,642**	**758,253**	**–**	**758,253**

EUR'000	Share capital	Share premium	Foreign exchange translation reserve	Restricted reserve	Equity-settled share-based payments	Hedging reserve	Merger reserve	Other distributable reserve	Retained earnings	Shareholders' equity	Non-controlling interest ('NCI')	**Total equity**
Balance at 1 January 2011	**105,883**	**66,326**	**79,343**	**133,169**	**17,157**	**23,322**	**–**	**–**	**384,195**	**809,395**	**–**	**809,395**
Profit for the year	–	–	–	–	–	–	–	–	128,672	**128,672**	1,146	**129,818**
Total other comprehensive income	–	–	(22,680)	(3,718)	–	(25,399)	–	–	–	**(51,797)**	(395)	**(52,192)**
Total comprehensive income for the year	–	–	(22,680)	(3,718)	–	(25,399)	–	–	128,672	**76,875**	751	**77,626**
Transaction with owners recorded directly in equity												
Share options exercised	105	–	–	–	(4,614)	–	–	–	4,512	**3**	–	**3**
Share options for A shares	–	–	–	–	6,121	–	–	–	(13)	**6,108**	13	**6,121**
Transfers within equity	–	–	–	–	(4,429)	–	–	–	4,429	**–**	–	**–**
Dividends paid to A shareholders	–	–	–	–	–	–	–	(2,498)	(97,931)	**(100,429)**	–	**(100,429)**
Dividends paid to B shareholders	–	–	–	–	–	–	–	–	(40,000)	**(40,000)**	–	**(40,000)**
Dividends paid to NCI	–	–	–	–	–	–	–	–	–	**–**	(157)	**(157)**
Reclassification in respect of reorganisation	1,691,650	(66,326)	(3,689)	(4,120)	–	(722)	(1,630,472)	–	(9,709)	**(23,388)**	23,388	**–**
Reduction of share capital	(1,694,817)	–	–	–	–	–	–	1,694,817	–	**–**	–	**–**
Acquisition of NCI settled by ordinary shares issued	2,935	2,368	3,082	3,805	–	631	(689)	–	10,231	**22,363**	22,363	**–**
Total transactions with owners	(127)	(63,958)	(607)	(315)	(2,922)	(91)	(1,631,161)	1,692,319	(128,481)	**(135,343)**	881	**(134,462)**
Balance at 31 December 2011	**105,756**	**2,368**	**56,056**	**129,136**	**14,235**	**(2,168)**	**(1,631,161)**	**1,692,319**	**384,386**	**750,927**	**1,632**	**752,559**

The Notes on pages 114 to 160 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2012

EUR'000	Note	2012	2011
Cash flows from operating activities			
Profit before tax and non-controlling interest		8,696	186,965
Adjustments for:			
Depreciation and amortisation	10,11	173,997	176,389
Gain recognised on impairment correction	10	(7,438)	-
Changes in provisions		(2,415)	(1,186)
(Gain) / loss from sale of property, plant and equipment		(105)	1,536
Interest expense, net		62,173	56,565
Change in fair value of derivatives		(32,443)	2,635
Equity-settled share-based payments		4,837	6,121
Operating cash flows before working capital changes		207,302	429,025
(Increase) in inventories		(58,245)	(37,075)
Decrease / (Increase) in receivables		74,903	(5,244)
(Decrease) in payables and deferred revenues		(9,477)	(7,481)
Decrease / (Increase) in restricted deposits and restricted cash		5,999	(8,496)
Currency translation and other non-cash movements		(3,367)	11,720
Cash generated from operating activities		217,115	382,449
Interest paid		(62,609)	(69,111)
Corporate income tax paid		(46,496)	(55,732)
Net cash flows from operating activities		**108,010**	**257,606**
Cash flows from investing activities			
Interest received		3,571	11,631
Purchase of land, property, plant and equipment	10	(230,999)	(194,313)
Proceeds from sale of property, plant and equipment		642	979
Net cash flows from investing activities		**(226,786)**	**(181,703)**

EUR'000	Note	2012	2011
Cash flows from financing activities			
Repayments of long term loans	19	(14,246)	(14,246)
Bond redemption	20	-	(8,844)
Repayments of short-term borrowings	19	(200,054)	-
Proceeds from short-term borrowings	19	100,000	99,695
Proceeds from exercise of share options		3	3
Dividends paid to A shareholders	8	(34,369)	(100,429)
Dividends paid to B shareholders	8	-	(40,000)
Dividends paid to non-controlling interest	8	(81)	(157)
Acquisition of non-controlling interest	21	(2,277)	-
Net cash flows from financing activities		**(151,024)**	**(63,978)**
Net effect of currency translation		(99)	(4,256)
Net (decrease) / increase in cash and cash equivalents		**(269,899)**	**7,669**
Cash and Cash Equivalents at the beginning of year		536,910	529,241
Cash and Cash Equivalents at the end of year		**267,011**	**536,910**

The Notes on pages 114 to 160 are an integral part of these consolidated financial statements.

Notes to consolidated financial statements
For the year ended 31 December 2012

1. General information

a) Corporate information
New World Resources Plc ('NWR Plc' or the 'Company') is a public limited liability company with its registered office at One Silk Street, London EC2Y 8HQ, United Kingdom ('UK').

The Company was incorporated in the UK on 30 March 2011 as part of a corporate reorganisation process under which, on 6 May 2011, it became the holding company for the businesses previously held by New World Resources N.V. ('NWR NV'). The reorganisation did not lead to a change in control and did not result in any changes to the day-to-day operations of the Group. For more details see Note 21.

The objective of the Company is to act as a holding company for the Group.

BXR Mining B.V., an investment, public limited company, is the major shareholder of the Company, holding approximately 64% of the Company's A shares. 100% of the Company's B shares are owned by RPG Property B.V. The financial information of the Company will be included in the consolidated financial statements of BXR Group B.V. A shares of the Company are listed on stock exchanges in London, Warsaw and Prague. The ultimate parent of the Company, BXR Mining B.V., RPG Property B.V. and BXR Group B.V. is BXR Group Limited.

These financial statements were approved by the Board of Directors and authorised for issue on 25 March 2013.

b) The Group
The consolidated financial statements include New World Resources Plc and its subsidiaries (together the 'Group'). The Company´s subsidiaries as at 31 December 2012 are:

Consolidated subsidiaries	Abbreviation	% voting shares	Nature of Activity
Entity directly owned by the Company:			
New World Resources N.V.	NWR NV	100%	Management services
New World Resources Services Ltd	NWR Services	100%	Management services
Entities directly owned by NWR NV:			
OKD, a.s.	OKD	100%	Coal mining
OKK Koksovny, a.s.	OKK	100%	Coke production
NWR KARBONIA S.A.	NWR Karbonia	100%	Coal mining
NWR Communications, s.r.o.	NWRC	100%	Public relations
Entity directly owned by OKD:			
OKD, HBZS, a.s.	HBZS	100%	Emergency services and waste processing

For changes in the Group during the year presented see "Changes in consolidated group" below.

All of the Company's consolidated subsidiaries are incorporated in the Czech Republic, with the exception of NWR Karbonia (Poland), NWR Services (UK) and NWR NV (The Netherlands).

c) Changes in the consolidated group in 2012
A new subsidiary New World Resources Services Ltd was established on 1 October 2012 to perform management services.

On 9 October 2012, the Company completed the process of compulsory squeeze-out under which it acquired the remaining shares in NWR NV and became its sole shareholder. For more details see Note 21.

2. Summary of significant accounting policies

a) Basis of preparation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('adopted IFRS'). In accordance with these requirements, the Company's consolidated financial results and financial position prior to date the Company became the new holding company of the Group previously held by NWR NV are those of NWR NV.

The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments, which are stated at their fair value. They are presented in Euro (EUR) and rounded to the nearest thousand. Financial statements of operations with functional currency other than EUR were translated to the Group presentation currency. The functional currency of NWR Plc and NWR NV is EUR. The functional currency of NWR Karbonia is Polish Zloty (PLN). The functional currency of NWR Services is British Pound (GBP). The functional currency of the remaining consolidated companies is Czech Crown (CZK). For details refer to the Note 2d(ii). The accounting policies have been applied consistently by all Group entities.

Going concern basis of accounting
The Group manages its liquidity through cash (EUR 267,011 thousand (2011: EUR 536,910 thousand)) and a EUR 100,000 thousand Revolving Credit Facility (undrawn at 31 December 2012) which is available until February 2014, subject to compliance with certain covenants.

In anticipation of not being able to meet the requirements of one of the covenants at the end of the first quarter, the Company is currently negotiating revised terms for both the ECA and RCF including suspension of covenants testing.

Should the negotiations fail, the ECA loan would have to be repaid and the RCF would not be available to the Company. Based on its base case forecasts the Company does not believe that it would need to borrow further funds until at least 31 March 2014, whether or not the ECA and RCF remain available.

However, if the currently depressed coking coal prices do not improve (which the Directors consider to be highly unlikely) the Group would, absent mitigating actions, need further funding before that time. The Company has a number of mitigating actions available including accelerating the sale of its inventories, reducing operating costs, factoring receivables and further reducing/deferring capital expenditure, which it believes would provide sufficient liquidity until at least 31 March 2014.

Based on this analysis, the Directors are of the opinion that the NWR Group has adequate financial resources to continue operating for the foreseeable future (that is until 31 March 2014) and that it is therefore appropriate to continue to adopt the going concern basis in preparing the financial statements.

New standards and interpretations adopted during the financial year
The accounting policies used in preparation of these financial statements are consistent with those of the previous financial year. The following amended standards have been adopted:

» Amendment to IAS 12 Income Taxes – Recovery of Underlying Assets (effective 1 January 2012)
» Amendment to IFRS 7 Financial Instrument: Disclosures – Transfer of Financial Assets (effective 1 July 2011)

These amendments do not have an impact on the financial statements of the Group.

Notes to consolidated financial statements
For the year ended 31 December 2012

2. Summary of significant accounting policies continued

New standards and interpretations endorsed by the European Union but not effective yet
The Group is currently assessing the potential impacts of the following new and revised standards and interpretations that have been issued but are not yet effective for the year ended 31 December 2012:

» Amendment to IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)
» Amendment to IAS 19 Employee Benefits (effective 1 January 2013)
» IAS 27 Separate Financial Statements (as revised in 2011, effective 1 January 2014)
» IAS 28 Investments in Associates and Joint Ventures (as revised in 2011, effective 1 January 2014)
» Amendment to IAS 32 Financial Instrument: Presentation – Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
» Amendment to IFRS 7 Financial Instrument: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013)
» IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
» IFRS 11 Joint Arrangements (effective 1 January 2014)
» IFRS 12 Disclosure of Involvement with Other Entities (effective 1 January 2014)
» IFRS 13 Fair Value Measurement (effective 1 January 2013)
» IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective 1 January 2013)

These new standards, amendments and interpretations should not have material impact on the Group's financial position or performance.

Judgments, estimates and assumptions made in applying accounting policies
The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Set out below is information about:

» Critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements; and
» Assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment within next financial year.

Critical judgments, estimates and assumptions
Coal reserves
Economically recoverable coal reserves represent the estimated quantity of product in an area of interests that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions. The determination of coal reserves includes estimates and assumptions about range of geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, productions costs, transportation costs, commodity demand, commodity prices and exchange rates. Changes in coal reserves impact the assessment of recoverability of property, plant and equipment, the carrying amount of mining licences depreciated on unit of production basis and mine closure and restoration provision. The amounts of these assets and provision are set out in the Notes 10, 11, 23.

Restoration and mine closure provisions
Determining the cost of restoration, rehabilitation, and mine closure during mining activities in accordance with the Group's accounting policy q, requires the use of significant estimates and assumptions, including: the appropriate discount rate, the timing of the cash flows, expected life of the relevant mine, the application of relevant environmental legislation, and the future expected costs of restoration, rehabilitation and mine closure.

Changes in the estimates and assumptions used to determine the cost of restoration, rehabilitation and mine closure could have a material impact on the carrying value of the restoration and mine closure provision and relevant asset. The provision recognised for each mine is reviewed at each reporting date and updated based on the facts and circumstances available at that time. The carrying value of the provision is set out in Note 23.

Impairment of assets
The recoverable amount of each non financial asset or cash-generating unit ('CGU') is determined as the higher of the value-in-use and fair value less costs to sell, in accordance with the Group's accounting policy l. Determination of the recoverable amount of an asset or CGU based on a discounted cash flow model requires the use of estimates and assumptions, including: the appropriate discount rate, the timing of the cash flow and expected life of the relevant area of interest, exchange rates, coal and coke prices, reserves, future capital requirements and future operating performance. Changes in these estimates and assumptions impact the recoverable amount of the asset or CGU, and accordingly could result in an adjustment to the carrying amount of that asset or CGU.

Employee benefits
The Group's accounting policy for employee benefits requires management to make estimates and assumptions about discount rate, future remuneration changes, changes in benefits, life expectancy, retirement age, number of employees and expected remaining periods of service of employees. Changes in these estimates and assumptions could have a material impact on the carrying value of the employee benefit provision. Refer to Note 25 for details of the key assumptions.

b) Basis of consolidation
(i) Subsidiaries
The financial statements of subsidiaries are included in the consolidated statements from the date that control commences until the date that control ceases. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

(ii) Transactions eliminated on consolidation
Intragroup balances and transactions and unrealised gains arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) Changes in ownership interest without a loss of control
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

(iv) Loss of control
Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in an entity that was previously a subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Business combination involving entities under common control
A business combination involving entities or businesses under common control is a business combination in which all of the Group entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

In the absence of more specific guidance, the Group entities consistently applied the book value measurement method to all common control transactions. Differences between consideration paid and carrying value of acquired net assets is recognised as a change in consolidated equity.

The carrying amounts of the Group's interests and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

c) Principles for preparation of the statement of cash flows
Cash flow is presented using the indirect method. Net cash flows from operating activities are reconciled from profit before tax and non-controlling interests ('NCI'). Interest received is classified as an investing activity as it mainly relates to investments. Interest paid is classified as an operating activity.

d) Foreign currency
(i) Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(ii) Foreign operations
Assets and liabilities of operations with functional currency other than EUR are translated to EUR at the exchange rate at the reporting date; income statement items of operations with functional currency other than EUR are translated at exchange rates approximating the rates at the dates of the transactions. Equity items are translated at historical exchange rates. The exchange differences arising on translation are recognised in other comprehensive income. On disposal of an operation with functional currency other than EUR (in full or in part), the relevant amount of accumulated exchange differences is transferred to the income statement.

Notes to consolidated financial statements
For the year ended 31 December 2012

2. Summary of significant accounting policies continued

e) Derivative financial instruments
The Group uses derivative financial instruments (such as for example forward currency contracts, interest rate swap and interest rate collar contracts) to hedge its exposure to foreign exchange risk and interest risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap and interest rate collar contracts is the estimated amount that the Group would receive or pay to terminate the contract at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

For the purpose of hedge accounting, hedges are classified as:

» cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedges item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designed.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged forecasted sale or expenditure occurs.

If the forecasted transaction or firm commitment is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecasted transaction or firm commitment occurs.

Current versus non-current classification
Derivative instruments that are not a designated as effective hedging instrument are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

» Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
» Derivative instruments that are designated as and are effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

f) Property, plant and equipment
(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset including borrowing costs for long-term construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials, direct

labour and an appropriate proportion of production overheads. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is initially recognised as a provision under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Mining works are classified under the Land and Buildings class of property, plant and equipment. They are stated at cost less accumulated depreciation and impairment losses. Once approved, expenditure relating to a mining project that is designed to access a new mine level or to construction of new mining works (cross cuts, blind shafts, storage places, bins and mining depots, other auxiliary constructions etc.) are capitalised only if both following conditions are satisfied:

» mining work has useful life exceeding one year
» and such construction is necessary for accessing the new mining level or new areas of interest.

These expenditures are capitalised and classified as construction in progress and the capitalisation ceases when the constructed mining work is finalised and ready for use. These costs are reclassified as land and buildings and depreciated from when the project is complete.

Expenditure for technical improvement of mining works are capitalised, even if they are not related to accessing a new mine level, but they represent a technical improvement of existing mining works.

Other mine development costs related to construction of undersurface located supporting structures (operational mining works) are expensed as incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(ii) Borrowing costs
Borrowing costs from specifically draw down borrowings or generally used borrowings, which are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(iii) Leased assets
The determination of whether an arrangement is, or contains a lease involves an assessment based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use an asset. A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfilment is dependant on a specified asset; or
d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Finance leases, which transfer to the Group substantially all the risks and benefits related to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

(iv) Subsequent expenditure
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(v) Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land and assets in construction are not depreciated.

Notes to consolidated financial statements
For the year ended 31 December 2012

2. Summary of significant accounting policies continued

The estimated useful lives are as follow:

» Buildings 30–45 years
» Plant and equipment 4–15 years
» Other 4 years

Mining works are depreciated on a straight-line basis based on their estimated useful life, as an approximate to the units of production method.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

g) Intangible assets

(i) Licenses

Licenses represent the coal reserve license owned by OKD. The coal reserve is the exclusive deposit and creates the mineral wealth of the Czech Republic and the licenses allow OKD to extract coal from this deposit. Licences are stated at cost less amortisation and impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

(iii) Amortisation

Amortisation of licences for the period is calculated as a proportion of the coal amount actually mined in this period to the total economically exploitable coal reserves as estimated by management.

Amortisation of other intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date.

(iv) Emission rights

Emission rights represent the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year an equivalent of one tonne of carbon dioxide (CO_2).

Based on the Czech Republic National Allocation Plan covering period up to 2020, the Group was granted appropriate quantity of emission rights for its coking operations for free.

Emission rights are accounted for using the net liability method (EFRAG). Under this method, emission rights allocated from the Government are measured at their nominal amount, which is nil.

(v) Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to the income statement as incurred, until the Group determines that commercially viable coal reserves exist.

Thereafter, costs are capitalised as mining licences or property, plant and equipment as appropriate. Such costs are only tested for impairment where facts and circumstances suggest the carrying value may exceed the recoverable amount. If such facts and circumstances exist an impairment test is carried out in line with accounting policy l(i).

h) Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement receivables are subsequently carried at their amortised cost using the effective interest method less any allowance for impairment (see accounting policy l).

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on a weighted average method and includes expenditure incurred in acquiring the inventories, the cost of conversion and other costs incurred in bringing them to their existing location and condition.

The cost of merchandise is the acquisition cost on a weighted average basis. The cost of raw materials is the purchase cost on a weighted average basis. The cost of work-in-progress and finished goods is a standard cost based on the cost of direct materials and labour plus attributable production overheads based on a normal level of activity. At operations that produce joint products (products arising from a common production process and each of which has a significant relative value), cost is allocated amongst the products on the basis of their relative values (selling price).

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and variable selling expenses.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and investments in marketable securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (with original maturity of three months and less).

k) Restricted deposits

Restricted balances of deposits (cash and investments in government bonds), which are shown under non-current financial assets as restricted funds, relate to funds set aside to settle mining damages and restoration expenses and deposits with manufacturers of equipment the Group has on order. The current/non-current classification is based on the expected timing of the release of the funds of the Group.

l) Impairment

(i) Non-financial assets

The carrying amounts of the Group's non-financial assets, excluding exploration and evaluation assets (see accounting policy g(v)), inventories (see accounting policy i) and deferred tax assets (see accounting policy t(iii)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of a non-financial asset or the cash-generating unit to which it belongs exceeds its recoverable amount. A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash flows that are largely independent from other non-financial assets and groups of assets.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGU are allocated to reduce the carrying amount of the assets in the CGU (groups of CGU) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of a non-financial asset or the CGU to which it belongs is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows generated by the asset or the CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the non-financial assets or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU and for such a non-financial asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Reversals of impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

(ii) Non-derivative financial assets

A non-derivative financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A non-derivative financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that non-derivative financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due by a debtor on terms that would not be considered otherwise by the Group, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Notes to consolidated financial statements
For the year ended 31 December 2012

2. Summary of significant accounting policies continued

Loans and receivables
The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, information about historical trends of the probability of default, the timing of recoveries and the amount of loss incurred is used, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a non-derivative financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognised in income statement and reflected in an allowance accounts against loans and receivables.

Calculation of recoverable amount
The recoverable amount of loans and receivables is calculated as the present value of expected future cash flows, discounted to their present value using the financial asset's original effective interest rate. Loans and receivables with a short duration are not discounted.

Reversals of impairment
When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income statement. An impairment loss in respect of loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

m) Non-controlling interest
The non-controlling interest in the statement of financial position and income statement represents the non-controlling proportion of the net assets of the consolidated but not wholly owned subsidiaries at the year-end and a share of results for the year, which is attributable to the non-controlling shareholders.

n) Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Related gains and losses are recognised in the income statement at the settlement date.

o) Employee benefits
The Group's obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate is the yield at the reporting date on Czech government bonds that have maturity dates approximating the terms of the Group's obligations.

p) Share-based payment transactions
Certain employees (including senior executives) of the Group receive part of the remuneration for their services in the form of share-based payment transactions.

Equity-settled transactions
The cost of equity-settled transactions with employees for awards granted is measured by reference to the fair value at the date on which they are granted. The fair value is determined based on the market price listed on the stock exchange and whenever appropriate using option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured as the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Transactions with cash-alternative
The cost of transactions with a cash-alternative is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date with changes in fair value recognised in the income statement.

q) Provisions
A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Mine closure, restoration, and mining damages provisions
An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property and the Group is liable for environmental damage caused by mining activities. These future costs generally include restoration and remediation of land and disturbed areas, mine closure costs, including the dismantling and demolition of infrastructure and the removal of residual materials, and mining damages costs.

Decommissioning of mine sites and land and disturbed areas restoration costs are a normal consequence of mining. The majority of mine closure and rehabilitation expenditure is incurred at the end of the life of the mine. Although the ultimate cost to be incurred is uncertain, the Group's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques.

Restoration costs and clean-up of land used for mining activities are liabilities to restore the land to the condition it was in prior to the mining activities or as stated in the relevant licences. These costs are incurred during the mining activity and can continue for many years depending on the nature of the disturbance and the remediation techniques. The mine closure costs include estimated costs of mine levels and pits closure, and capping of pits after removal of the surface construction.

Provisions for land restoration and mine closure costs are recognised as the net present value of the estimated outflow of economic resources to settle the obligation. Provisions are structured as land restoration and mine closure costs provision. Land restoration and mine closure costs represent a part of the acquisition cost of fixed assets and such assets are depreciated over the useful life of the mines using the linear depreciation method. Any change in the estimate of restoration costs is recognised within fixed assets and is depreciated over the remaining useful life of the mines.

The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost.

Mining damages costs are liabilities to reimburse all immediate damages caused by mining activities to third party assets. Mining damages costs are assessed by the Group for each individual project. This assessment is reviewed and approved by the Czech Mining Authority.

r) Trade and other payables
Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether or not invoiced by the supplier. Trade and other payables are initially stated at fair value and then subsequently at amortised cost.

Notes to consolidated financial statements
For the year ended 31 December 2012

2. Summary of significant accounting policies continued

s) Revenue

(i) Own products sold and services rendered
Sales revenues consist of sales of coal, coke and related by-products (coking gas, chemical products, methane etc.) and services rendered to third parties, measured at the fair value of the consideration received, excluding any applicable taxes, excise duties, charges, discounts and rebates. Most of the sales are priced as carriage paid to (CPT), delivered at place (DAP) or delivered duty paid (DDP).

The Group has concluded that it is acting as a principal in all of its sales arrangements, delivering complete supplies to specified place including responsibility for transportation, handling, solving duty tax issues and possibly insurance. All amounts billed to customers for transportation and handling are classified mostly as a sales revenue from own products, as a part of selling price, or occasionally as services rendered, with transportation and handling costs recognised as service expenses.

A significant proportion of Group production is sold under frame contracts, which are updated quarterly (for coking coal and coke) or yearly (for the majority of thermal coal) by amendments specifying pricing or volumes for the next period. However, the sales revenue is only recognised on an individual sale when all of the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to the customer;
- the Group has retained neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

All these conditions are generally satisfied when the product is delivered to the destination specified by the customer and as such, the title passes to the customer. Sales revenue is commonly subject to adjustments based on an inspection of the product by the customer. Where there are agreed differences in volume or quality of delivered products, this is reflected as reduction or increase (usually for better qualities of coal) in sales revenue recognised on the sale transaction. Sales revenue from services rendered is recognised when services are rendered and accepted by the customer.

(ii) Government grants
Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

t) Expenses

(i) Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Net finance expenses
Net finance expenses comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on derivative instruments that are recognised in the income statement. Interest on borrowings is expensed only to the extent that they are not directly attributable to the acquisition, construction or production of a qualifying asset.

The finance income is recognised as interest accrues (using the effective interest method which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(iii) Income tax
Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

A current tax liability is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the tax laws do not permit consolidated tax returns.

A deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted in the expected period of settlement of deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

u) Segment reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

v) Non-current assets held for sale and discontinued operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations. Classification as a discontinued operation occurs when the operation meets the criteria to be classified as held for sale or upon disposal, if earlier.

w) Earnings per share
Basic earnings per share amounts are calculated by dividing net result for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net result attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

3. Segment information

a) Introduction to segment information
The Group's business is organised into three segments (Coal, Coke and Real Estate Division ('RED') segment) for which financial and other performance measures are separately available and regularly evaluated by the chief operating decision maker ('CODM'). The CODM is the Company's Board of Directors. These operational segments were identified based on the nature, performance and financial effects of key business activities of the Group.

The Group is furthermore organised into two divisions: the Mining Division ('MD') and the Real Estate Division. The Company had A Shares and B Shares outstanding for the presented periods. The A Shares and B Shares are tracking stocks, which are designed to reflect the financial performance and economic value of the MD and RED, respectively. Due to the public listing of the Company's A shares, the Group provides divisional reporting showing separately the performance of the MD and RED. The main rights, obligations and relations between the RED and MD are described in the Divisional Policy Statement ('DPS').

The divisional reporting, as such, is essential for the evaluation of the equity attributable to the listed part of the Group. As the operating segments form part of the divisions and in order to provide understandable and transparent information, the Company decided to combine the segment and divisional disclosure in one table, within the Coal and Coke segments within the Mining Division and the RED segment within Real Estate Division. The Company's headquarter cost are included in the "other" information under the Mining Division.

RED segment
The RED mainly provides inter-divisional service i.e. provides real estates to MD and concentrates ownership of certain assets, so called Real Estate Assets (buildings, surface construction and land), defined by the DPS. This group of Real Estate Assets was allocated to RED based on their book values as of 31 December 2007 when the divisional segments were established.

RED receives an annual fee (the 'CAP') for Real Estate Assets provided by the RED to the MD. The DPS determined the CAP value in an amount of EUR 3,600 thousand. The CAP is annually adjusted by inflation and disposals of the Group entities.

MD division
MD's core activities are mining and processing of coal (Coal segment) and coke production (Coke segment). MD has the right to access and usage of any Real Estate Assets as specified by the DPS for its operating activities.

Notes to consolidated financial statements
For the year ended 31 December 2012

3. Segment information continued

There is no consideration required from the MD to repay the present value of the buildings provided in compliance with the DPS as would be usual under lease terms. Therefore the respective amount i.e. the book value of the buildings provided to the MD as of 31 December 2012 is presented in the equity of the MD.

EUR'000	2012	2011
Net book value of leased buildings and construction used by MD	214,389	229,406

The deferred tax assets, liabilities and their impacts on the financial result of the Group related to the Real Estate Assets are divided between the divisions correspondingly to the allocation of the assets.

b) Division and segment accounting policies, measurement and disclosure

The segment and division financial information is based on standalone financial statements of entities, prepared under adopted IFRS, including application of the DPS on the basis of the following policies:

- Sales and all transactions between division and segments are priced on arm's length basis.
- RED is obliged to provide certain buildings and construction to MD, if MD needs such assets for its operating activities.
  The management considers this relationship between RED and MD as a finance lease relationship, because RED provides buildings and construction for remuneration to MD, the lease term is for the major part of the economic part of the life of the assets and the leased assets are of such specialised nature that only lessee can use them without major modifications. However, there is no lease payment as under standard financial lease condition, only the CAP.
- Land is provided to the MD without any consideration. However, the adopted IFRS criteria for finance lease cannot be met for land. Adopted IFRS does not provide a specific guideline for the presentation of such a relationship. The Group decided to present this relationship in the segment analysis as a Right to use land ('Right') granted by RED to the MD and RED has deferred revenue for granting the Right. The management determined the original value of the Right being the book value of land at 31 December 2007. Buildings and construction leased from RED are disclosed in book value, depreciated by the MD.
- Real Estate Assets used by MD are presented within assets of MD; assets not used by the MD are presented in the assets of RED.
- The land used by the MD is in the accounts of the RED. It is replaced by the Right to use land in the accounts of the MD, amortisation of which is reflected in the result of the MD. The Right is depleted over the expected lifetime of mining, coking and related businesses using a linear amortisation method.
- When any building or construction is not needed by MD for its operating activities any more, the asset is transferred back to RED. Since the respective buildings and construction are expected to be used for the major part of the economic life of the assets, they will generally be fully depreciated at the moment, when mining, coking and related operations stop in the future. Therefore the transfer should include only fully depreciated assets with a zero book value. IAS 16 assumes some residual value of assets which should be equal to its estimated market value at the end of its useful life. However the Company is unable to make a reliable estimate of such residual value due to the character of the assets.
- Deferred revenue corresponding to the amount of the Right is presented in the statement of position of the RED. It will be released into revenues over the period correspondingly to the depletion of the Right. The deferred revenue is disclosed within revenues of RED.
- The CAP is accounted for as financial revenue in the RED and as financial expense in the MD. The CAP amount is annually adjusted by inflation rate and by impact of changes in the Group.
- The RED is allocated certain expenses related to revenues generated from sundry rentals.
- The RED is also charged a fee by the MD for utilisation of supporting internal functions (audit, tax advisory, accounting, IT services etc.). The amount was capped to EUR 100 thousand in 2008. The limit is subject to adjustment by inflation.
- All Intercompany transactions are eliminated at appropriate level of segment or division.
- Margin on inventory held, not yet consumed by the acquiring segment, is eliminated from the sales of the selling segment in such period and the inventory value of the acquiring segment is adjusted correspondingly.
- The result of foreign exchange rate hedging operations is presented within Coal and Coke segment revenues within the MD as correction of sales to third party, split of result is based on EUR value of revenues to total coal and coke EUR revenues generated
- All assets, except for special items described in this section, are allocated to the segments based on the allocation of the entities holding such assets except for advance payments for property, plant and equipment and leased assets. Those are allocated based on the segment using the assets to be acquired or leased.
- All liabilities are allocated to the segments based on the allocation of the entities holding such liabilities.
- CAPEX is allocated and disclosed based on the segment using the assets acquired.

c) Presentation of business segments

Business Segments 2012	Mining division					Real Estate division	Eliminations & adjustments[2]	Group operations total
EUR'000	Coal segment	Coke segment	Other	Eliminations & adjustments[1]	Mining division total	RED segment		
Segment revenues								
Sales to third parties	1,106,933	192,169	259	–	**1,299,361**	**–**	–	**1,299,361**
Sales to other segments	71,496	94	1,219	(72,809)	**–**	**776**	(776)	**–**
Total revenues	**1,178,429**	**192,263**	**1,478**	**(72,809)**	**1,299,361**	**776**	**(776)**	**1,299,361**
Change in inventories of finished goods and work-in-progress	51,572	7,163	–	(308)	**58,427**	**–**	–	**58,427**
Consumption of material and energy	(309,607)	(135,693)	(64)	71,291	**(374,073)**	**(9)**	–	**(374,082)**
Service expenses	(318,558)	(35,674)	(5,692)	1,857	**(358,067)**	**(15)**	–	**(358,082)**
Personnel expenses	(352,636)	(17,324)	(7,074)	–	**(377,034)**	**(110)**	–	**(377,144)**
Depreciation and amortisation	(167,040)	(6,739)	(204)	–	**(173,983)**	**(14)**	–	**(173,997)**
Amortisation of rights to use land – divisional adjustment	(453)	(323)	–	–	**(776)**	**–**	776	**–**
Gain recognised on impairment correction	7,308	–	–	–	**7,308**	**130**	–	**7,438**
Net gain from material sold	7,703	1,608	–	–	**9,311**		–	**9,311**
Gain from sale of property, plant and equipment	59	10	–	–	**69**	**36**	–	**105**
Other operating income	2,811	526	624	(38)	**3,923**	**297**	–	**4,220**
Other operating expenses	(37,372)	(697)	(1,353)	7	**(39,415)**	**(1)**	–	**(39,416)**
SEGMENT OPERATING INCOME / (LOSS)	**62,216**	**5,120**	**(12,285)**	**–**	**55,051**	**1,090**	**–**	**56,141**

[1] elimination of intercompany transactions within the Mining division (e.g. coal sales, service fees)
[2] elimination of transactions between the divisions (e.g. lease charges, service fees, annual fees for providing real estates)

Notes to consolidated financial statements
For the year ended 31 December 2012

3. Segment information continued

Business Segments 2012	Mining division					Real Estate division	Eliminations & adjustments[2]	Group operations total
EUR'000	Coal segment	Coke segment	Other	Eliminations & adjustments[1]	Mining division total	RED segment		
Financial income					**46,113**	**3,826**	(3,708)	**46,231**
Financial expenses					**(97,080)**	**(304)**	3,708	**(93,676)**
Profit before tax					**4,084**	**4,612**	–	**8,696**
Income tax expense					**(9,086)**	**(859)**	–	**(9,945)**
(LOSS) / PROFIT FOR THE YEAR					**(5,002)**	**3,753**	–	**(1,249)**
Attributable to:								
Non-controlling interests					**109**	**–**	–	**109**
SHAREHOLDERS OF THE COMPANY					**(5,111)**	**3,753**	–	**(1,358)**
Assets and liabilities at 31 December 2012								
Total segment assets	1,860,616	213,241	813,687	(701,394)	**2,186,150**	**29,597**	(14,487)	**2,201,260**
Total segment liabilities	1,097,617	164,920	881,705	(701,394)	**1,442,848**	**14,646**	(14,487)	**1,443,007**
Other segment information:								
EBITDA	222,342	12,172	(12,081)	–	**222,433**	**938**	(776)	**222,595**
Capital expenditures spent	223,088	7,898	13	–	**230,999**	**–**	–	**230,999**
Interest income	2,224	6	43,861	(42,616)	**3,475**	**23**	–	**3,498**
Interest income – divisional CAP	–	–	–	–	**–**	**3,659**	(3,659)	**–**
Interest expense	36,946	8,443	62,898	(42,616)	**65,671**	**–**	–	**65,671**
Interest expense – divisional CAP	3,293	366	–	–	**3,659**	**–**	(3,659)	**–**

1 elimination of intercompany balances within the Mining division
2 elimination of balances between the divisions

Business Segments 2011	Mining division					Real Estate division	Eliminations & adjustments[2]	Group operations total
EUR'000	Coal segment	Coke segment	Other	Eliminations & adjustments[1]	Mining division total	RED segment		
Segment revenues								
Sales to third parties (restated[3])	1,396,357[3]	235,616[3]	225[3]	–	**1,632,198**	**293**	–	**1,632,491**
Sales to other segments	110,123	84	838	(111,045)	**–**	**790**	(790)	**–**
Total revenues	**1,506,480**	**235,700**	**1,063**	**(111,045)**	**1,632,198**	**1,083**	**(790)**	**1,632,491**
Change in inventories of finished goods and work-in-progress	14,639	22,830	–	239	**37,708**	**–**	–	**37,708**
Consumption of material and energy	(322,477)	(199,567)	(75)	109,153	**(412,966)**	**(7)**	–	**(412,973)**
Service expenses	(340,132)	(35,653)	(20,410)	1,652	**(394,543)**	**(23)**	–	**(394,566)**
Personnel expenses	(354,526)	(16,798)	(12,808)	3	**(384,129)**	**(108)**	–	**(384,237)**
Depreciation and amortisation	(166,919)	(9,337)	(118)	–	**(176,374)**	**(15)**	–	**(176,389)**
Amortisation of rights to use land – divisional adjustment	(459)	(331)	–	–	**(790)**	**–**	790	**–**
Net gain from material sold	7,309	293	–	–	**7,602**	**–**	–	**7,602**
Gain/(loss) from sale of property, plant and equipment	(1,335)	47	–	–	**(1,288)**	**(248)**	–	**(1,536)**
Other operating income	3,586	436	30	(14)	**4,038**	**208**	(181)	**4,065**
Other operating expenses	(34,325)	(1,142)	(823)	12	**(36,278)**	**–**	181	**(36,097)**
SEGMENT OPERATING INCOME / (LOSS)	**311,841**	**(3,522)**	**(33,141)**	**–**	**275,178**	**890**	**–**	**276,068**

1 elimination of intercompany transactions within the Mining division (e.g. coal sales, service fees)
2 elimination of transactions between the divisions (e.g. lease charges, service fees, annual fees for providing real estates)
3 prior to 2012, the results of foreign exchange hedging arising on Coal and Coke segment had been excluded from segment results and included in other information. In 2012, the results are included in the segment results and the comparatives for 2011 have been conformed to this basis resulting in lower revenues and in Coal segment by EUR 2,876 thousand and in Coke segment by EUR 859 thousand with corresponding adjustment in other information.

Notes to consolidated financial statements
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3. Segment information continued

Business Segments 2011	Mining division					Real Estate division	Eliminations & adjustments[2]	Group operations total
EUR'000	Coal segment	Coke segment	Other	Eliminations & adjustments[1]	Mining division total	RED segment		
Financial income					31,314	3,876	(3,610)	31,580
Financial expenses					(123,802)	(491)	3,610	(120,683)
Profit before tax					182,690	4,275	–	186,965
Income tax expense					(56,330)	(817)	–	(57,147)
PROFIT FOR THE YEAR					126,360	3,458	–	129,818
Attributable to:								
Non-controlling interests					1,146	–	–	1,146
SHAREHOLDERS OF THE COMPANY					125,214	3,458	–	128,672
Assets and liabilities at 31 December 2011								
Total segment assets	1,993,379	206,577	1,033,544	(869,374)	2,364,126	25,180	(15,252)	2,374,054
Total segment liabilities	1,080,896	151,513	1,259,112	(869,374)	1,622,147	14,600	(15,252)	1,621,495
Other segment information:								
EBITDA	480,554	6,099	(33,023)	–	453,630	1,153	(790)	453,993
Capital expenditures spent	184,207	10,090	16	–	194,313	–	–	194,313
Interest income	2,971	6	43,054	(39,655)	6,376	92	(31)	6,437
Interest income – divisional CAP	–	–	–	–	–	3,573	(3,573)	–
Interest expense	30,544	7,098	65,850	(39,655)	63,837	31	(31)	63,837
Interest expense – divisional CAP	3,207	366	–	–	3,573	–	(3,573)	–

[1] elimination of intercompany balances within the Mining division
[2] elimination of balances between the divisions

d) Additional information on divisions
This additional information is not required by IFRS 8 but is important for different users of financial statements.

EUR'000	Mining division 2012	Mining division 2011	Real Estate division 2012	Real Estate division 2011
Non-current assets	1,632,605	1,516,018	19,496	18,902
Right to use land	13,196	13,518	–	–
Current assets	540,349	834,590	10,101	6,278
TOTAL ASSETS	2,186,150	2,364,126	29,597	25,180
Equity attributable to shareholders	743,302	740,347	14,951	10,580
Non-controlling interests	–	1,632	–	–
TOTAL EQUITY	743,302	741,979	14,951	10,580
Non-current liabilities	1,204,336	1,215,019	12,566	12,767
Current liabilities	238,512	407,128	2,080	1,833
TOTAL LIABILITIES	1,442,848	1,622,147	14,646	14,600
TOTAL EQUITY AND LIABILITIES	2,186,150	2,364,126	29,597	25,180

Non-current assets of RED include land amounting to EUR 19,217 thousand (2011: EUR 18,616 thousand). Current assets of RED include cash and cash equivalents of EUR 10,101 thousand (2011: EUR 5,069 thousand).

e) Geographical information
Revenue by location of customer:

EUR'000	2012	2011
Czech Republic	509,089	600,913
Austria	225,258	265,353
Slovakia	205,691	264,766
Poland	160,919	265,819
Germany	95,183	121,171
Hungary	49,229	46,462
Serbia	13,782	23,320
Bosnia and Herzegovina	9,616	16,229
Other	30,594	28,458
Consolidated revenues total	1,299,361	1,632,491

Non-current assets consisting of property, plant and equipment and mining licenses and capital expenditures spent per country based on the physical location of the non-current assets:

EUR'000	Non-current assets 2012	Non-current assets 2011	Capital expenditures spent 2012	Capital expenditures spent 2011
Czech Republic	1,605,576	1,496,319	224,704	189,785
Poland	13,967	6,120	6,282	4,512
The Netherlands	47	113	13	16
	1,619,590	1,502,552	230,999	194,313

Significant customers of the Group
The Group has a stable key customer base and revenues of EUR 671,232 thousand were generated from trading with five significant customers (2011: EUR 917,487 thousand).

EUR'000	2012 Coal segment	2012 Coke segment	2011 Coal segment	2011 Coke segment
Customer A	198,668	–	251,321	–
Customer B	178,875	–	249,923	–
Customer C	124,993	1,313	157,039	8,891
Customer D	85,461	–	81,198	–
Customer E	75,330	6,592	155,949	13,166
	663,327	7,905	895,430	22,057

The analysis of revenues between sales of own products and merchandise and services rendered is as follows:

EUR'000	2012	2011
Sales of own products and merchandise	1,277,783	1,604,409
Services rendered	21,578	28,082
	1,299,361	1,632,491

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4. Personnel expenses

EUR'000	2012	2011
Wages and salaries	253,806	267,356
Social insurance costs	81,749	83,797
Social security and other payroll costs	22,357	21,151
Share based payments (see Note 26)	6,821	8,802
Net benefit expense (see Note 5)	14,246	5,229
Total personnel expenses	378,979	386,335
Less own work capitalised	(1,835)	(2,098)
	377,144	**384,237**
Average number of employees in the period:	14,056	14,333

5. Other operating expenses

EUR'000	2012	2011
Compensation for mining damages	18,642	16,090
Property taxes and government fees	6,898	8,054
Gifts and donations	6,370	6,333
Insurance	4,071	3,938
Other	3,435	1,682
	39,416	**36,097**

6. Financial income and expenses

EUR'000	2012	2011
Financial income comprise:		
Realised and unrealised foreign exchange gains	22,770	21,515
Profit on derivative instruments	19,762	2,437
Bank and other interest received	3,604	6,443
Profit on bond redemption	–	957
Other	95	228
	46,231	**31,580**

EUR'000	2012	2011
Financial expenses comprise:		
Bonds interest expense	56,540	61,900
Realised and unrealised foreign exchange losses	20,741	29,450
Loss on derivative instruments	6,673	26,457
Bank interest expense	4,495	1,749
Other interest expense	4,586	176
Other	641	951
	93,676	**120,683**

Other interest expense relates to unwinding of restoration and mine closure provision discount. Please refer to the Statement of other comprehensive income for the financial income and expenses recognised directly in equity.

7. Income tax expense and deferred tax

The corporate income tax in 2012 and 2011 is calculated in accordance with tax regulations applied in the country of each Group entity's tax residence, (i.e. for the Czech entities at the rate of 19%, Dutch entity 25%, Polish entities 19%). The Group applies a tax rate of 19% for an effective tax rate reconciliation due to the fact the Group, so far, pays income tax only in Czech Republic, through OKD.

The Company and NWR NV (together a fiscal unity for tax purposes and a Dutch tax resident) suffered fiscal losses in this and previous periods, and as such, no corporate income tax is due in the Netherlands. No deferred tax was recognised, as it is not probable that future taxable profit will be available to utilise the benefits from the deferred tax assets.

Components of income tax expense:

EUR'000	2012	2011
Income statement:		
Current tax expense	18,028	55,491
Deferred tax expense	(8,083)	1,656
Income tax expense	**9,945**	**57,147**

Reconciliation of the statutory and effective tax rate:

EUR'000	2012	2011
Profit before tax	**8,696**	**186,965**
Tax at the applicable rate of 19%	**1,652**	**35,523**
Tax effect of:		
– Non-deductible expense	5,417	2,124
– Other tax allowable credits	(1,186)	(1,198)
– Change in unrecognised deferred tax asset	4,985	26,431
Effect of the applicable tax rates other than 19% in other jurisdictions	(1,026)	(6,966)
Prior period income tax adjustment	103	1,233
Tax expense	**9,945**	**57,147**
Effective tax rate	114%	31%

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7. Income tax expense and deferred tax continued

The movement in deferred tax asset/liability is as follows:

EUR'000	2012	2011
Deferred tax asset:		
At 1 January	31,996	33,894
Deferred tax charge for the period	120	(989)
Currency translation	809	(909)
At 31 December	**32,925**	**31,996**
Deferred tax liability:		
At 1 January	139,081	144,231
Deferred income tax related to items charged or credited directly to equity:		
– Net loss on revaluation of cash flow hedges	(1,861)	(1,775)
Deferred tax charge for the period	(7,963)	667
Currency translation	3,470	(4,042)
At 31 December	**132,727**	**139,081**
Deferred tax liability net	**99,802**	**107,085**
Out of which presented in balance sheet:		
Deferred tax asset	**11,262**	**9,630**
Deferred tax liability	**111,064**	**116,715**

Deferred tax is presented in the balance sheet based on the net of the liability and asset, relating to each taxable entity.

Deferred tax analysed by the type of temporary difference:

EUR'000	2012	2011
Deferred tax asset relates to the following:		
Allowances, adjustments and provisions	9,381	6,185
Employee benefits	17,317	16,497
Tax losses carried forward	6,227	9,314
Deferred tax asset	**32,925**	**31,996**
Deferred tax liability relates to the following:		
Property, plant and equipment	130,679	135,223
Derivatives	2,048	3,858
Deferred tax liability	**132,727**	**139,081**

Tax losses to be carried forward and offset against future taxable income are available at the Company, NWR NV, OKK and NWR Karbonia. Non recognised deferred tax asset in relation to tax losses amounts to EUR 84,479 thousand at the Company and NWR NV, EUR 2,064 thousand at OKK and EUR 1,038 thousand at NWR Karbonia as of 31 December 2012 (2011: EUR 81,086 thousand at the Company and NWR NV, EUR 2,059 thousand at OKK, EUR 837 thousand at NWR Karbonia). No deferred tax asset is recognised by the Company and NWR NV, as it is not considered probable that future taxable profits will be available to offset any of the accumulated tax losses.

Tax recognised in other comprehensive income

	2012		
EUR'000	Before tax	Tax (expense) / benefit	After tax
Foreign currency translation differences	30,295	(1,248)	29,047
Derivatives – net change in fair value of cash flow hedges	1,381	–	1,381
Derivatives – fair value of cash flow hedges reclassified to profit and loss	6,541	1,861	8,402
	38,217	**613**	**38,830**

	2011		
EUR'000	Before tax	Tax benefit	After tax
Foreign currency translation differences	(27,174)	–	(27,174)
Derivatives – net change in fair value of cash flow hedges	(18,619)	–	(18,619)
Derivatives – fair value of cash flow hedges reclassified to profit and loss	(8,174)	1,775	(6,399)
	(53,967)	**1,775**	**(52,192)**

8. Dividends

Dividends in 2012:
The Group paid an A share dividend totalling EUR 34,450 thousand for the year, consisting of a final dividend of EUR 0.07 per share in respect of the year ended 31 December 2011 and an interim dividend of EUR 0.06 per share for the half-year ended 30 June 2012. Of these amounts, EUR 81 thousand was paid to non-controlling interests, including payment of a dividend of EUR 6 thousand to non-controlling interests as part of the squeeze out process finalisation. No dividend was paid to B shareholders.

Dividends in 2011:
The Group paid an A share dividend totalling EUR 100,586 thousand for the year, consisting of a final dividend of EUR 0.22 per share in respect of the year ended 31 December 2010 and an interim dividend of EUR 0.16 per share for the half-year ended 30 June 2011. Of the interim dividend EUR 157 thousand was paid to non-controlling interests. Furthermore, the Group paid a dividend totalling EUR 40,000 thousand to B shareholders.

9. Related party disclosure

During the year the Group had transactions in the normal course of operations with related parties. This includes transactions with the ultimate parent company (see Note 1b), entities under common control, shareholders and key management personnel of the Group, and companies of which they are principal owners. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

Transactions with key management personnel
Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly. In 2012 these persons comprise three Executive Directors, nine Non-Executive Directors and Chief Operating Officer (2011: three Executive Directors, ten Non-Executive Directors and Chief Operating Officer). This is a change in definition from that applied in prior years and comparative information has been restated accordingly.

Key management personnel compensation comprised the following:

EUR'000	2012	2011
Short-term employee benefits	5,165	5,168
Share-based payments	2,939	5,075
	8,104	**10,243**

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9. Related party disclosure continued

Other related party transactions
Sales to related parties comprised:

EUR'000	2012	2011 (restated)
Entities under common control:		
Sales of methane	7,942	7,343
Sales of sludge, coke and other products	2,659	3,950
Other	377	692
	10,978	**11,985**

Receivables arising from these transactions were EUR 2,720 thousand (2011: EUR 3,412 thousand).

Purchases from related parties comprised:

EUR'000	2012	2011 (restated)
Entities under common control:		
Transport services	122,474	136,518
Drilling works	8,072	9,122
Restoration services	4,309	4,229
Nitrogen delivery and related services	3,307	3,030
Rent and related services	1,558	2,740
Other	1,964	3,434
	141,684	**159,073**
Entities related to key management personnel:		
Advisory services	300	300
	141,984	**159,373**

Payables arising from these transactions were EUR 17,659 thousand (2011: EUR 24,926 thousand), of which EUR 50 thousand (2011: EUR 25 thousand) is due to entities related to key management personnel.

10. Property, plant and equipment

EUR'000	Land and buildings	Plant and equipment	Other assets	Construction in progress	Total
Cost					
At 1 January 2012	1,291,378	1,103,028	18,550	88,092	2,501,048
Additions	16,446	69,339	7,237	146,275	239,297
Disposals	(8,053)	(36,225)	(41)	(31)	(44,350)
Transfers	16,668	21,757	–	(38,425)	–
Restoration and mine closure costs	5,964	–	–	–	5,964
Currency translation	32,800	27,945	721	1,538	63,004
At 31 December 2012	1,355,203	1,185,844	26,467	197,449	2,764,963
Accumulated depreciation and impairment losses					
At 1 January 2012	655,004	480,362	8,428	2,898	1,146,692
Depreciation charge for the year	75,316	86,125	3,509	123	165,073
Gain recognised on impairment correction	(7,438)	–	–	–	(7,438)
Disposals	(7,584)	(36,152)	(38)	–	(43,774)
Currency translation	16,558	10,905	364	13	27,840
At 31 December 2012	731,856	541,240	12,263	3,034	1,288,393
Net book value at 1 January 2012	636,374	622,666	10,122	85,194	1,354,356
Net book value at 31 December 2012	**623,347**	**644,604**	**14,204**	**194,415**	**1,476,570**

The Group identified assets financed through generally borrowed funds as qualifying assets for capitalisation of borrowing costs. Borrowing costs in the amount of EUR 4,926 thousand were capitalised in 2012 (2011: EUR 1,680 thousand). The borrowing costs were determined using the average capitalisation rate of 7.647% (2011: 8.082%).

During the year ended 31 December 2012 OKD received a grant of EUR 600 thousand (2011: EUR 729 thousand) from the resources of the structural funds of the European Union through the Regional Operational Programme Moravia Silesia. This grant supports the construction of various infrastructures at the Golf Park Darkov project. Acquisition costs of buildings, plant and equipment were reduced by this amount in line with accounting policy s(ii).

Impairment
During 2012, due to continuing volatility in the commodity markets, the Group estimated the recoverable amount of it's Cash Generating Units ("CGU's") using a value in use ("ViU") based on the most recent financial budget as approved by the Board, from mid-term five year plans and on the projected life of the Group's mines and coking facilities. The recoverable value of the Group's assets was estimated to be higher than the carrying value of the associated assets and accordingly no impairment charge has been recognised. Management have identified two key assumptions used in the calculation of recoverable amount for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. These key assumptions are the discount rate and changes in the forecast coal and coke sales prices. The estimated value in use was determined using a post-tax discount rate of 10.10% (equivalent of pre-tax discount rates between 11.66% and 12.22% for various CGU's) and sales prices were derived from the median of a range of mid-term publically available market data.

In 2005, an impairment was recognised on certain property, plant and equipment assets of the Group. Following a review in the fourth quarter of 2012, management determined that this impairment should not have been recorded. As the effect is not material to the financial statements of any prior period, this has been corrected in the current period and the 2012 income statement includes a credit of EUR 7,438 thousand in order to include the related assets at their appropriate carrying value.

Debiensko Project
Property, plant and equipment includes EUR 13,967 thousand of exploration and evaluation costs related to the Debiensko Project. As exploration and evaluation is ongoing, exploration rights are not due to expire and the Directors consider that the Project has identified commercially viable quantities of coal resources, the capitalised cost of the projects have not been subject to an impairment test as required by IFRS 6 Exploration for and Evaluation of Mineral Resources.

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10. Property, plant and equipment continued

EUR'000	Land and buildings	Plant and equipment	Other assets	Construction in progress	Total
Cost					
At 1 January 2011	1,235,099	1,066,433	13,382	36,244	2,351,158
Additions	18,755	118,760	5,931	74,846	218,292
Disposal	(7,059)	(51,496)	(3)	–	(58,558)
Transfers	17,207	2,050	–	(19,257)	–
Restoration and mine closure costs	67,110	–	–	–	67,110
Currency translation	(39,734)	(32,719)	(760)	(3,741)	(76,954)
At 31 December 2011	1,291,378	1,103,028	18,550	88,092	2,501,048
Accumulated depreciation and impairment losses					
At 1 January 2011	603,277	458,878	5,781	2,330	1,070,266
Depreciation charge for the year	77,483	86,103	2,850	682	167,118
Disposals	(4,952)	(49,958)	(3)	–	(54,913)
Currency translation	(20,804)	(14,661)	(200)	(114)	(35,779)
At 31 December 2011	655,004	480,362	8,428	2,898	1,146,692
Net book value at 1 January 2011	631,822	607,555	7,601	33,914	1,280,892
Net book value at 31 December 2011	**636,374**	**622,666**	**10,122**	**85,194**	**1,354,356**

Construction of the "Frenštát" mine
Assets relating to the construction of the "Frenštát" mine relate to the construction and related geological survey work. These assets are maintained by OKD but are not historically reflected in its books. The original cost of these assets amounts to EUR 36,003 thousand, of which EUR 32,409 thousand relates to assets located in the mine and EUR 3,594 thousand to assets located on the surface.
On 26 September 2011, the Company announced its intention to explore the hard coal deposit at the Frenštát mine site.

11. Mining licences

EUR'000	Cost	Accumulated amortisation	Net book value
At 1 January 2012	216,867	(68,671)	148,196
Amortisation for the period	–	(8,924)	(8,924)
Currency translation	5,484	(1,736)	3,748
At 31 December 2012	**222,351**	**(79,331)**	**143,020**
At 1 January 2011	223,149	(61,563)	161,586
Amortisation for the period	–	(9,271)	(9,271)
Currency translation	(6,282)	2,163	(4,119)
At 31 December 2011	**216,867**	**(68,671)**	**148,196**

The Group was granted a mining licence regarding Dębieńsko 1 in Poland in June 2008. The licence was granted for 50 years for mine construction and operations at nil cost. All other mining areas have concessions with no expiry date (see Note 10).

12. Long-term receivables

EUR'000	2012	2011
Trade receivables	68	84
Long-term advances granted	22	20
Other	7,859	10,113
	7,949	**10,217**

Other long-term receivables include an amount of EUR 7,857 thousand (2011: EUR 8,460 thousand) which represents the security deposits under bank collateral agreements which secure OKD´s open interest swap rate derivatives. The amount of deposit required is dependant on the value of the derivatives. The collateral agreements were entered into in connection with the repayment of a Senior Secured Facilities with Citibank and Barclays bank which expire as the derivative contracts mature through to 2016.

13. Restricted deposits

As of 31 December 2012 and 31 December 2011, the Company had long-term restricted deposits (consisting of cash and investment in liquid government bonds) of EUR 13,300 thousand and EUR 12,506 thousand, respectively, in relation to mining damage and restoration expenditures. The amount of restricted deposits corresponds to the mining and restoration provision recognised by OKD since 1 January 2004 in accordance with Czech legal requirements and the restricted cash can be used only to settle the mining damages and restoration obligations.

As of 31 December 2012, the Company had no short-term restricted cash (31 December 2011: EUR 6,465 thousand).

14. Inventories

EUR'000	2012	2011
Raw materials and spare parts	28,124	30,056
Finished goods	81,003	58,187
Work-in-progress and semi-finished goods	42,206	4,846
	151,333	**93,089**

The inventories are disclosed net of provisions for slow-moving and obsolete inventories of EUR 4,448 thousand (2011: EUR 2,756 thousand). Provisions are included in the consumption of material and energy and change in inventories of finished goods and work-in-progress in the income statement.

15. Accounts receivable and prepayments

EUR'000	2012	2011
Trade receivables	111,424	162,259
Other receivables, accrued income	6,229	15,441
VAT and other tax receivables	8,405	19,179
	126,058	196,879
Other advance payments	1,371	2,217
Prepayments and accrued revenue	2,617	3,405
	130,046	**202,501**

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15. Accounts receivable and prepayments continued

Trade receivables are non-interest bearing and are generally on 20-45 days' terms. Total receivables are stated net of provisions for impairment, which amounted to EUR 600 thousand as of 31 December 2012 (2011: EUR 681 thousand).

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of customer credit risk.

As of 31 December 2012 and 31 December 2011, the analysis of accounts receivable that were either not past due or past due but not impaired is as follows:

		Past due but not impaired			
EUR'000	Neither past due nor impaired	< 30 days	31–90 days	> 90 days	Total
31 December 2012	122,170	3,643	6	239	126,058
31 December 2011	183,532	12,804	499	44	196,879

16. Financial instruments and risk management

Risk management
The Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, high yield bonds, trade payables, cash-settled share-based payments payable and leasing contracts. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash, restricted deposits and short-term deposits, which arise directly from its operations.

The most significant risks that the Group is exposed to are foreign exchange rate risk on sales and purchases in foreign currencies, interest rates tied to variable market interest rates and credit risk resulting from potential insolvency of key customers, which might occur especially in the steel industry.

The Board reviews and agrees policies for managing each of these risks, which are summarised below.

The Group enters into derivative transactions, primarily interest rate swaps, interest rate collars and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout 2012 and 2011 the Group's policy that no speculative trading in derivatives shall be undertaken.

» Credit Risk
Credit risk arises from the potential inability of debtors to meet their obligations as they fall due. Credit risk is addressed by top management and related departments by efficient sales operations to prevent excessive bad debts. At the balance sheet date there are concentrations of credit risk to steel producers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant (see Note 15). For OKD, representing the main part of the Group's receivables, the Chief Commercial Officer is responsible for the customer management database, systematic monitoring of customers, their ratings and corresponding risks.

With respect to credit risk arising from other financial assets of the Group, which comprise of cash, cash equivalents and restricted deposits and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, which is stated in the table at the end of this Note. There was no impairment of financial assets other than trade receivables recognised as of 31 December 2012 and 31 December 2011 (see Note 15).

» Liquidity risk
Liquidity risk refers to the possibility of the Group being unable to meet its financial obligations, when they fall due, mainly in relation to the settlement of amounts due to suppliers, bondholders and financial institutions.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial investments, financial assets (e.g. accounts receivables, other financial assets), financial liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, issued bonds and leases contracts with the aim to have sufficient liquidity to meet its due obligations under any conditions.

The Group values its business relationships. It is the Group's policy to agree credit terms prior to commencement of trading. Subject to any items of genuine dispute, it is Group policy to pay creditors within the terms agreed.

The table below summarizes the contractual maturity profile of the Group's financial liabilities at 31 December 2012 and 31 December 2011 based on undiscounted payments including interest.

EUR'000	< 1 year	1 to 5 years	> 5 years	Total
At 31 December 2012				
Loans	17,386	62,812	7,180	87,378
Bonds issued	58,370	443,558	519,688	1,021,616
Other long-term liabilities	–	977	2	979
Accounts payable and accruals	204,830	–	–	204,830
Interest rate swaps	2,807	10,075	–	12,882
Interest rate collars	–	323	–	323
Forward foreign exchange contracts	1,884	–	–	1,884
Cash-settled share-based payments	521	2018	–	2,539

EUR'000	< 1 year	1 to 5 years	> 5 years	Total
At 31 December 2011				
Loans	117,753	62,194	21,516	201,463
Bonds issued	58,370	462,554	559,063	1,079,987
Other long-term liabilities	–	464	2	466
Accounts payable and accruals	219,234	–	–	219,234
Interest rate swaps	3,351	12,400	–	15,751
Interest rate collars	–	302	–	302
Forward foreign exchange contracts	24,718	12,630	–	37,348
Cash-settled share-based payments	669	880	–	1,549

For a description of the Group's liquidity position at the date of approval of these financial statements refer to Note 2(a) "Going concern basis of accounting" on page 115.

» Market risk
Market risk arises from the possible variations in the value of assets and liabilities due to fluctuations in foreign exchange rates, interest rates and commodities. The Group has implemented policies and methods of monitoring these risks as detailed for each risk as follows.

a) Foreign exchange rate risk
The Group has significant transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. In 2012 approximately 38% of the OKD' sales (2011: 41%) were denominated in currencies other than its functional currency, whilst most of its costs were denominated in the functional currency. No significant exposure arises on OKK level.

The Group aims to mitigate foreign currency exposure risks by entering into forward exchange rate contracts with financial institutions. In 2012 and 2011 the Group entered into foreign exchange forward contracts to hedge the EUR denominated revenues of OKD (which has CZK as its functional currency). Hedging is managed at the Group level as part of the centralised treasury functions. The aim is to minimize earnings volatility for the Group resulting from movements in foreign exchange rates. The Group's policy is to cover up to 70% of its currency exposure.

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16. Financial instruments and risk management continued

It is the Group's policy to align the terms of the derivatives and the item at risk to maximize effectiveness of the derivative as a hedge of the foreign currency risk. In 2012 and 2011 the Group applied hedge accounting for forward foreign exchange rate contracts in forecasted transactions and commitments. See Note 2e) for the detailed application of the hedge accounting policies. For the remaining derivatives instruments, hedge accounting is not applied.

The Company and NWR NV had the following CZK-denominated balances and the consolidated subsidiaries had the following EUR-denominated balances which when retranslated affect the income statement:

	31 December 2012			31 December 2011		
EUR'000	EUR denominated	CZK denominated	Total	EUR denominated	CZK denominated	Total
Cash & bank balances	30,759	22,664	53,423	33,488	12,332	45,820
Accounts receivable[1]	38,287	185,193	223,480	297,956	174,913	472,869
Accounts payable[1]	(94,776)	(1,203)	(95,979)	(168,298)	(787)	(169,085)
Loans	–	–	–	–	(9,689)	(9,689)
Gross balance sheet exposure	(25,730)	206,654	180,924	163,146	176,769	339,915

[1] Including intercompany balances and intercompany loans.

The following table demonstrates the sensitivity of strengthening (i.e. appreciation) CZK to EUR by 3% (the Group´s estimate of a reasonably possible change over the following 12 months), with all other variables held unchanged, of the Group's profit after tax (due to changes in the fair value of monetary assets and liabilities and derivatives).

	2012			2011		
EUR'000	EUR denominated	CZK denominated	Total	EUR denominated	CZK denominated	Total
Appreciation of CZK against EUR by 3%						
Effect on profit after tax	625	6,200	6,825	(3,964)	5,303	1,339

The appreciation of the CZK against the EUR by 3%, with all other variables held unchanged would result in profit after tax of EUR 6,825 thousand (2011: loss after tax of EUR 1,339 thousand).

The following derivative financial instruments were entered into to mitigate the above risk:

Fair value of derivative instruments	2012		2011	
EUR'000	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts	760	1,884	–	37,348
of which short-term part	760	1,884	–	24,718
of which long-term part	–	–	–	12,630

Nominal value of derivative instruments	2012		2011	
EUR'000	Czech crown denominated contracts	Polish zloty denominated contracts	Czech crown denominated contracts	Polish zloty denominated contracts
Forward exchange contracts	171,000	28,500	526,500	120,000

The Company concluded forward exchange contracts in the total nominal value of CZK 11,058,070 thousand (EUR 454,500 thousand) throughout 2012.

In 2012 and 2011, changes in the fair value of forward exchange contracts that were subject to hedge accounting were accounted for in the hedging reserve in equity. The reserve amounts to EUR 7,825 thousand as of 31 December 2012 (2011: EUR (2,168) thousand). The hedging reserve is recognised in the income statement when the hedged item (portion of EUR inflows arising from coal and coke sales) is recorded. The amount recognised in equity is then transferred to the income statement. The impact in the income statement, net of tax during 2012 was EUR (4,526) thousand (2011: EUR 3,980 thousand).

b) Interest rate risk

The Group aims to minimise the exposure to the risk of changes in market interest rates. The Group has entered into forward interest rate swaps and collars to convert floating rate loans to fixed rate loans. Specific amounts that the Group hedges are determined based on the prevailing market conditions and the current shape of the yield curve. The specific terms and notional amounts of the swaps are determined based on management's assessment of future interest rates, as well as other factors, including short-term strategic initiatives. As of 31 December 2012, the swaps and collars covered all of the Group's scheduled interest rate exposure pursuant to which the Group receives floating EURIBOR and PRIBOR in exchange for paying a fixed rate of interest. In order to match the Group's exposure to floating interest rates resulting from the Group's significant cash balance, the Group has entered into forward interest rate swaps as a result of which the Group receives a fixed interest rate in exchange for paying a floating EURIBOR plus spread. The fixed rate that the Group received matched the fixed rate that the Group paid on its Senior secured Notes. This forward interest rate was terminated during the year 2012.

For short-term loans outstanding, which comprise mainly revolving credit facility, no interest rate hedging is in place, mostly due to the nature of these credit lines compared to the long-term loans.

Exposure to the interest rate risk of floating rate bank loans is presented by way of sensitivity analysis. This sensitivity analysis shows effects of changes in market interest rates on Group's result after tax as if market interest rates had been 0.25% higher respectively lower over the whole period from 1 January 2012 to 31 December 2012 with all other variables held unchanged. The interest rate sensitivity analysis is calculated from all loans, all cash in banks and all interest rates swap contracts and interest rate collar contracts. The hypothetical effect on the result after tax is equal to EUR 908 thousand and EUR (908) thousand respectively.

7.375% Senior Notes due 2015 and 7.875% Senior Secured Notes due 2018 (collectively referred to as 'bonds') bear a fixed interest rate and are stated at amortised cost. Therefore the change in market interest rates and subsequent changes in the fair value of the bonds do not have any impact on the effective interest rate and carrying value of the bonds, as recorded in the financial statements.

The following derivative financial instruments were entered into to mitigate the above risk:

Fair value of derivative instruments	31 December 2012		31 December 2011	
EUR'000	Assets	Liabilities	Assets	Liabilities
Interest rates swap contracts	–	12,882	–	15,751
Interest rates collar contracts	–	323	15	302
	–	13,205	15	16,053
of which short-term part	–	2,807	–	3,351
of which long-term part	–	10,398	15	12,702
	–	13,205	15	16,053

Nominal value of derivative instruments	31 December 2012		31 December 2011	
EUR'000	Czech crown denominated contracts	Euro denominated contracts	Czech crown denominated contracts	Euro denominated contracts
Interest rates swap contracts	35,253	180,423	41,983	509,727
Interest rates collar contracts	4,305	-	8,397	-
	39,558	180,423	50,380	509,727

Nominal value of interest rates swap contracts and interest rates collar contracts presented in the above tables is derived from the sum of open individual contracts as at the year end.

Changes in the fair value of interest rate swaps and collars were recorded directly in the income statement as, in this case, the Group does not apply hedge accounting.

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16. Financial instruments and risk management continued

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder's value. All this is done in order to safeguard the business as a going concern.

The Group defines its total capital at total equity plus net debt and amounted to EUR 1,309,232 thousand at 31 December 2012 (2011: EUR 1,144,026 thousand).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Management regularly review the capital structure of the Group and the resultant gearing.

The Group dividend policy is to target distribution of approximately 50% of the Mining Division's consolidated annual net income over the course of the business cycle.

The Group monitors capital using a gearing ratio defined as net debt divided by EBITDA (calculated on a twelve month rolling basis for the corresponding group).

The Company and its subsidiaries are not subject to externally imposed capital requirements.

There were no changes in the Group's approach to capital management during the year 2012.

The Group includes interest bearing short-term and long-term loans and borrowings and issued bonds, less cash and cash equivalents, within the net debt. The Company defines EBITDA as net result after tax from continuing operations before non-controlling interest, income tax, net financial costs, depreciation and amortisation, impairment of property, plant and equipment ('PPE') and gains/losses from sale of PPE.

EUR'000	2012	2011
Interest bearing loans and borrowings		
Bonds issued	741,805	738,646
Long-term loans	62,333	76,184
Current portion of long-term loans	13,852	13,852
Short-term loans	–	99,695
	817,990	928,377
Less Cash and cash equivalents	267,011	536,910
Net debt	550,979	391,467
Profit before tax from continuing operations	8,696	186,965
Net financial expenses	47,445	89,103
(Gain)/loss from sale of property, plant and equipment	(105)	1,536
Depreciation and amortisation	173,997	176,389
Gain recognised on impairment correction	(7,438)	–
EBITDA	222,595	453,993
Gearing ratio	**2.48**	**0.86**

The gearing ratio for the year ended 31 December 2012 and 31 December 2011 is calculated on an annual basis. NWR NV is required under the ECA Facility agreement and the Revolving Credit Facility agreement to hold a gearing ratio of total indebtedness below 3.25. The gearing ratio of total indebtedness amounts to 2.48 as of 31 December 2012 (2011: 0.86).

Fair value

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Financial instrument	Fair value estimation
Cash Cash equivalents Current investments	The carrying amount approximates fair value due to the relatively short-term maturity and reset periods of these financial instruments.
Short-term receivables Short-term payables	The carrying amount approximates fair value due to the short-term maturity of these financial instruments.
Long-term receivables	The carrying amount approximates fair value due to the relatively short-term maturity and reset periods of these financial statements.
Cash-settled share-based payments	These are carried at fair value measured in accordance with adopted IFRS.
Short-term loans	The carrying amount approximates fair value because of the floating interest rate and the short period to maturity of those instruments.
Bonds	The fair value is based upon the quoted price on the Global Exchange Market of the Irish Stock Exchange.
Long-term debt	The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values as interest reset at a minimum each twelve months. Fair value may be affected also by changes in the Group credit rating
Derivatives	The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate derivatives is estimated by discounting the difference between the contractual interest rate and current interest rate for the residual maturity of the contract using a risk-free interest rate.

Notes to consolidated financial statements
For the year ended 31 December 2012

16. Financial instruments and risk management continued

Carrying amounts and the estimated fair values of financial assets and liabilities at 31 December 2012 and 31 December 2011 are as follows:

	2012	2011
EUR'000	Carrying Value	Carrying Value
Financial assets:		
Fair value through profit or loss		
Interest rate collars	–	15
Forward exchange contracts	760	–
Loans and receivables		
Long-term receivables [Fair value 2012: 7,942 (2011: 10,088)]	7,949	10,217
Accounts receivable and prepayments	130,046	202,501
Available for sale		
Restricted deposits	13,300	18,971
Cash and cash equivalents	267,011	536,910
Total	**419,066**	**768,614**
Financial liabilities:		
Fair value through profit or loss		
Interest rate swaps	12,882	15,751
Interest rate collars	323	302
Forward exchange contracts	981	18,729
Forward exchange contracts, designated as hedges	903	18,619
Other		
Long-term loans	62,333	76,184
Bonds issued [Fair value 2012: 778,005 (2011: 700,024)]	750,742	747,583
Other long-term liabilities	979	466
Accounts payable and accruals	204,830	219,234
Current portion of long-term loans	13,852	13,852
Short-term bank loans	–	99,695
Cash-settled share-based payments	2,539	1,549
Total	**1,050,364**	**1,211,964**

Except where noted, carrying amounts equal fair value.

Fair value hierarchy
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs)

In order to determine the fair value of the financial instruments, the Company implements valuation techniques used by banks in which all significant inputs were based on observable market data.

Fair value of derivative instruments	31 December 2012		31 December 2011	
EUR'000	Assets Level 2	Liabilities Level 2	Assets Level 2	Liabilities Level 2
Interest rates swap contracts	–	12,882	–	15,751
Interest rates collar contracts	–	323	15	302
Forward foreign exchange contracts	760	1,884	–	37,348
	760	**15,089**	**15**	**53,401**

17. Cash and cash equivalents

Cash and cash equivalents comprise the following statement of financial position amounts:

EUR'000	2012	2011
Cash in bank	266,870	536,763
Cash on hand and cash in transit	141	147
	267,011	**536,910**

Cash at the bank earns interest at floating rates based on daily bank deposit rates. Certain bank accounts are used for cash pooling. Short-term deposits are made for varying periods, typically one or two weeks or one month, depending on the immediate cash requirements of the Group, and earn interest at short-term deposit rates.

18. Accounts payable and accruals

EUR'000	2012	2011
Trade payables	135,775	137,911
Wages and salaries payable	20,264	15,692
Social and health insurance payable	8,856	9,418
VAT and other tax payable	5,776	4,206
Other payables and accruals	34,159	52,007
	204,830	**219,234**

19. Interest-bearing loans and borrowings

This Note provides information about the contractual terms of the group's loans and borrowings, which are measured at amortised cost.

Long-term bank loan

EUR'000	Currency	Effective interest rate	Maturity	2012	2011
Export Credit Agency loan ('ECA')	EUR	EURIBOR+1.65%	2010–2018	76,185	90,036
Total long-term loans				76,185	90,036
of which current portion				13,852	13,852
of which long-term portion				**62,333**	**76,184**

The Group concluded the ECA loan agreement in August 2009. The funds available under the ECA loan were used for financing the POP 2010 capital investment programme. The Group will repay the full facility in semi-annual instalments of EUR 7,123 thousand. The Group is subject to certain covenants under the ECA loan agreement and was in compliance with all those covenants throughout the reporting period.

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19. Interest-bearing loans and borrowings continued

Short-term bank loan

EUR'000	Currency	Effective interest rate	Maturity	2012	2011
Revolving Credit Facility loan (RCF')	EUR	EURIBOR, PRIBOR+1.0–1.3%	2014	–	99,695
Total short-term loans				–	99,695

On 7 February 2011, the Group entered into RCF, which provided for a bank loan facility of EUR 100,000 thousand available for three years after the date of signing. The RCF was fully drawn down in December 2011 (consists of EUR 90,000 thousand and CZK 250,000 thousand) and was used for general corporate purposes. The facility was repaid in full on 15 November 2012, however, it continues to be available for future drawdowns until January 2014, provided the Group is in compliance with certain financial covenants.

Post year end renegotiation
For a description of the position subsequent to the year end, the renegotiation of the ECA and RCF during March 2013 and the Group's liquidity position at the date of approval of these financial statements refer to Note 2(a) "Going concern basis of accounting" on page 115.

20. Bonds issued

a) The Senior Notes due 2015
NWR NV issued a high-yield bond on Global Exchange Market of the Irish Stock Exchange on 18 May 2007. The aggregate principal amount of the 7.375% Senior Notes due 2015 was EUR 300,000 thousand. The outstanding balance as of 31 December 2012 is EUR 256,374 thousand (2011: EUR 257,565 thousand). Effective interest rate is 8.064%.

In October 2011 NWR NV bought back EUR 10,000 thousand face value of its 7.375% Senior Notes for EUR 8,844 thousand. These notes had a book value of EUR 9,800 thousand and were cancelled following acquisition.

The Senior Notes due 2015 were repaid on 22 February 2013 in the total amount of EUR 267,381 thousand (including accrued interest and the call premium), following an issuance of EUR 275,000 thousand Senior Notes due 2021 on 23 January 2013. See subsequent events for more details.

b) The Senior Secured Notes due 2018
NWR NV issued EUR 475 million Senior Secured Notes due 2018 on the Global Exchange Market of the Irish Stock Exchange on 27 April 2010. The notes were issued with a coupon rate of 7.875% and an effective interest rate is 8.656%. The net proceeds of the offering together with approximately EUR 181 million cash were used to repay in full the outstanding amounts under the Senior Secured Facilities, accrued interest and fees.

On 18 May 2010, NWR NV issued an additional EUR 25 million of Senior Secured Notes due 2018 in a private placement. The additional notes are entitled to the same rights and privileges as the EUR 475 million of Senior Secured Notes due in 2018, including a coupon of 7.875%. Effective interest rate is 8.656%.

The Senior Secured Notes due 2018 do not include maintenance covenants and are secured by a pledge of the shares of OKD, OKK and NWR Karbonia.

21. Share capital and reserves

The Company was incorporated in the UK on 30 March 2011 as part of a corporate reorganisation under which, on 6 May 2011, it became the holding company for the business previously held by NWR NV. The reorganisation was undertaken by way of an offer by the Company to the shareholders of NWR NV to exchange shares in the Company for their shares in NWR NV on a one-for-one basis.

Reincorporation
On 11 April 2011, the boards of NWR NV and NWR Plc announced a recommended share offer for all of the A ordinary shares of EUR 0.40 each in the capital of NWR NV (the 'Existing A shares') (the 'Offer'). The condition of the Offer relating to acceptances was met on 5 May 2011 ('the first closing date') and the Company became the new holding company when it issued 256,780,388 new A shares to accepting shareholders of NWR NV on 6 May 2011 (being approximately 97% of the Existing A shares), resulting to non-controlling interest of approximately 3%.

In addition, after the Offer became wholly unconditional in all respects, NWR Plc acquired 10,000 B ordinary shares in the share capital of NWR NV by issuing the same number of new B ordinary shares of NWR Plc (being 100% of the B ordinary shares in the capital of NWR NV).

NWR Plc issued the above number of A and B shares with a nominal value of EUR 7.00 per share. The difference between the nominal value of the new A and B shares and carrying value of net assets acquired is recognised as a change in consolidated equity, resulting in the recognition of negative merger reserve of EUR 1,630,472 thousand.

On 11 May 2011, the Company reduced its share capital by reducing the nominal value of each of the A and B ordinary shares from EUR 7.00 per share to EUR 0.40 per share. This reduction of capital created distributable reserve of approximately EUR 1,694,817 thousand in NWR Plc.

On 30 September 2011, pursuant to a private share-for-share exchange, NWR Plc acquired an additional 397,969 Existing A shares, taking NWR Plc's total shareholding in NWR NV to 264,119,398 Existing A shares (approximately 99.8%), in exchange for the Company issuing 397,969 A shares at a value of EUR 6.35 per share, resulting in the recognition of a share premium of EUR 2,368 thousand.

On 9 October 2012, the Company completed the process of a compulsory squeeze-out under which it acquired the remaining shares in NWR NV. Following an interim squeeze-out dividend of EUR 0.01 per share paid on 5 October 2012, the Company acquired the outstanding shares in NWR NV for EUR 2,277 thousand (EUR 3.93 per share after taking into account the accrued statutory interest and paid dividends) and became the sole shareholder of NWR NV on 9 October 2012. Once completed, NWR NV shares were delisted from the Warsaw Stock Exchange on 19 October, and are no longer listed on any stock exchange.

The reincorporation did not lead to a change in control and did not result in any changes to the day-to-day operations of the Group.

The issuances of A shares after each closing date and in connection with the private share-for-share exchange together with acquisition of remaining NWR NV shares were treated as acquisitions of the non-controlling interests with the impact recognised directly into equity.

The reincorporation did not lead to a change in control and did not result in any changes to the day-to-day operations of the Group.

Share capital
The Company's share capital is divided into A shares and B shares in order to reflect the existance of two divisions which act as separate accounting and reporting units: the Mining Division and the Real Estate Division (see Note 3). The rights and obligations attaching to the A shares and B shares, and other provisions related to them, are derived from the Articles of Association of the Company, subject to the limitations of the Divisional Policy Statements and applicable law.

The A Shares are designed to track the performance, and represent the economic value, of the Mining Division and the B Shares are designed to track the performance, and represent the economic value, of the Real Estate Division. Holders of the A Shares are not entitled to receive any dividends, liquidation proceeds or other distributions which relate to the Real Estate Division and holders of B Shares are not entitled to dividends, liquidation proceeds or other distributions which relate to the Mining Division.

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21. Share capital and reserves continued

The following table tracks the number and nominal value of the share capital of NWR NV up to the date of the first closing and NWR Plc thereafter.

Issued and fully paid up share capital	Number of shares		Aggregate nominal value (EUR'000)	
	2012	2011	2012	2011
A ordinary shares				
At 1 January	264,380,983	264,698,715	105,752	105,879
Share options exercised	267,019	261,585	107	105
Effect of reorganisation	–	(7,918,327)	–	1,691,583
Reduction of share capital	–	–	–	(1,694,751)
Acquisition of NCI settled by ordinary shares issued	–	7,339,010	–	2,936
At 31 December	**264,648,002**	**264,380,983**	**105,859**	**105,752**
B ordinary shares				
At 1 January	10,000	10,000	4	4
Effect of reorganisation	–	–	–	67
Reduction of share capital	–	–	–	(67)
At 31 December	**10,000**	**10,000**	**4**	**4**
Total share capital	**264,658,002**	**264,390,983**	**105,863**	**105,756**

Share Premium
Share premium was affected by the process of reorganisation as described at the beginning of this Note. The closing balance is a result of the issuance of 397,969 A shares pursuant to a private share-for-share exchange. These A shares were issued at a value of EUR 6.35 per share, resulting in the recognition of a share premium of EUR 2,368 thousand.

Restricted reserve
In accordance with regulations in the Czech Republic, joint stock companies ("a.s.") are required to establish an undistributable statutory reserve for contingencies against possible future losses and other events. Contributions must be at a minimum of 20 per cent of after-tax profit in the first year in which profits are made and 5 per cent of after-tax profit each year thereafter, until the fund reaches at least 20 per cent of share capital. The fund can only be used to offset losses.

Foreign exchange translation reserve
Translation reserve includes foreign exchange rate effects of translation of the balance sheet and the income statement from the functional currency to the presentation currency.

Hedging reserve
Changes in the fair value of forward exchange rate contracts used for hedging purposes, and for which hedging accounting applies, are accounted via the hedging reserve that is part of equity. For more details see Note 16.

Other comprehensive income, net of tax

EUR'000	Foreign exchange translation reserve	Restricted reserve	Hedging reserve	Retained earnings	Other comprehensive income attributable to Shareholders of the Company	Other comprehensive income attributable to NCI	Total other comprehensive income
Year ended 31 December 2012							
Foreign currency translation differences	25,514	3,265	214	–	**28,993**	54	**29,047**
Derivatives – net change in fair value of cash flow hedges	–	–	1,361	–	**1,361**	20	**1,381**
Derivatives – fair value of cash flow hedges reclassified to profit and loss	–	–	8,399	–	**8,399**	3	**8,402**
Total other comprehensive income, net of tax	25,514	3,265	9,974	–	**38,753**	77	**38,830**
Year ended 31 December 2011							
Foreign currency translation differences	(22,680)	(3,718)	(471)	–	**(26,869)**	(305)	**(27,174)**
Derivatives – net change in fair value of cash flow hedges	–	–	(18,557)	–	**(18,557)**	(62)	**(18,619)**
Derivatives – fair value of cash flow hedges reclassified to profit and loss	–	–	(6,371)	–	**(6,371)**	(28)	**(6,399)**
Total other comprehensive income, net of tax	(22,680)	(3,718)	(25,399)	–	**(51,797)**	(395)	**(52,192)**

22. Earnings per share

The calculation of earnings per share at 31 December 2012 was based on the result attributable to the shareholders of the Company, and a weighted average number of shares outstanding during the year, calculated as follows:

Profit attributable to the shareholders of the Company

EUR'000	2012	2011
(Loss) / profit for the year	(1,358)	128,672
(Loss) / profit attributable to A shares	(5,111)	125,214
Profit attributable to B shares	3,753	3,458

Weighted average number of shares (basic)

Number of A shares	2012	2011
Issued shares at 1 January	264,380,983	264,698,715
Effect of share options exercised	82,441	78,117
Effect of reorganisation	–	(1,062,294)
Weighted average number of shares at 31 December	**264,463,424**	**263,714,538**

The weighted average number of B shares is equal to the number of shares issued being 10 thousand, in both periods.

Please refer to Note 3 for further details on the split of earnings between A and B shares.

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22. Earnings per share continued

Weighted average number of shares (diluted)
In the calculation of diluted weighted average number of shares the dilutive potential impact of individual share-based payments arrangements is taken into account.

Number of A shares at 31 December	2012	2011
Weighted average number of shares (basic)	264,463,424	263,714,538
Effect of share options	1,358,366	1,939,934
Effect of deferred shares	135,414	83,957
Weighted average number of shares (diluted)	**265,957,204**	**265,738,429**

The first and third tranches of share options granted to employees have no dilutive impact. The second tranche of share options granted to employees and to Gareth Penny had a dilutive impact of 1,273,545 and 84,821 shares respectively and the Deferred Bonus Plan grants of 135,414 shares also diluted the share capital. For further information relating to share-based payment arrangements please refer to Note 26.

The average market price of the Company's shares for the purposes of calculating the dilutive effect of the share options was based on quoted market prices for the period during which the options were outstanding.

23. Provisions

The provision balances are as follows:

EUR'000	1 January 2012	Charged	Capitalised	Utilised	Unwinding of discount	Currency translation	31 December 2012
Restoration and mine closure provision	149,725	–	5,964	(5,624)	4,626	3,786	158,477
Mining damage	15,725	18,505	–	(13,282)	–	399	21,347
Other restoration costs	1,306	–	–	(1,339)	–	33	–
Total long-term provisions	**166,756**	**18,505**	**5,964**	**(20,245)**	**4,626**	**4,218**	**179,824**
Taxation	4,591	–	–	(4,591)	–	–	–
Unpaid vacation	3,186	6,417	–	(6,384)	–	79	3,298
Other	1,362	1,412	–	(426)	–	35	2,383
Total short-term provisions	**9,139**	**7,829**	**–**	**(11,401)**	**–**	**114**	**5,681**

In 2011 the Company revised its 20 year operating plan, based on which the Group changed its best estimate of the cost of restoration and mine closure. Mine closure and restoration costs are a normal consequence of mining, and the majority of mine closure and restoration expenditure is incurred at the end of the relevant operation. The group's operating mines are expected to close down in the period 2030–2039.

Although the ultimate cost to be incurred is uncertain, the Group's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques. Provisions of EUR 158,477 thousand (2011: EUR 149,725 thousand) for mine closure and restoration costs and environmental clean up obligations include estimates of the effect of future inflation and have been adjusted to reflect risk. These estimates have been discounted to their present value using discount rates of 2.0% p.a. (2011: 3.71% p.a.).

In 2011, the Group recognised a tax provision of EUR 4,591 thousand relating to an on-going tax audit initiated by the tax authorities. In 2012, the tax audit was finished and the Group paid an amount of EUR 3,979 thousand to the tax authorities.

Environmental issues
The Group (specifically OKK Koksovny, a.s.) owns property which suffers from historical environmental damage caused before its initial privatisation. The process of reclamation of historical environmental damage caused before privatisation is subject to several regulations.

Under these regulations, a property owner is prima facie obligated to remediate environmental damage relating to the properties that it owns but the Czech legislation relating to privatisation authorises the Czech Republic to make agreements under which it would accept responsibility to fund expenses incurred for the clean-up of environmental damage relating to the pre-privatisation period.

Accordingly, in connection with its privatisation, the Group and the Czech Republic entered into an agreement (the Ecological Agreement) covering the obligation to clean-up historical environmental damage and the obligation of the Czech Republic to fund the Group's costs of reclamation of historical environmental damage to the Group's property. Historical environmental damage covers any pollution of ground water, pollution of soil and mineral environment, existence of detrimental waste dumps and pollution of structures that arose prior to privatisation. The maximum the Czech Republic will pay under this agreement for clean-up work is limited to CZK 27.8 billion (€1,100 million approximately) of which CZK 2.56 billion (€100 million approximately) has been utilised to date. We estimate that the total potential cost of clean-up activities will be significantly less than the maximum amount stipulated in the contract. If it becomes clear to us that any obligation would fall on the Group we would provide for our best estimate of the cost.

The general obligation to clean-up environmental damage caused prior to privatisation is only crystallised into a specific obligation through a procedure involving (i) an ecological audit, (ii) environmental analysis and feasibility studies on the reclamation and (iii) a decision by the Czech Environmental Inspection Agency requiring clean-up action to be taken.

Under the Ecological Agreement, only the Czech Republic has the authority to approve any reclamation project and the reclamation projects are subject to public procurement arranged by the Czech Republic. The contract for reclamation works will be entered into by the Czech Republic with the procurement winner. The Czech Republic is the direct contractor of the reclamation activities and is obligated to pay the costs incurred, subject to the above mentioned cap.

In summary, the Czech Republic therefore controls the scope and timing of all clean-up activities and selects and agrees the key contractual terms and enters into the contracts with the contractors carrying out the works and is obliged to pay the costs incurred. The Group is not obligated to carry out any work with regard to damage caused pre-privatisation which has not been subject to this process.

24. Deferred revenue (long-term)

Deferred revenue is represented mostly by government grants that are amortised over the expected useful life of environmental improvements acquired with funds from government subsidies. The total book value of deferred revenue amounts to EUR 2,704 thousand as of 31 December 2012 (2011: EUR 2,128 thousand), out of which government grants amount to EUR 1,543 thousand (2011: EUR 1,752 thousand).

25. Employee benefits

The Group provides a number of different long-term employment benefits to its employees – special miners' benefits, severance payments, vouchers, loyalty benefits and other. The Group's net obligation in respect of long-term service benefits is the amount of benefits that are payable after the balance sheet date and that the employees have earned in return for their service in the current and prior periods.

The Group's employee benefit scheme covers the legal requirements valid for the mining industry and other benefits concluded with the labour union in the general labour agreement. All benefits are unfunded. The significant benefits are listed below.

Notes to consolidated financial statements
For the year ended 31 December 2012

25. Employee benefits continued

EUR'000	2012	2011
Special miners benefits	60,687	54,669
Severance payment	19,549	21,951
Vouchers	9,380	8,864
Loyalty benefits	1,574	1,240
Other long-term benefits	2,021	1,188
	93,211	**87,912**

Increase in employee benefits as of 31 December 2012 compared to 31 December 2011 is a cumulative result of updated assumptions that are disclosed at the end of this Note.

Special miner's benefits
Length-of-service benefit for miners is paid to all employees in mining profession once a year and is based on the length of employment relationship. The benefit is required by current legislation of the Czech Republic.

Special miner benefits are assigned to employees working underground once they achieve 100% of the highest allowable exposure to mine dust, in case of both position transfer or employment termination. Those bonuses are paid monthly, until the pension entitlement arises or the age of 60 is reached. The benefit is required by current legislation of the Czech Republic.

Health-related severance payment is based on the collective agreement of OKD and its labour union. Entitled persons are employees whose employment relationship was dissolved owing to their inability for health reasons to continue performing their work and who are not entitled to receive other severance payment. This benefit is a one-time payment calculated as a multiple of average monthly wage in connection with years of service.

Retirement benefits are based also on a collective agreement of OKD and its labour union and are paid to employees who terminate their employment contract upon becoming entitled to draw an old age pension. The one-time payment is a multiple of average monthly wage.

Severance payments
Severance payments are based on legislative requirements in the Czech Republic. Entitled persons are employees whose employment relationship was dissolved owing to having achieved 100% of the highest allowable exposure to mine dust or occupational injury or incidence of occupational illness and inability to find another suitable position for them within the entity. The payment is made as a one-time disbursement.

Vouchers
This benefit has been recognised at OKD since 1 January 2009 based on an amendment to the collective agreement between OKD and its labour union at that time. All employees are granted vouchers annually and the amount is based on the length of employment relationship. Employees may use these vouchers for health, cultural, sporting, educational and holiday purposes.

Loyalty benefits
Stabilisation premiums are defined in the collective agreements of individual Group entities and belong to all current employees who are not entitled to length-of-service benefits for miners. This bonus is paid once a year and the amount is calculated based on the length of the uninterrupted service.

Length-of-service bonuses are defined in the collective labour agreements of individual Group entities and paid based on the specific provisions of collective agreements, tied to years of uninterrupted service. This benefit is designed as a one-time payment.

Changes in the present value of the defined benefit obligation:

EUR'000	2012	2011
Defined benefit obligation at 1 January	87,912	95,892
Benefits paid	(11,172)	(10,766)
Net benefit expense	14,246	5,229
Currency translation	2,225	(2,443)
Defined benefit obligation at 31 December	**93,211**	**87,912**

The following table summarises the components of net benefit expense recognised in the income statement and the funding status and amounts recognised in the statement of financial position for the respective plan:

EUR'000	2012	2011
Current service cost	5,572	5,083
Interest cost on benefit obligation	1,378	2,948
Actuarial loss/(gain)	7,296	(2,802)
Net benefit expense	**14,246**	**5,229**

The principal financial and demographic assumptions used in determining long-term employee benefits are shown below:

Discount rate – Discount rate is derived from the yield of the Czech government bonds as of the balance sheet date. The average period of payment is considered for the choice of the most suitable bond. The discount rate used for the calculation of employee benefits as of 31 December 2012 was 1.58 % p.a. (as of 31 December 2011: 3.58% p.a.).

Wage increase – This assumption is relevant where the benefit depends on the future wage. In all cases the Group estimates an average wage increase of 4.6% per annum as of 31 December 2012 (6% per annum as of 31 December 2011).

Mortality – Model mortality for the benefit calculation is undertaken from statistical tables, specific to the relevant region in which OKD mines, as published by the Czech Statistical Office.

Retirement age – that variable has changed in 2012 compared to 2011 due to change of applicable Czech legislation.

The retirement age for men is set as follows:
- » 55 years if the person permanently worked underground for 15 years as of 31 December 1992
- » 55 years and 6 months if the person permanently worked underground for minimum 11 years and maximum 14 years as of 31 December 1992 and in total worked 25 years
- » Retirement age for men under Czech legislation less 5 years if an employee started working as a miner before 1 January 1993 and worked 3,300 shifts in underground by 31 December 2008
- » 62–70 years (2011: 66 years) for all other employees not fulfilling above criteria

The retirement age for women is set to 58–70 years (2011: 63 years).

Notes to consolidated financial statements
For the year ended 31 December 2012

26. Share-based payments

The Group offers independent members of the Board and certain employees of the Group various share-based remuneration packages (see below). The reorganisation of the Group did not have any substantive impact on existing schemes as all provisions of already granted options or shares rights continue except that such options or shares rights over A shares of NWR NV has been exchanged for equivalent options and share rights over A shares of NWR Plc.

a) Shares and share options granted to executive Directors

» Mr. Mike Salamon (Mr. Salamon retired from his position of Executive Chairmen of the Company effective 30 September 2012) was granted options for A share with exercise price of EUR 0.01 in the amount equal to 0.5% of the issued share capital of the Company. This remuneration package classifies as an equity-settled share-based payment transaction. The option award was designed to enable Mr. Salamon to ultimately acquire up to 0.5% of the Company's share capital by 1 September 2012, provided that:
(i) he remains an executive member of the NWR Board; and (ii) any other conditions for vesting have been met. The options vest over a period of five years, as to 20% on each anniversary of 1 September 2008, with following number of options having already vested:

Period	Number of options vested
1 September 2008	263,800
1 September 2009	264,351
1 September 2010	265,150
1 September 2011	261,585
1 September 2012	267,019

All above options vested and have been exercised. No further options were granted to Mr. Salamon following his resignation.

» On 3 September 2012, the Company granted Mr Penny, Executive Chairmen, 250,000 share options for A shares, in 3 equal tranches (representing an aggregate of 750,000 A ordinary shares with an exercise price of EUR 0.01 per share. Subject to Mr. Penny remaining in employment with the Company, each tranche vests equally over three years representing one third of the options, annually on the relevant anniversary of the grant date, such that:

> one third of the shares subject to the first Option will vest on each of the first, second and third anniversary of the grant date;
> one third of the shares subject to the second Option will vest on each of the second, third and fourth anniversary of the grant date; and
> one third of the shares subject to the third Option will vest on each of the third, fourth and fifth anniversary of the grant date.

Once vested, each Option will be exercisable from the date on which it vests until the 7th anniversary of the first vesting date of that Option, when it will lapse. This remuneration package classifies as an equity-settled share-based payment transaction.

» Executive Director of the Company and Chief Executive Officer of OKD Mr. Klaus-Dieter Beck (Mr. Beck retired from his position effective 1 January 2013 and following his resignation, became a Non-Executive Director of the Company) is granted a certain number of A shares according to his employment contract with OKD. This remuneration package is recognised as a share-based payment transaction with cash alternative and is presented correspondingly as a short-term liability. The agreement specifies that Mr. Beck will be granted 250,045 A shares every year, starting as of 1 July 2007, up to a maximum total amount of 1,250,225 A shares granted. No further shares will be granted to Mr. Beck following his resignation.

b) Share options granted to employees of the Group

Several eligible employees and Directors of the Group were granted options over A shares of the Company in accordance with its Stock Option Plan for Executive Directors, senior management and key employees. This remuneration package is recognised as an equity-settled arrangement. The terms and conditions related to the grants of the share option are as follows:

Grant date	Number of options at grant date	Vesting conditions	Contractual life of option
9 May 2008	619,878	Same for each grant: 3 years' service from the grant date and various performance conditions depending on participant	8 years
24 June 2009	3,325,762		8 years
17 March 2010	1,742,631		8 years
Total share options granted	**5,688,271**		

Due to the implementation of the Deferred Bonus Plan, the Board decided to terminate the Stock Option Plan as of 31 December 2010. Subsequently, no further options may be granted, although the provisions of the Stock Option Plan will continue in relation to options already granted.

c) Deferred Bonus Plan

Starting 1 January 2011, the Company implemented a new remuneration program, the Deferred Bonus Plan. A group of eligible employees and Directors of the Group, after meeting specified conditions, will be entitled to the annual bonus, part of which will be payable in cash and part will be deferred into A shares for a period of three years. In addition, each participant will have put option which enables the holder to sell the shares back to the Company at market price set at the time the A shares are issued or delivered. The period to exercise the put option is limited to three years. This remuneration package classifies as share-based payment transaction with cash alternatives and as such, the Company has granted compound financial instrument.

Grant date	Number of shares at grant date	Vesting conditions	Contractual life of put option
3 March 2011	101,136	3 years' service from the grant date	3 years from vesting date
16 May 2012	610,676	3 years' service from the grant date	3 years from vesting date

Measurement of fair value

The fair value of all equity-settled share-based payments plans was measured based on the Black-Scholes model. The fair value of compound financial instrument is measured based on fair value of A shares at each balance sheet date for cash-settled part (shares granted) and combination of Monte Carlo simulation and binomial model as a valuation tool for equity-settled part (put option granted).

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payments plans were as follows:

	Share options granted to Gareth Penny 2012	Deferred bonus plan 2012	Deferred bonus plan 2011
Fair value at grant date	EUR 2.83–3.37	EUR 1.01	EUR 3.04
Share price at grant date	EUR 3.53	EUR 4.27	EUR 11.44
Exercise price	EUR 0.01	–	–
Expected volatility	15.07 per cent	11.44 per cent	15.18 per cent
Expected life	1–5 years	3 years	3 years
Expected dividends	4.35 per cent	5.39 per cent	3.85 per cent
Risk-free interest rate	0.39–1.12 per cent	2.48 per cent	3.19 per cent

Personnel expenses EUR'000	2012	2011
Share-based remuneration schemes:		
Gareth Penny	320	–
Mike Salamon	1,136	2,207
Klaus-Dieter Beck	857	1,777
Stock Option Plan	2,971	3,855
Deferred Bonus Plan	1,537	963
Total expense recognised as personnel expenses	**6,821**	**8,802**

From the Deferred Bonus Plan, EUR 399 thousand (2011: 59 thousand) was recognised within the equity-settled share based payment reserve and EUR 1,138 thousand (2011: 880 thousand) within long-term liabilities as cash-settled part of the compound financial instrument.

Notes to consolidated financial statements
For the year ended 31 December 2012

26. Share-based payments continued

Reconciliation of outstanding share options

The number and weighted average exercise of share options under stock option plan, the Gareth Penny and Mike Salamon plan is as follows:

	Number of options 2012	Weighted average exercise price (EUR) 2012	Number of options 2011	Weighted average exercise price (EUR) 2011
Outstanding at 1 January	5,776,268	5.95	6,040,068	5.69
Granted during the year	752,905	0.01	–	–
Forfeited during the year	(9,772)	7.95	(2,215)	0.01
Exercised during the year	(267,019)	0.01	(261,585)	0.01
Expired during the year	-	–	–	–
Outstanding at 31 December	**6,252,382**	**5.48**	**5,776,268**	**5.95**
Exercisable at 31 December	3,790,149	5.45	601,314	16.69

The options outstanding at 31 December 2012 have an exercise price in the range of EUR 0.01 to EUR 16.69 (2011: EUR 0.01 to EUR 16.69) and a weighted average contractual life of 4.9 years (2011: 5.5 years).

27. Future commitments

The Group has the following operating lease and capital commitments in respect of:

EUR'000	2012	2011
Non-cancellable operating leases		
Instalments due within one year	2,205	2,548
Instalments due between two and five years	8,174	9,274
	10,379	**11,822**
Acquisition of property, plant and equipment		
From third parties	75,884	102,973

Leased items include equipment, land and buildings. There are no leases with term exceeding 5 years. Operating lease expense in 2012 was EUR 2,924 thousand (2011: EUR 2,994 thousand).

Included with the contractual obligations to acquire property, plant and equipment EUR 29,913 thousand is spread over more than one year (2011: EUR 34,093 thousand).

28. Auditor´s remuneration

EUR'000	2012	2011
Fees payable to the Company's auditor for the audit of the company's annual accounts	382	366
Fees payable to the companies auditor and its associate for other services pursuant to legislation	338	336
	720	702
Audit related assurance services		
Review/agreed upon procedures on interim financial statements	405	355
Tax advisory services	15	–
Non audit services		
Services in relation to reincorporation	–	341
Services in relation to bond issue	142	–
Other services	40	235
	182	576
	1,322	**1,633**

29. Contingent assets and liabilities

The Group has the following significant contingent assets and contingent liabilities as at 31 December 2012:

In 2009, NWR Karbonia received a claim for damages from Vattenfall Sales Poland Sp. Z o.o. ('VSP') for the amount of PLN 12 million. NWR Karbonia disputed the claim. VSP took this claim to the Regional Court in Bielsko-Biala seeking only PLN 1 million in damages. In December 2010, the Regional Court in Bielsko-Biala dismissed VSP's claim in its entirety, however VSP won an appeal reversing the Regional Court in Bielsko-Biala's decision. In December 2011 VSP was acquired by TAURON Sprzedaz GZE Sp. Z o.o. ('Tauron'). On 23 July 2012, the Regional Court in Katowice ruled and ordered NWR Karbonia to pay PLN 9,213 thousand (approx. EUR 2,195 thousand) including trial costs plus interest to Tauron. NWR Karbonia opposes the ruling and appealed against the verdict. Management is of the opinion that it is more likely than not that the case will not result in charges for the company and as such no provision has been included in the financial statements as at 31 December 2012.

OKD have been claimed against for unfounded enrichment by Mr. Otakar Černý in relation to Improvement proposal no. 31/5–15/95 for a total of CZK 1,087 billion (approx. EUR 43 million). The first hearing was held on 18 January 2012, when the petition was partially rejected by the court and the proceeding was suspended until a similar dispute led by the Regional Court in Ostrava is settled. OKD believes that the claim is unjustified and will be dismissed by the courts. Management is of the opinion that it is more likely than not that the case will not result in charges for the Company and as such no provision has been included in the financial statements as at 31 December 2012.

Litigation is pending against OKD (as successor entity) regarding the review of the adequacy of the consideration for shares of ČMD, a.s. paid out to minority shareholders (constituting at the time 5.915% of the shareholders of the company) in a squeeze-out procedure relating to ČMD, a.s. If the courts rule in favour of the claimant, the judgment would be applicable to all minority shareholders subject to the squeeze-out procedure. The proceeding is still pending, and the potential impact of a decision in the claimants' favour is impossible to assess given that the consideration is subject to review. Management is of the opinion that it is more likely than not that the case will not result in charges for OKD and as such no provision has been included in the financial statements as at 31 December 2012.

Notes to consolidated financial statements
For the year ended 31 December 2012

29. Contingent assets and liabilities continued

On 31 December 2010 permits pertaining to the construction of certain buildings in the Frenstat area expired and subsequent extensions were refused by the regional authorities during 2011 and 2012. On 12 June 2012 OKD appealed this matter in the Regional Court in Ostrava. Effective 1 January 2013, amendment to the Building Act, Mining Act and Act on Protection of Nature and Landscape in the Czech Republic resulted in all building permits relating to mining activities being subject to the relevant mining authorities and not the regional authorities and therefore OKD on 11 February 2013 submitted a new application to the Local Mining Authority. The proceedings are still pending though the Group plans to apply to have the proceedings suspended on the basis of the recent change, and the impact of a unfavourable decision for OKD would require the demolition of these respective assets, for which management have not reliably been able to estimate the cost at this point. OKD believes that the claim is more likely than not to be overturned by either the Regional Court or the Local Mining Authority and accordingly no provision has been recognised as at 31 December 2012.

The Group is involved in other, less material, litigation claims. As inherent in such proceedings, outcomes cannot be predicted with certainty and there is a risk of unfavourable outcomes to the Group. The Group disputes all pending and threatened litigation claims of which it is aware and which it considers unjustified. No provision has been set up as at 31 December 2012 for any of the litigation proceedings. At the date of these financial statements, based on advice of counsel, the management of the Group believes that the litigation proceedings have no significant impact on the Group's financial position as at 31 December 2012.

30. Other material matters

Restrictions on the Company´s ability to pay dividends
The indenture governing the 7.375% Senior Notes due 2015 and 7.875% Senior Notes due 2018 impose restrictions on the Company´s ability to pay dividends. Generally the Company may not pay dividends or make other restricted payments, which exceed, in the aggregate, 50% of consolidated net income since 1 April 2007 (such amounts are accrued on a quarterly basis) plus the net proceeds from the primary tranche of the 2008 IPO and certain other adjustments (the "restricted payment build–up capacity"). The purchase price for investments in entities other than majority owned subsidiaries would also constitute restricted payments.

The restricted payment basket as defined by the 7.375% and the 7.875% Indentures governing the notes (the maximum amount of dividends and other restricted payments that could be made) amounted to approximately EUR 84,050 thousand as at 31 December 2012 (2011: 116,962 thousand). The repayment of the Senior Notes due 2015 and issuance of the Senior Notes due 2021 (see subsequent events for more details) positively affect the restricted payment basket by approximately EUR 74,766 thousand.

31. Subsequent events

Senior Notes Issuance
On 23 January 2013, NWR NV successfully closed its offering and issued EUR 275 million Senior Notes due 2021 (the 'Notes'). The Notes carry a coupon of 7.875% and were sold at par. The net proceeds were used to repay in full the outstanding amounts of the 7.375% Senior Notes due 2015 and for fees, expenses and general corporate purposes. The Notes are traded on the Global Exchange Market of the Irish Stock Exchange.

The Senior Notes due 2015 were repaid on 22 February 2013 in the total amount of EUR 267 million, including accrued interest and call premium. Following the repayment, the Senior Notes due 2015 were delisted from the Global Exchange Market of the Irish Stock Exchange.

Interest-bearing loans and borrowings
For a description of the renegotiation of the ECA and RCF during March 2013, refer to Note 2(a) "Going concern basis of accounting" on page 115.

Company financial statements

Company statement of financial position
As at 31 December

EUR'000	Note	2012	2011
ASSETS			
Investments	D	1,019,996	1,819,807
TOTAL NON-CURRENT ASSETS		1,019,996	1,819,807
Accounts receivable and prepayments		222	141
Cash		9	–
TOTAL CURRENT ASSETS		231	141
TOTAL ASSETS		**1,020,227**	**1,819,948**
EQUITY AND LIABILITIES			
SHAREHOLDER'S EQUITY			
Share capital	E	105,863	105,756
Share premium	E	2,368	2,368
Equity-settled share based payments	F	13,508	14,235
Other distributable reserve	E	1,684,463	1,692,319
Retained earning	E	(793,973)	1,532
TOTAL EQUITY		**1,012,229**	**1,816,210**
LIABILITIES			
Cash-settled share based payments		255	178
Total non-current liabilities		255	178
Trade and other payables		669	1,338
Cash pool liabilities		7,074	2,222
TOTAL CURRENT LIABILITIES		7,743	3,560
TOTAL LIABILITIES		**7,998**	**3,738**
TOTAL EQUITY AND LIABILITIES		**1,020,227**	**1,819,948**

The notes on pages 164 and 166 form an integral part of these financial statements.

The financial statements on pages 161 to 166 were approved by the Board of Directors and authorised for issue on 25 March 2013 and were signed on its behalf by

Gareth Penny
Executive Chairman of the Board

Marek Jelínek
Chief Financial Officer

New World Resources Plc
Registered number: 07584218

Company financial statements

Company statement of changes in equity
For period ended 31 December 2012

EUR'000	Share capital	Share premium	Equity-settled share-based payments	Other distributable reserve	Retained earnings	Total
Balance at 1 January 2012	**105,756**	**2,368**	**14,235**	**1,692,319**	**1,532**	**1,816,210**
Total comprehensive income for the period	–	–	–	–	(774,133)	(774,133)
Transactions with owners						
Equity-settled share based payments	–	–	4,518	–	–	4,518
Share options exercised	107	–	(5,245)	–	5,141	3
Dividend paid to A shareholders	–	–	–	(7,856)	(26,513)	(34,369)
Balance at 31 December 2012	**105,863**	**2,368**	**13,508**	**1,684,463**	**(793,973)**	**1,012,229**
Balance at 30 March 2011 – Incorporation of the Company	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period	–	–	–	–	36,717	36,717
Transactions with owners						
New ordinary shares issued (A and B shares)	1,797,533	–	–	–	–	1,797,533
Equity-settled share based payments	–	–	18,849	–	–	18,849
Reduction in nominal value of ordinary shares	(1,694,817)	–	–	1,694,817	–	–
Additional A ordinary shares issued	2,935	2,368	–	–	–	5,303
Share options exercised	105	–	(4,614)	–	4,512	3
Dividend paid to A shareholders	–	–	–	(2,498)	(39,697)	(42,195)
Balance at 31 December 2011	**105,756**	**2,368**	**14,235**	**1,692,319**	**1,532**	**1,816,210**

The notes on pages 164 to 166 form an integral part of these financial statements.

Company statement of cash flows
For period ended 31 December 2012

EUR'000	1 January 2012–31 December 2012	30 March 2011–31 December 2011
Cash flows from operating activities		
Net profit	(774,133)	36,717
Adjustments for:		
Share-based payment transactions	1,913	1,877
Dividend income	(36,977)	(42,195)
Impairment of financial investment	804,817	–
Operating cash flow before working capital changes	(4,380)	(3,601)
(Increase) in receivables	(81)	(141)
(Decrease) / Increase in payables	(592)	1,517
Net cash flows from operating activities	**(5,053)**	**(2,225)**
Cash flow from investing activities		
Dividend income	36,977	42,195
Share subscription on incorporation of subsidiary	(124)	–
Cash flows from investing activities	**36,853**	**42,195**
Cash flows from financing activities		
Dividend paid to A shareholders	(34,369)	(42,195)
Proceeds from share options exercised	3	3
Acquisition of non-controlling interests in NWR NV	(2,277)	–
Increase in cash pool liabilities	4,852	2,222
Net cash flows from financing activities	**(31,791)**	**(39,970)**
Net increase in cash and cash equivalents	**9**	**–**
Cash and Cash Equivalents at the beginning of period	–	–
Cash and Cash Equivalents at the end of period	**9**	**–**

The notes on pages 164 to 166 form an integral part of these financial statements.

Company financial statements

Notes to the company financial statements
For the period ended 31 December 2012

A General information

a) Corporate Information
New World Resources Plc (the 'Company', 'NWR Plc') is a public limited company incorporated under the laws of England and Wales. Its registered office is One Silk Street, London EC2Y 8HQ, United Kingdom.

The Company was incorporated on 30 March 2011.

b) Statement of compliance
The financial statements are prepared based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

Under section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

c) Basis of preparation
Starting 2012, the Company's accounting period follows the calendar year, while the comparatives are prepared for the period from incorporation (30 March 2011) to 31 December 2011. The financial statements are presented in Euros (EUR), which is the functional currency of the Company and rounded to the nearest thousand. They are prepared on the historical cost basis.

The description of the application of the going concern basis set out in Note 2(a) "Going concern basis of accounting" in the Group financial statements on page 115 also applies to these company financial statements.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

B Principal accounting policies

The Company follows the accounting policies of the Group (NWR Plc and its subsidiaries) as described in the Note 2 Summary of significant accounting policies in the notes to the consolidated financial statements of this document. The description of the application of the going concern basis set out in Note 2(a) "Going concern basis of accounting" in the Group financial statements on page 115 also applies to these company financial statements.

a) Investments
Fixed assets investments are carried at cost less impairment provisions. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the Company issues shares to acquire an interest in a subsidiary and section 612 of the Companies Act 2006 applies, the investment is recorded at the nominal value of shares issued plus the fair value of other consideration paid.

b) Share-based payment transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date and is recognised as an expense for employees working for the Company and as an addition to the cost of the investment in the subsidiary in which the relevant employees work over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. The fair value is determined by reference to the share price on the grant date. In valuing equity-settled transactions of the Company, no account is taken of any vesting conditions because no market conditions apply for vesting. At each balance sheet date, before the end of the vesting period, the cumulative expense is calculated, reflecting the extent to which the vesting period has expired and the number of equity instruments that is expected to ultimately vest. The movement in cumulative expense compared to the previous balance sheet date is recognised as personnel expense in the income statement or as an addition to the cost of the investment in the balance sheet, with a corresponding entry in equity or liability, based on the type of share-based scheme.

c) Dividends
Dividend income from subsidiary is recognised in the income statement once the Company's right to receive the payments has been established. Dividends payable are recognised as a liability and reduction in equity once the criteria for a present obligation are met.

C Result of the company

The loss of the Company for the year ended 31 December 2012 amounted to EUR 774,133 thousand, including dividend income of EUR 36,977 thousand and impairment of financial investments of EUR 804,817 thousand. The profit of the Company for the period from incorporation, 30 March 2011, to 31 December 2011 amounted to EUR 36,717 thousand, including dividend income amounting to EUR 42,195 thousand.

D Investments

The Company has the following investment:

EUR'000	per cent voting shares	31 December 2012
New World Resources N.V. ('NWR NV')	100.00	1,019,872
New World Resources Services Ltd ('NWR Services')	100.00	124

EUR'000	per cent voting shares	31 December 2011
New World Resources N.V. ('NWR NV')	99.78	1,819,807

On 1 October 2012, NWR Services was incorporated in the UK to perform management services for other members of the Group.

The movement in investment in NWR NV may be detailed as follows:

EUR'000	2012	2011
At 1 January / 30 March	1,819,807	–
264,129,398 shares acquired (by ordinary shares issued)	–	1,802,836
Liability assumed in respect of share-based payments	–	14,592
Increased in cost in respect of share-based payments	2,605	2,379
579,317 shares acquired from non-controlling interests	2,277	–
Impairment of financial investment	(804,817)	–
At 31 December	**1,019,872**	**1,819,807**

On 9 October 2012, the Company completed the process of a compulsory squeeze-out under which it acquired the remaining shares in NWR NV for EUR 2,277 thousand in cash and became its sole shareholder.

Impairment
During 2012, due to continuing volatility in the commodity markets, the Company estimated the recoverable amount of its financial investment in NWR NV using a value in use ("ViU") model, which was based on the most recent financial budgets as approved by the Board, from mid-term five year plans and on the projected life of the group's mines and coking facilities. The recoverable value of the financial investment was estimated to be lower than the carrying value of the associated assets and accordingly an impairment charge of EUR 804,817 thousand has been recognised.

There are two key assumptions used in the calculation of recoverable amount. These key assumptions are the discount rate and coal and coke sales prices. The estimated value in use was determined using a post-tax discount rate of 10.10% (equivalent of pre-tax discount rates between 11.66% and 12.22% for various CGU's) and sales prices were derived from the median of a range of mid-term publically available market data.

Company financial statements

Notes to the company financial statements continued

E Share capital and reserves

EUR'000	Share capital	Share premium	Other distributable reserve	Retained earnings
Balance at 31 December 2012				
A shares	105,859	2,368	1,684,397	793,973
B shares	4	–	66	–
Total	**105,863**	**2,368**	**1,684,463**	**793,973**
Balance at 31 December 2011				
A shares	105,752	2,368	1,692,253	1,532
B shares	4	–	66	–
Total	**105,756**	**2,368**	**1,692,319**	**1,532**

On 10 September 2012, Mr. Mike Salamon exercised his options and the Company issued 267,019 A shares.

Further disclosure on A and B shares is included in the notes to the consolidated financial statements within this document.

F Equity-settled share-based payment reserve

EUR'000	2012	2011
At 1 January / 30 March	14,235	–
Liability assumed on acquisition of interest in NWR NV	–	14,592
Charged during the period	1,913	1,877
Increase in cost of investment in NWR NV	2,605	2,379
Share options exercised	(5,245)	(4,614)
At 31 December	**13,508**	**14,235**

For further information about various share-based payments schemes please refer to the note 26 of the consolidated financial statements within this document.

G Related party transactions

During the period the Company had transactions in the normal course of operations with related parties. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

EUR'000	2012	2011
Sales (management services)	429	322
Purchases (advisory services)	375	239
Receivables	107	–
Payables (cash pool liability)	7,212	2,222

Independent auditor's report to the members of New World Resources plc

Independent auditor's report
We have audited the parent company financial statements of New World Resources Plc for the year ended 31 December 2012 set out on pages 161 to 166. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 104, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the parent company financial statements:

» give a true and fair view of the state of the company's affairs as at 31 December 2012;
» have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
» have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

» the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
» the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

» adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
» the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
» certain disclosures of directors' remuneration specified by law are not made; or
» we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the group financial statements of New World Resources Plc for the year ended 31 December 2012.

Jimmy Daboo
Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
25 March 2013

Shareholder information

“We are engaged in on-going dialogue with our shareholders and investors.

In 2012 the management had direct interaction with around 279 individual investors; we attended 12 conferences for institutional investors and one conference for retail investors. NWR is also currently covered by 26 sell-side analysts. Their names and contacts can be found on our website.”

Radek Němeček
Head of Investor Relations

NWR is listed on the London, Prague and Warsaw stock exchanges, and is included in the FTSE 250 and FTSE 350 Mining indices. The Company has just over 36 per cent free float with shareholders in the US and across Europe, with its principal holders in the UK and Poland.

For the details, please see the Free float geographical split chart below.

Markets

As at 31 December 2012, A ordinary shares (‘A shares’) of NWR were listed on the London Stock Exchange (‘LSE’), the Prague Stock Exchange (‘PSE’) and the Warsaw Stock Exchange (‘WSE’).

Share ownership

Share capital

Details about NWR’s share capital are presented in Note 21 of the Consolidated Financial Statements on page 149.

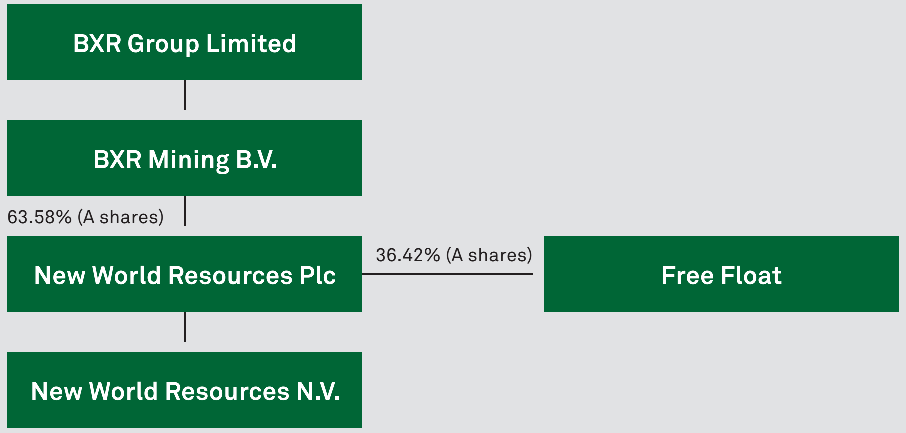
Shareholder structure

Reincorporation in the United Kingdom and squeeze-out proceedings

In October 2010, NWR NV announced its intention to move its domicile from the Netherlands to the United Kingdom. The rationale of this step was to enable NWR NV to become a constituent of the UK FTSE index series. The redomiciliation process included a share-for-share recommended exchange where shareholders of NWR NV were given the opportunity to exchange their shares into the shares of the newly established entity, New World Resources Plc. The process was largely completed in May 2011 when NWR Plc shares were admitted to the London, Prague and Warsaw Stock Exchanges. In June 2011, NWR Plc was included in the FTSE 250 and FTSE 350 Mining indices. 0.22 per cent of NWR NV’s share capital remained subject to Squeeze Out Proceedings under Dutch law, which came to a close in October 2012. Following that, NWR Plc became a sole shareholder of NWR NV. Also, NWR NV was delisted from the Warsaw Stock Exchange, and its shares are no longer listed on any stock exchange.

Shareholder structure

Ownership is 100% unless otherwise stated.



The following table sets forth the relevant ownership interests in NWR Plc:

Total percentage held	Current percentage of indirectly attributed ownership in A shares of NWR Plc
by BXRG [1,2]	63.58 per cent
by public shareholders	36.42 per cent
Total A shares	**100 per cent**

1 Mr. Kadas, a Non-Executive Director of NWR Plc, holds no direct interest in A or B shares but he is considered as an ‘interested party’ in the A and B shares because of his associated family trust having a minority ownership interest in BXRG, and BXRG’s indirect ownership interest in NWR. BXRG is the indirect parent company of BXRM and RPG Property B.V. (‘RPG Property’) and, accordingly, BXRG owns a 100 per cent indirect interest in the A shares held by BXRM, being approx. 63.58 per cent of NWR Plc A shares, and in NWR Plc B shares held by RPG Property, being 100 per cent of the B shares. Peter Kadas, a Non-Executive Director of NWR Plc, is also a director of Bakala Crossroads Partners Ltd, an affiliate of BXRG.

2 Mr. Bakala, a Non-Executive Director of NWR Plc, holds no direct interest in NWR Plc A or B shares but he is considered as being an ‘interested party’ in NWR Plc A and B shares as a result of a trust and affiliated companies relating to him and his family (collectively referred to as ‘Bakala entities’) holding an indirect ownership interest in BXRG, and BXRG’s indirect ownership interest in NWR. Mr. Bakala and his family, through the Bakala entities, own 50 per cent of the outstanding voting capital in BXRG. As set out in Note (1) above, BXRG owns a 100 per cent indirect interest in the NWR Plc A shares held by BXR Mining, being approx. 63.58 per cent of NWR Plc A shares, and in NWR Plc B shares held by RPG Property, being 100 per cent of NWR Plc B shares.

For the biographies of Mr. Bakala and Mr. Kadas please refer to page 70 of the Board and Management section of this report.

Majority shareholder

The controlling shareholder of NWR, BXRM, owns approximately 63.58 per cent of the A shares and as a result, has effective control of NWR.

BXRM is indirectly owned by BXRG. BXRG also owns indirectly, through RPG Property, 100 per cent of the B shares. Accordingly, BXRG has a 63.58 per cent indirect interest in the A shares and an 100 per cent of interest in the B shares.

BXRG is an international investment group focused on investments in Central Europe. It also has investments in Western Europe. BXRG typically takes a large or controlling stakes in companies and is active in the management of its investments. In addition to its investment in NWR, BXRG currently has also investments in real estate, logistics, green energy, financial services and other industries.

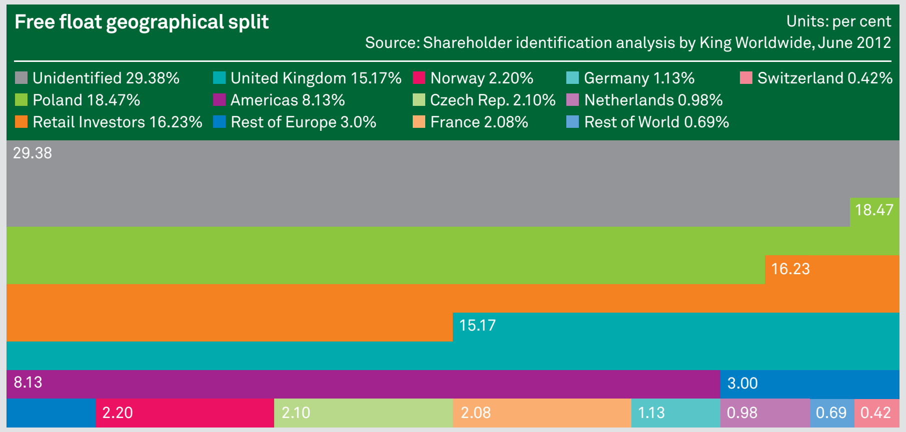
Changes in the majority shareholder structure during 2012

As at 1 January 2012 BXRM held 168,274,654 A shares, representing 63.65 per cent of A shares in NWR Plc.

As a result of the share issuance from September 2012, BXRM shareholding decreased to 63.58 per cent of A shares. More details can be found in Purchase and Issue of shares paragraph below.

Free float

At the date of publishing this report, public shareholders held approximately 36.42 per cent of A shares.



The Company has received no filings under DTR 5, and no public information is available with respect to the ownership of shares.

Purchase and issue of shares

In 2012, NWR did not purchase its own shares.

During 2012, the Company issued 267,019 of A shares. On 10 September 2012, the Company issued 267,019 new A shares to Mike Salamon, under his Stock Option Plan (for the details of the Stock Option Plan of Mr. Salamon, please refer to pages 97 to 101 of the Remuneration Report section of this report).

The Company has 5,514,755 A shares under the Block Listing scheme (for the purpose of the Employee Stock Option Plan). None of the shares has been issued under the scheme during 2012.

At the Company’s Annual General Meeting of Shareholders (‘AGM’) held on 26 April 2012, authority was given to the Directors to allot unissued A shares up to an aggregate nominal amount of EUR 34,898,290, and a further nominal amount of EUR 34,898,290 in connection with an offer by way of a rights issue. Authority was also given to allot equity securities wholly for cash, up to an aggregated nominal value of EUR 5,287,620. Further authority was given allowing the Company to make market purchases of up to 26,438,098 of its own A Shares. As these authorisations expire at the forthcoming 2013 AGM, the Directors will be seeking new authorisations, details of which are set out in the Company’s Notice of AGM.

Voting and transfer of shares

NWR‘s Articles of Association do not contain specific restrictions on the size of the shareholder‘s holding or on the transfer of shares. Nor is the Company aware of any agreements between shareholders that may result in the restrictions on the transfer of securities and/or voting rights.

NWR‘s Articles of Association do not contain, and the Company is not aware of, any restrictions on voting rights including any limitations on voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights

Shareholder information

and arrangements by which, with the Company's co-operation, financial rights carried by securities are held by a person other than the holder of the securities.

For further information please refer to the Corporate Governance section of the Company's website www. newworldresources.eu.

Operation of the Annual General Meeting of Shareholders

The AGM of the Company will be held on 26 April 2013 at The Steigenberger Airport Hotel, Amsterdam, the Netherlands at 10.00 CET. Full details relating to the AGM, including the explanatory notes, are contained in the Notice of AGM published on 27 March 2013. The Notice sets out the resolutions to be proposed at the AGM and an explanation of each resolution. All documents relating to the AGM are available on the Company's website at www.newworldresources.eu.

Share price information

The table below shows the closing share prices for the period indicated for the A shares at each of the stock exchanges respectively.

		Closing price		
Stock exchange	Currency	**31 December 2012**	31 December 2011	31 December 2010
LSE	GBp	**337.3**	442.9	961.0
PSE	CZK	**97.6**	135.8	271.0
WSE	PLN	**15.8**	23.5	44.4

Note: 2010 figures refer to NWR NV.

Allotments of equity securities

During the period under review, no allotments of equity securities in NWR were made in exchange for cash other than the delivery of shares to the Chairman of the Board (also described in the Remuneration Report on pages 96 to 103 of this report).

Dividend policy

NWR's dividend policy is to target distribution of approximately 50 per cent of the Mining Division's consolidated annual net income over the course of the business cycle, to be paid as interim and final dividends.

The dividend for NWR is declared in Euros. Shareholders of A shares may elect to receive their dividend in Euros or Pounds Sterling. The default election will be deemed to be Euros, if a shareholder expresses no preference.

Subject to various exceptions and exemptions, shareholders are generally subject to Dutch dividend withholding tax at the rate of 15 per cent on dividends distributed by NWR, which sum NWR is required to withhold and account for to the Dutch tax authorities. Shareholders should consult their own tax advisers as to the particular tax consequences for them as a result of receiving dividends from NWR.

Dividends on A Shares

NWR paid interim dividend for the half-year ended 30 June 2012 of EUR 0.06 per A share. NWR did not declare the final dividend for 2012 due to the net loss incurred in the second half of the year.

Dividends on A Shares

EUR	**2012**	2011	2010
Interim dividend	**0.06**	0.16	0.21
Final dividend	**0**	0.07	0.22

Note: 2010 figures refer to NWR NV.

Provision of the Annual Report and Accounts

The 2012 Annual Report and Accounts of NWR is available on the Company's website at www.newworldresources.eu. A hard copy of this Annual Report and Accounts or from previous years can be requested from NWR's Investor Relations department. Shareholders may also inspect the reports at the Company's headquarters in the Netherlands or it's registered office in UK.

Radek Němeček
Head of Investor Relations
rnemecek@nwrgroup.eu

Ancillary information for shareholders

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Fax: +31 20 570 2222
E-mail: info@nwrgroup.eu

www.newworldresources.eu

A public company incorporated in England and Wales with Company Number 7584218. The Company is also registered with the trade register in the Netherlands under number 55931758.

Shareholder information

Stock Exchange Listings
Prague Stock Exchange
Warsaw Stock Exchange
London Stock Exchange
Trading symbol: NWR
ISIN: GB00B42CTW68

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZY
United Kingdom

Shareholder calendar 2013

26 April 2013
Annual General Meeting of Shareholders

16 May 2013
First quarter 2013 results

22 August 2013
First half 2013 results

14 November 2013
Nine months 2013 results

Glossary

A

ARA ports: Antwerp/Rotterdam/Amsterdam ports. Major coal importing ports in northwest Europe.

B

Benzole absorption cooler, or benzole washing unit: an apparatus designed to absorb benzole from the coke oven gas using washing oil.

Benzole stripping column: a still distillation column, also commonly referred to as a 'benzole stripper'. The apparatus is used to remove benzole from the washing oil by means of steam.

Blast furnace coke: coke used to power blast furnaces. Blast furnace coke has particularly strong properties to support the chemical process and the heavy loads in the blast furnace without disintegrating from the high temperatures in the furnace. It is also referred to as 'metallurgical coke'.

Box-cut: small open-cut created to provide a secure and safe portal to access an underground mine.

Brownfield sites: abandoned or underused industrial and commercial facilities available for re-use.

BTXs (benzene, toluene and xylene) also known as **BTEX** or **BTX fraction:** is the term used for benzene, toluene, ethylbenzene, and xylene-volatile aromatic compounds typically found in petroleum products, such as gasoline and diesel fuel. BTX fraction is mixture of polycyclic aromatic hydrocarbons (PAHs) containing benzene, toluene and xylene which are produced during the process of making coke from coal.

By-product: material other than the principal product generated by an industrial process.

C

CAGR: Compound Annual Growth Rate, a number that describes the steady rate at which the initial value would have to grow every year to achieve the specific end value.

Calcination: is a thermal treatment process in presence of air applied to ores and other solid materials to bring about a thermal decomposition, phase transition, or removal of a volatile fraction. The process of calcination derives its name from the Latin calcinare (to burn lime) due to its most common application, the decomposition of calcium carbonate (limestone) to calcium oxide (lime) and carbon dioxide, in order to produce cement.

CE: Central Europe, refers to the following countries Austria, Czech Republic, Germany, Hungary, Liechtenstein, Poland, Slovakia, Slovenia and Switzerland.

CE4: Czech Republic, Slovakia, Poland and Hungary.

CE6: Austria, Czech Republic, Germany, Slovakia, Poland and Hungary.

CHP: full name 'Combined Heat and Power'. CHP is a process which involves the simultaneous generation of heat and electricity. The heat recovered is used to provide heating or cooling.

CIP: the Continuous Improvement Programme is aimed at improving operational efficiency by rewarding employees who submit innovative ideas and suggestions. The reward is correlated with the money saved from the idea.

Coal: readily combustible rock, formed from plant remains that have been compacted, chemically altered and metamorphosed by heat and pressure over millions of years.

Coke: carbonaceous material derived from the destructive distillation of coal.

Coke battery: a coke battery is composed of many coke ovens stacked horizontally into which coking coal is tightly packed. These ovens are heated to temperatures of up to 1,150°C, allowing the coking coal to turn into coke.

Coke conversion costs per tonne: reflect the operating costs incurred in converting coking coal into coke. It does not include the cost of coking coal charge. It includes consumption of material, energy, services (excluding transportation), personnel and other operating expenses. It does not include depreciation and amortisation.

Coking coal: high volatility coal used to create coke, which is consumed in the steel-making process.

COP 2010: the Coking Plant Optimisation Programme is a capital investment programme designed to improve the productivity of its coking operation.

CSI: the Corporate Social Investment comprises of finances provided for projects in the following areas: community development (OKD Foundation); support for enterprise and job creation; health (OKD Foundation projects); culture (OKD Foundation projects); education (donations to schools, scholarships), environment (finances provided over and above the legal requirement); sport (sponsorship).

Crude steel: first solid steel product upon solidification of liquid steel. In other words, it includes Ingots (in conventional mills) and Semis (in modern mills with continuous casting facility). According to International Iron & Steel Institute (IISI), for statistical purpose, crude steel also includes liquid steel which goes into production of steel castings.

Customer markets: NWR supplies its products to Austria, Czech Republic, Germany, Slovakia, Poland and Hungary.

D

Dębieńsko: a development project of NWR in Poland. NWR holds a 50-year mining license.

Deep mining: the extraction of coal or its products from layers of rock by underground mining methods such as room-and-pillar mining and longwall mining.

Deposit: refers to an area of coal resources or reserves identified by surface mapping, drilling or development.

Desulphurisation unit: the Svoboda coking plant uses coking gas containing hydrogen sulphide in process heating. As the gas burns, sulphur dioxide is generated. In order to minimise any leakage of such emissions into the air the process line of the coking plant includes a desulphurisation unit where sulphur dioxide is eliminated using a sodium carbonate solution ('STRETFORD' scrubbing method).

Detailed Feasibility Study: a study that provides the budget parameters for a project and allows decisions to be made whether to proceed to the next level of development. Detailed feasibility studies require a significant amount of formal engineering work.

DTR: Disclosure and Transparency Rules.

E

EBITDA: The Company defines EBITDA as net profit before non-controlling interests, income tax, net financial costs, depreciation and amortisation, impairment of property, plant and equipment ('PPE') and gains/losses from the sale of PPE. While the amounts included in EBITDA are derived from the Group's financial information, it is not a financial measure determined in accordance with adopted IFRS.

EBITDA margin: shows earnings before interest, tax, depreciation and amortisation from continuing operations and before exceptional items as a percentage of total revenues.

EIA: Environmental Impact Assessment is a procedure that ensures that the environmental implications of decisions are taken into account before the decisions are made. Environmental assessment can be undertaken for individual projects on the basis of Directive 85/337/EEC, as amended (known as 'Environmental Impact Assessment' – EIA Directive).

Emerging Europe: refers to European countries that are in the process of growth and industrialisation.

Emission: pollution discharged into the atmosphere by commercial or industrial facilities, or by motor vehicle, locomotive or aircraft exhausts.

Employee turnover rate: is calculation of the number of employees who have left the company voluntarily or due to dismissal, retirement or death in service and it is expressed as a percentage of the average number of employees in the year.

EU: also referred to as the EU-27 refers to all 27 constituents of the European Union.

EVA™: Economic Value Added is a residual wealth created after deducting from net operating profit after tax (NOPAT) the capital charge, which represents the cost of invested capital necessary to generate that profit.

Extraction: the process of mining and removal of coal or ore from a mine.

EXW: ex works is a trade term requiring the seller to deliver goods at his or her own place of business. All other transportation costs and risks are assumed by the buyer.

F

Foundry coke: coke used in furnaces to produce cast and ductile iron products. It is a source of heat and also helps maintain the required carbon content of the metal product. Foundry coke production requires lower temperatures and longer times than blast furnace coke.

Fossil Fuels: defined as fuels formed by natural resources such as anaerobic decomposition of buried dead organisms. The fossil fuels, which contain high percentages of carbon, include coal, petroleum, and natural gas.

Free cash flow: Free cash flow is calculated as net operating cash flow minus capital expenditure.

FTSE 250: the Financial Times-Stock Exchange 250 share index is a capitalisation-weighted index of 250 UK domiciled companies on the London Stock Exchange.

FTSE 350 Mining: the Financial Times-Stock Exchange 350 Mining share index is a capitalisation–weighted index of 350 UK domiciled mining companies on the London Stock Exchange.

G

Gateroad development: allows the coal seam to be accessed, and for material and people to travel to and from the coal face. Longwall panels are demarcated by a set of interconnected underground gateroads.

GDP: Gross Domestic Product is the total value of all goods and services produced within a particular economy in a given period of time.

Gearing ratio: gearing ratio is defined as net debt divided by EBITDA (calculated on a twelve-month rolling basis).

Greenfield sites: undeveloped land in a city or rural area either used for agriculture, landscape design, or left to naturally evolve. These areas of land are usually agricultural or amenity properties being considered for urban development.

GRI: Global Reporting Initiative is a non-profit organisation that promotes economic, environmental and social sustainability. GRI provides all companies and organisations with a comprehensive sustainability reporting framework that is widely used around the world.

H

Hard coal: another name for anthracite, the coal with the highest level of carbon and the lowest level of impurities. Both metallurgical coking coal and thermal coal are forms of hard coal.

Hard coking coal: refers to a type of coking coal which enables the coke to be more efficient in steel making when it converts iron ore to raw steel.

J

JORC: the Joint Ore Reserves Committee produces the JORC Code - a professional code of practice that sets minimum standards for public reporting of minerals exploration results, mineral resources and ore reserves.

K

Karviná expansion project: a development project of NWR in the Czech Republic. The Company announced its plans for hard coal exploitation at the Karviná – Staré Město site in 2011. The long-term mining outlook grades the site as containing more than 30 million tonnes of extractable coal reserves. Subject to a successful outcome in the related legislative process, mining should commence in 2016 and last for approximately 20 years.

KPI: Key Performance Indicators are a set of quantifiable measures that a company or industry uses to gauge or compare performance in terms of meeting their strategic and operational goals. KPIs vary between companies and industries, depending on their priorities or performance criteria.

Kt: kilotonne, one thousand (1,000) metric tonnes.

Glossary

L

Longwall mining: a fully mechanised underground mining technique in which a coal face is excavated by a shearer and then transported to the surface by conveyor belt.

LTIFR: Lost Time Injury Frequency Rate represents the number of reportable injuries causing at least three days of absence per million hours worked. Includes contractors.

M

M1 category: equipment classified under the M1 category may be operated, unlike M2 category equipment, under conditions of increased methane concentrations, exceeding 1.5 per cent. That allows the controller to maintain a continuous oversight of the presence and movement of employees within monitored areas of the mine. Being fitted with an accumulator and a battery, the equipment remains operational even during a power-supply failure.

Metallurgical coal: an informally recognised name for bituminous coal that is suitable for making coke by industries that refine, smelt and work with iron. Generally, this coal will have less than 1 per cent sulphur and less than 8 per cent ash on an air-dried basis. Metallurgical coal is sometimes referred to as coking coal.

Mining costs per tonne: reflect the operating costs incurred in the coal segment for mining both coking coal and thermal coal. It includes consumption of material and energy, services (excluding transportation), personnel and other operating expenses. It does not include depreciation and amortisation.

Mining face: the working area where the extraction of coal takes place in an underground mine.

Mining license: permission to mine minerals from a mineral rights area.

Mt: one million (1,000,000) tonnes.

N

NO_x: gases that are oxides of nitrogen.

NWR KARBONIA: NWR KARBONIA oversees NWR's two development projects in Southern Poland of Dębieńsko and Morcinek.

O

OECD: Organisation for Economic Co-operation and Development is an organisation that acts as a meeting ground for 30 countries which believe in the free market system and provides a forum for discussing issues and reaching agreements, some of which are legally binding.

OKD: the wholly owned mining subsidiary of NWR. OKD extracts coking and thermal coal in four active mines in the Upper Silesian Coal Basin. OKD is the only hard coal mining company in the Czech Republic.

OKD Foundation: OKD Foundation was set up at the start of 2008 with a view to promoting and developing humanitarian values, the environment, education, sport and cultural activities, and the field of social and healthcare services. OKD Foundation was established by the NWR subsidiary OKD, which is also the Foundation's biggest donor. OKD annually donates 1 per cent of its profit before tax to OKD Foundation.

OKK: a wholly owned coking subsidiary of NWR. Situated at the Svoboda coking plant site in Ostrava, produces both foundry and blast furnace coke from four batteries. OKK is the largest producer of foundry coke in Europe.

Open-pit mining: mining in which the coal is extracted after removing the overlying strata or overburden.

Operational Programme 'Environment': the Operational Programme's main goal is to protect and improve environmental quality throughout the Czech Republic. Between 2007 and 2013, this programme will offer almost EUR 5 billion from the Cohesion Fund and the European Regional Development Fund.

P

PAHs: polycyclic aromatic hydrocarbons or poly-aromatic hydrocarbons - a chemical compound that contains more than one fused benzene ring. They are commonly found in petroleum fuels, coal products, and tar. PAHs contain BTX (BTEX) compounds which belong to the category of organic chemicals (so called volatile organic compounds – VOCs) whose composition makes it possible for them to evaporate under normal indoor atmospheric conditions of temperature and pressure. VOCs may contribute to the formation of ground-level ozone and photochemical smog.

PCI : full name Pulverised Coal Injection. PCI coking coal is injected into a blast furnace as a supplementary fuel to reduce the amount of coke consumed, having a knock-on effect on reducing operating costs in the production of pig iron, and ultimately crude steel.

PERSP 2015: the PERSPective 2015 programme is aimed to maximise the returns on our recent investments in state of the art technology and health and safety. The plan focuses on five main areas: People, Efficiency, Reserves, Safety and Predictability.

POP 2010: the Productivity Optimisation Programme major capital investment programme designed to improve the productivity of its mines. Completed in 2010.

Preparation plant: a plant used to make raw coal a product suitable for a particular use.

Q

Quenching tower: water spraying tower for cooling coke after it emerges from the furnace.

R

Reclamation: the restoration of land and environmental value to a surface mine site after the coal is extracted. Reclamation operations usually get underway as soon as the coal has been removed from a mine site. The process includes restoring the land to its approximate original appearance by restoring topsoil and planting native grasses and ground covers.

Redomiciliation/reincorporation: the process by which a company moves its domicile from one jurisdiction to another by changing the country under whose law it is registered or incorporated, whilst maintaining the same legal identity.

Reserves: those parts of mineral resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken. Reserves are classified as either proved or probable.

Resources: all of the potential minerals in a defined area based on points of observation and extrapolations from those points. Potential minerals are defined as minerals which have been or could be beneficiated to give a quality acceptable for commercial usage in the foreseeable future and excludes minor mineral occurrences.

RFID: full name Radio Frequency Identification. A data collection technology that uses electronic tags for storing data.

S

SAP: full name Systems Applications and Products in Data Processing. A German multinational software corporation that makes enterprise software to manage business operations and customer relations. SAP develops ERP products to be used by companies to manage their enterprise. This includes managing their day-to-day operations, logistics, finances, month end, quarter end and yearly activities, reporting, HR etc.

Seam: a geological structure containing a series of layers of coal, shale and other mineral materials of varying thicknesses.

Shaft: a mine working (usually vertical) used to transport miners, supplies, ore and waste.

Shaft deepening projects: projects to deepen the shaft to mine more, previously unreachable coal.

Skip bucket: a type of bucket used to take the extracted coal from the underground to the surface.

Sludge: high ash reject material from the fine coal washing circuits that can be recovered and re-processed to sell as additional coal blending it with other products.

Stamping and pushing machine: at the coking plant the carefully ground and mixed coal charge from the coal tower comes to the storage bins of the stamping and pushing machine. With the use of automatic stamping and pushing facility it is stamped into coal blocks. These blocks are then inserted into the coking chamber by the use of a charging plate.

Stamp charging process: during the stamp charging process the carefully ground and mixed coal is compacted outside the coke oven, into a stable coal blocks with almost the same dimensions as the oven chamber and the resulting block is pushed into the oven.

St Barbara Civic Association: Saint Barbara Civic Association was founded 24 July 2004 for the purpose of helping children, whose at least one parent died as a result of an accident at work, mostly in the coalmine industry. The Association currently has 87 records in Czech, Polish and Slovak children, which contributes to the study, leisure activities and supports the care of their health.

Steam coal: coal used for steam generation principally in thermal power plants.

Subfloor mining: Mining of raw materials from a level located underneath the fresh air intake floor. Subfloor mining may sometimes refer to any mining activities if the longwall panel is operated below the haulage floor.

T

Tectonic stress release: occurs as a result of energy releases in the mass of rock from the creation of empty underground spaces. The rock is stressed by the extraction of ore, pressure is created in it and energy is accumulated, which can be released in an instant by a rockfall. Bumps and slides occur mainly in saddle seams, where there is solid overlying rock.

Thermal coal: coal used in combustion processes by power producers and industrial users to produce steam for power and heat. Also called 'steam coal'.

Tonne: a metric tonne, a measure of mass equal to one thousand (1,000) kilogrammes or approximately two thousand, two hundred and five (2,205) pounds.

Total coal production: the total production volumes of thermal and coking coal.

Total coal production per employee: total coal production per mining employee including mining contractors.

U

UHF tags: a RFID tag (full name Radio Frequency Identification, data collection technology that uses electronic tags for storing data) works in a portion of the ultra high frequency (UHF) range.

Underground mining: the extraction of coal or its products from layers of rock by underground mining methods such as room-and-pillar mining and longwall mining.

Upper Silesian Coal Basin: a coal basin in Silesia in Poland and the Czech Republic. The area contains a number of mineable resources including lead, silver and zinc; and resources of coal reach depths of 1000 metres below ground, approximately 70 billion tonnes of coal.

V

Voluntary employee turnover: is a calculation of the total number of employees who have left the company minus employees who have left due to dismissal, retirement, death in service or health reasons and it is expressed as a percentage of the average number of employees in the year.

Notes

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Disclaimer and Cautionary Note on Forward Looking Statements and Notes on Certain Other Matters

Certain statements in this document are not historical facts and are or are deemed to be 'forward-looking'. The Company's prospects, plans, financial position and business strategy, and statements pertaining to the capital resources, future expenditure for development projects and results of operations, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology including, but not limited to; 'may', 'expect', 'intend', 'estimate', 'anticipate', 'plan', 'foresee', 'will', 'could', 'may', 'might', 'believe' or 'continue' or the negatives of these terms or variations of them or similar terminology. Although the Company has made every effort to assure the accuracy of the used information and believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These forward-looking statements involve a number of factors, risks, uncertainties and other facts that may cause actual results to be materially different from those expressed or implied in these forward-looking statements because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond NWR's ability to control or predict. Forward-looking statements are not guarantees of future performances.

Factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected can be a result of or include, but are not limited to, the following: changes in political, economic and social conditions in the Czech Republic, Poland, the United Kingdom, the Netherlands and the Central and Eastern Europe region; future prices and demand for the Company's products, and demand for the Company's customers' products; coal mine reserves; remaining life of the Company's mines; coal production; trends in the coal industry and domestic and international coal market conditions; risks in coal mining operations; future expansion plans and capital expenditures; the Company's relationship with, and conditions affecting, the Company's customers; competition; railroad and other transportation performance and costs; availability of specialist and qualified workers; weather conditions or catastrophic damage; risks relating to Dutch, UK, Czech or Polish law, regulations and taxation, including laws, regulations, decrees and decisions governing the coal mining industry, the environment and currency and exchange controls relating to Czech and Polish entities and their official interpretation by governmental and other regulatory bodies and by the courts; developments in the financial markets; and risks relating to global economic conditions and the global economic environment. Additional risk factors are as described in this Annual Report.

Forward-looking statements are made only as of the date of this document. The Company expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained in this report to reflect any change in its expectations or any change in events, conditions, assumptions or circumstances on which any such statement is based unless so required by applicable law.

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