

New World Resources  
Annual Report and Accounts  
2010



# AT THE CORE OF OUR BUSINESS



New World Resources N.V.<sup>1</sup> is Central Europe's leading hard coal and coke producer. The Company produces quality coking and thermal coal for the steel and energy markets in Central Europe.



## COAL pg 12

Our subsidiary, OKD, a.s. ('OKD') is the sole producer of hard coal in the Czech Republic and a significant player in the Central European market. Its four operating mines are located in the Karviná and Ostrava region, situated just south of the Polish border on the Upper Silesian coal basin. In 2010, OKD produced 11.4Mt of coal.



## COKE pg 20

Our coking subsidiary, OKK Koksovny, a.s. ('OKK Koksovny') is the largest producer of foundry coke in Europe, now operating from one site, Svoboda in Ostrava. OKK Koksovny produces both foundry and blast furnace coke from four batteries with a maximum capacity of 850kt per year.



## BUSINESS DEVELOPMENT pg 26

NWR KARBONIA S.A. ('NWR KARBONIA') oversees NWR's two development projects in southern Poland – Dębnie and Morcinek. We were granted a mining licence to enable us to extract coal from Dębnie, valid for 50 years in 2008, and in 2010, we applied for an amendment to this licence along with acquisition of land and recruitment of a world-class engineering and technical team. For Morcinek, geological documentation is set to complete at the end of 2011. Further exploration work is planned for 2011 in accessing a second area, Morcinek 2.

### Front cover image

NAME: RASTISLAV VALENČÍK

JOB TITLE: CHIEF DEVELOPMENT FOREMAN

MINE: DARKOV

<sup>1</sup> New World Resources N.V. is defined as 'NWR' or the 'Company' throughout this report. NWR and its subsidiaries are collectively referred to as the 'Group' or the 'NWR Group'.

### Signposting

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

- online for supplementary information
- more information within this document

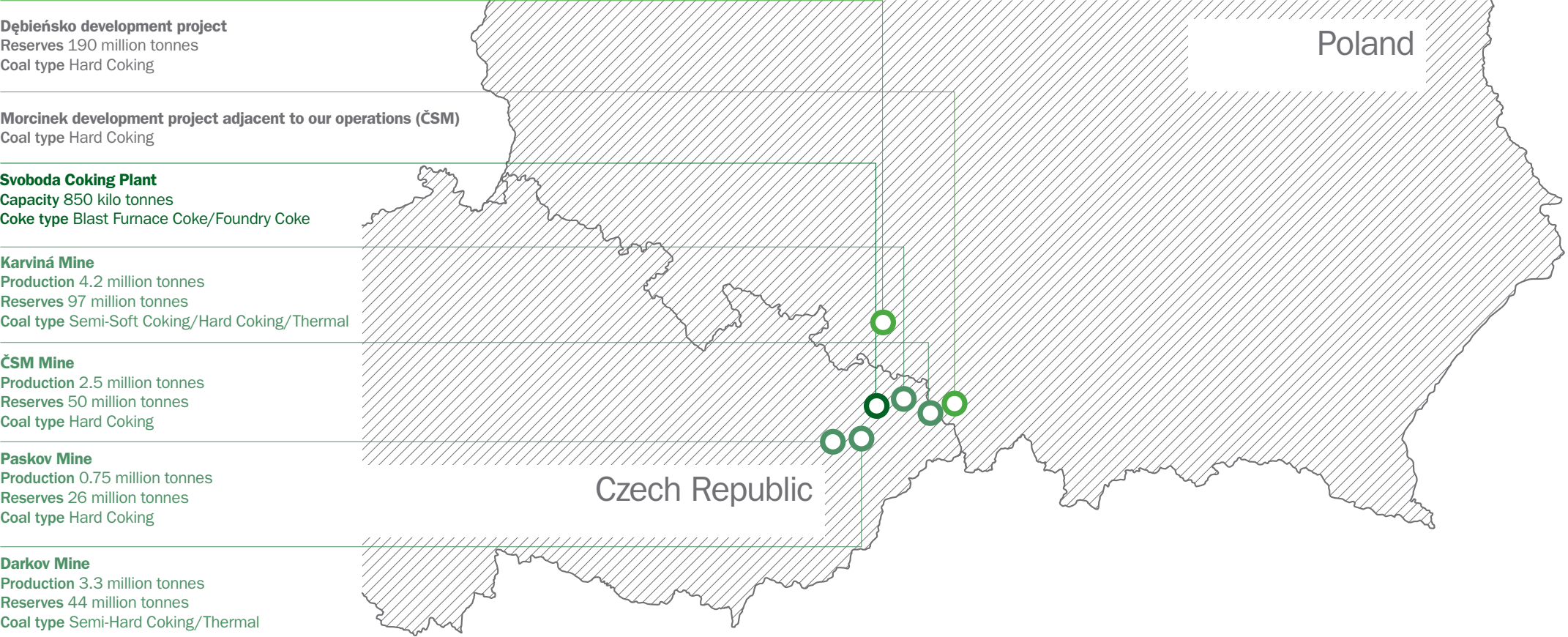
Our operations

NWR AT A GLANCE

- > We are Central Europe’s leading hard coal and coke producer, supplying 5.3 million tonnes of coking coal, 5.5 million tonnes of thermal coal and 1.1 million tonnes of coke in 2010.
- > We are one of the largest private sector employers in the region, with 18,553 employees of which 3,407 are contractors/agency staff.<sup>1</sup>
- > We have development projects in Poland.
- > We have three subsidiaries which make up our operations: OKD, OKK Koksovny and NWR KARBONIA.
- > We have 396 million tonnes<sup>2</sup> of JORC<sup>3</sup> reserves.
- > We are listed on the London, Prague and Warsaw stock exchanges and headquartered in Amsterdam.

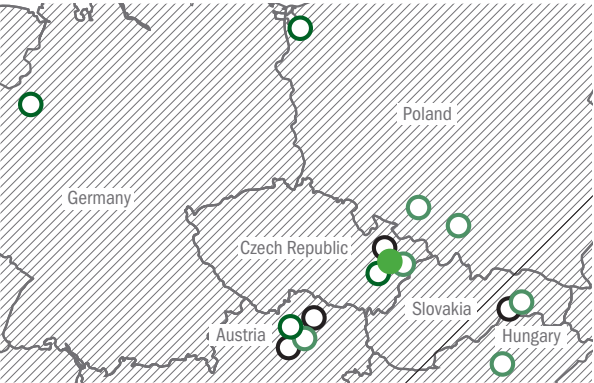
1 Average over the reporting period.  
2 As at 1 January 2011.  
3 Full name: Joint Ore Reserves Committee. The Group currently uses both the FSU system and the JORC system in parallel to report reserves and resources. The Group employs a certified geologist who prepares the reserve numbers in accordance with JORC certified expert.

○ Coal  
○ Coke  
○ Development Project



Where we operate

Our mines are located near to our major customers’ operations in Central Europe<sup>1</sup>, giving us a significant advantage over our seaborne competitors due to our lower transportation costs and our market’s landlocked location.



● NWR  
○ Coke customers  
○ Coking coal customers  
○ Thermal coal customers

1 This map does not depict individual customers.

**Disclaimer and Cautionary Note on Forward Looking Statements and Notes on Certain Other Matters**

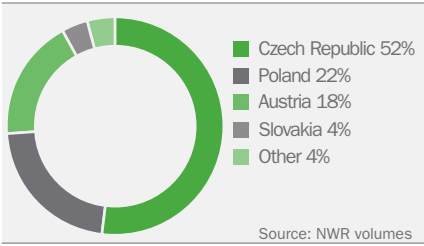
Certain statements in this document are not historical facts and are or are deemed to be ‘forward-looking’. The Company’s prospects, plans, financial position and business strategy, and statements pertaining to the capital resources, future expenditure for development projects and results of operations, 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 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 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, risk and uncertainties that could cause actual outcomes and results to be materially different from those projected include, but are not limited to, the following: risks relating to changes in political, economic and social conditions in the Czech Republic, Poland and the CEE 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; and weather conditions or catastrophic damage; risks relating to 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; and risks relating to global economic conditions and the global economic environment. Additional risk factors are as described in the Company’s annual report.

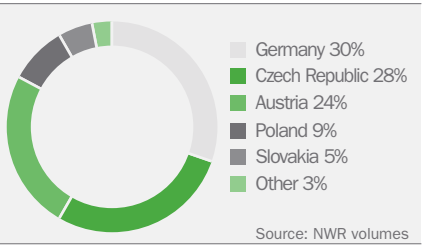
Forward-looking statements are made only as of the date of this document. The Company expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained in this report to reflect any change in its expectations or any change in events, conditions, assumptions or circumstances on which any such statement is based unless so required by applicable law.

Regional Sales 2010

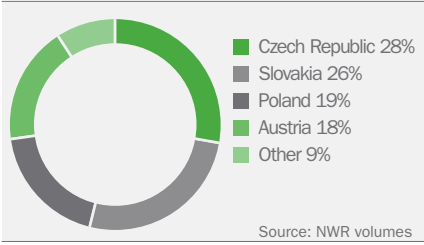
NWR thermal coal sales by country 2010



NWR coke sales by country 2010



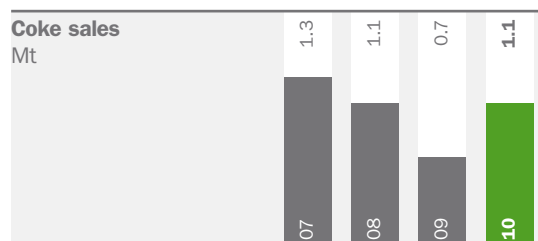
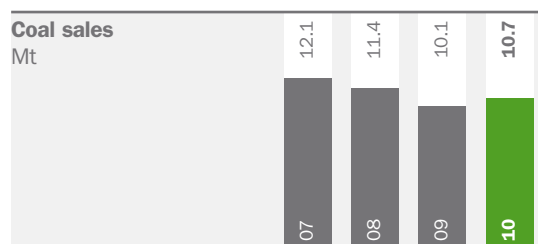
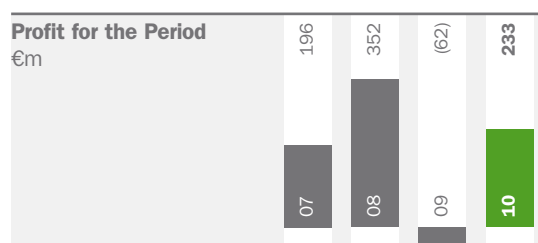
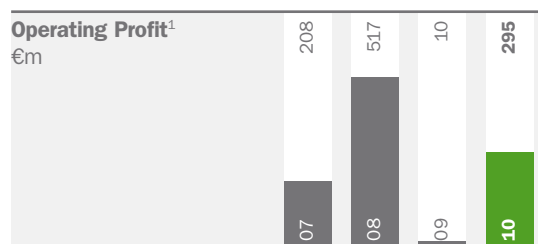
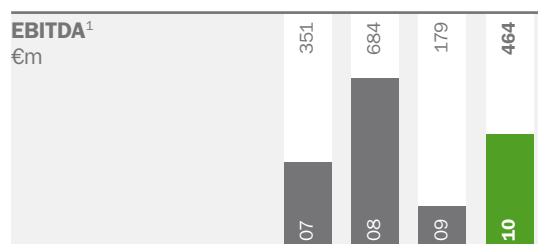
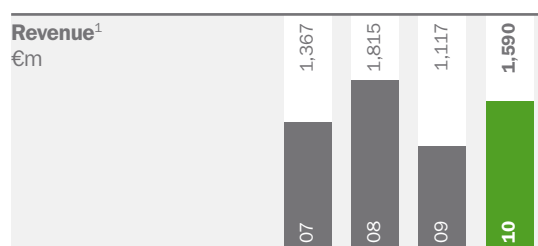
NWR coking coal sales by country 2010



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## Highlights 2010



Exchange rate used throughout this report is 25.284 CZK/EUR.

1 2007 the electricity trading segment is included and as of 2008 the segment is classified as Discontinued Operations.

## Chairman's Statement – Review of 2010

# REVIEW OF 2010



Mike Salamon, Executive Chairman of the Board

### Highlights

Strong performance with revenues up 42 per cent to EUR 1,590 million

Recovery in demand and prices drives EBITDA up 160 per cent to EUR 464 million

Robust productivity improvements in coal and coke production

Move to Japanese Fiscal Year pricing increases exposure to global pricing

Good progress made at Dębieńsko

Net income EUR 233 million

Total revenues increase

# +42%

|                                 |
|---------------------------------|
| <b>Overview</b>                 |
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As the first privatised, restructured and modernised coal business in the region and the first to access multiple capital markets, we are in a strong position to bring these credentials, combining both operational and financial expertise, to bear on any opportunities identified.

Our close working relationships with our long-term customers underpins the success of our business.

#### Review of 2010

After a tough year in 2009, demand for coal and coke in the Central and Eastern European ('CEE') markets rebounded strongly in 2010 and we successfully increased our volumes in response to this demand. Coking coal prices also rose in response to global supply pressures and our decision to align our prices with the Japanese Fiscal Year ('JFY') pricing meant we benefitted from a much more direct exposure to the China demand phenomenon for the first time.

Consolidated revenues for the year were EUR 1,590 million, up 42 per cent on 2009, reflecting these improved market conditions. Earnings before interest, tax, depreciation and amortisation ('EBITDA') rose strongly by 160 per cent to EUR 464 million, reflecting increased volumes and higher prices as well as significant productivity improvements following our investment in new mining technology and stringent cost control across all our operations.

This robust performance demonstrates the underlying strength of the business and gives us a sound platform to deliver on our growth strategy going forward.

We made significant progress on improving efficiency and maximising returns from our existing assets:

#### Coal

We mined 11.4Mt of coal with three fewer operating longwalls compared to the year before, reaping the benefits of our recent capital investment programme in new longwall mining equipment. The new longwalls produced on average approximately 2,800t of coal per longwall per day – up just over 72 per cent when compared with the old equipment.

#### Coke

Our coke business delivered a very solid performance, with production up 19 per cent to 1.0Mt and a reduction in coke conversion unit costs of 16 per cent. These numbers

reflect increased volumes as demand recovered. Consolidation of coke production at the Svoboda site and the commissioning of a new coking battery there, which came on stream at the end of 2010, will further help lower unit costs going forward.

#### People

We maintained productive working relationships with our labour unions throughout the year and whilst base wages were held at 2009 levels, good operational performances resulted in the payment of a well deserved performance-related bonus. We continue to focus on training and on investing in our people, particularly to ensure that we further improve health and safety standards. We recognise the hard work and commitment that our employees contribute to the business every day and would like to thank them for their continued efforts during 2010.

Our close working relationships with our long-term customers underpins the success of our business and we are highly appreciative of both our customers and suppliers for their continued loyalty and support.

#### Safety

Tragically, three of our colleagues lost their lives in our mines during the year. Our thoughts are with their families and friends. This serves as a stark reminder that our people work in a challenging environment and that we must strive to further improve health and safety standards in order to minimise accidents, with the ultimate aim of zero harm.

To that end, in our coal mining operation, the new equipment has continued to deliver improved mining conditions for our miners, contributing to a further reduction in our mining Lost Time Injury Frequency Rate ('LTIFR')<sup>1</sup>, down 24 per cent as compared to 2009.

1 LTIFR = number of reportable injuries after three days of absence divided by total hours worked expressed in millions of hours.



## Chairman's Statement – Review of 2010

We are now reaping the benefits of our recent capital investments evidenced by the results of the first full year of production using the new equipment in 2010.

### Strategy

Our strategy has been to establish a strong platform for growth and this has been the focus of our energies during the past five years, as we restructured our business. In 2008 we started working on our two major investment programmes – Productivity Optimisation Programme 2010 ('POP 2010') and Coking Plant Optimisation Programme 2010 ('COP 2010') – and we continued committing considerable time and resources to them even during the challenging economic environment of 2009. These programmes are now complete and the business has thus built a strong foundation from which to deliver on the growth opportunities that we postulated at the time we became a public company in 2008.

We have significant opportunities for organic growth within our existing licence portfolio in Poland. We have made good progress during 2010 in developing these investment projects, particularly Dębieńsko, where a world-class project team and group of advisors are now in place and undertaking a detailed feasibility study. Land and some infrastructure have been purchased and we expect to break ground at Dębieńsko towards the middle of 2011. Dębieńsko and our other Polish project, Morcinek, are a significant part of our growth strategy, as they will bring newly developed mines with lower production costs into our portfolio, helping to offset higher costs as we mine deeper seams at our Czech operations.

There are also considerable unexploited hard coal resources in the area where we currently operate in the Czech Republic, which would add to our reserves and extend the life of our mines. Our experience in land rehabilitation means we are well qualified to control the environmental impact of developing these opportunities and we continue to work diligently to find ways for accessing coal that are mutually beneficial for both the local communities and NWR.

We continue to see the logic and benefits of being a regional consolidator. This would increase our scale and resources and deliver synergies in technical and operational skills, and projects procurement. As the first privatised, restructured and modernised coal business in the region and the first to access multiple capital markets, we are in a strong position to bring these credentials, combining both operational and financial expertise, to bear on any opportunities identified.

Our proposed acquisition of the Polish thermal coal producer, Lubelski Węgiel 'BOGDANKA' S.A. ('Bogdanka') was a good example of this strategy in action and would have created a powerful and diversified regional producer. Our decision not to raise our offer demonstrates our financial discipline and determination that value must remain a decisive factor in any M&A activity for NWR.

We continue to pursue similar opportunities, particularly in Poland and Ukraine where we are monitoring privatisations closely.

### Looking ahead

We are now reaping the benefits of our recent capital investments evidenced by the results of the first full year of production using the new equipment in 2010.

Whilst the broader European economic outlook remains uncertain, we expect demand for coking coal in the CEE region to remain robust, driven by a continued recovery in the automotive and construction sectors. Recovery in Central Europe's industrial sectors will also underpin demand for thermal coal. As a merchant supplier of coke, we are more susceptible to changes in demand as integrated steel suppliers will consolidate production in their own vertically integrated facilities when demand falls. However, our new coking battery gives us more flexibility to switch production between foundry and blast furnace coke, putting us in a stronger position to prosper throughout the economic cycle.

Coking coal will remain a scarce global commodity going forward and this will continue to drive up international prices. We will increase our exposure to these price movements as we move more of our contracts onto a quarterly pricing basis. Containment of our mining unit costs remains a major focus as we mine deeper into more challenging environments, and we will remain focused on driving further efficiency gains to partially counter the rising costs. Notwithstanding these pressures on our cost base, our close proximity to our customers gives us a cost advantage over our overseas competitors.

In the medium-term, our current development projects will sustain our growth ambitions and we will continue to seek appropriate acquisition opportunities that will further strengthen our competitive position in the region. Our plan to join the London Stock Exchange's FTSE Index Series during 2011, as we reincorporate the business in the United Kingdom, will also extend our access to international capital markets. There is much work still to do, but we are now in a strong position to deliver on our potential.

**Mike Salamon**

Executive Chairman of the Board



Mid-seam POP 2010 equipment set: conveyor and shearer

**Overview**

Business Review  
Corporate Social Responsibility  
Corporate Governance  
Financial Statements

## Overview – Our markets

### Our markets

Globally, coking coal is in short supply as China and other emerging economies continue to drive world demand. Our move to bring the pricing of most of our coking coal in line with the JFY has given us greater exposure to the positive changes in the global demand and supply balance for coking coal. Currently there is a notable trend towards quarterly pricing internationally and it is likely that the majority of our customers will look to price their coking coal contracts with us on this basis as we go forward.

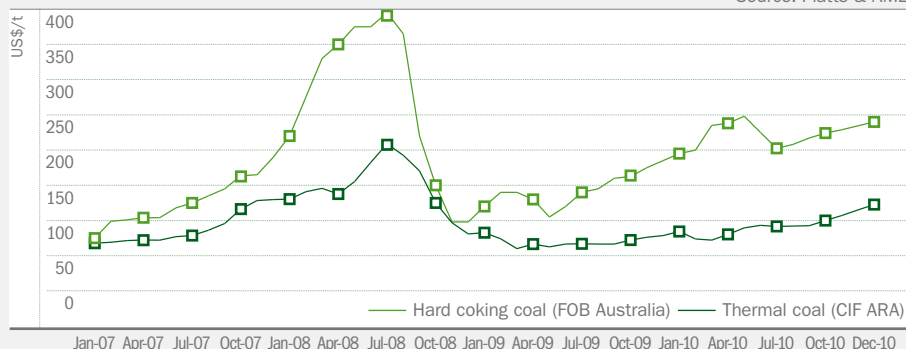
Thermal coal continues to follow the regional trends in Central European markets and is priced on a calendar year basis.

In 2010 the robust recovery in the Russian and Ukrainian domestic markets resulted in a decrease in exports of thermal coal in the regional market, and the increased demand was largely satisfied by the Polish and Czech producers. As an emerging economy, the amount of energy required in the region continues to rise.

Despite the introduction of new legislation aimed at reducing carbon emissions, it remains the case that coal provides the only viable energy source for our customers to satisfy their requirements for the foreseeable future. Alternatives such as nuclear energy have long lead times and imported gas is not seen as being fully reliable. As these new regulations directly impact our customers, we will continue to monitor developments closely.

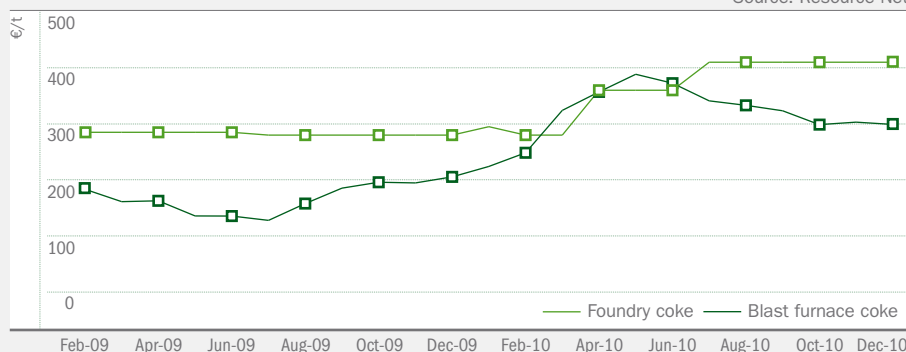
### International coal prices

Source: Platts &amp; AME



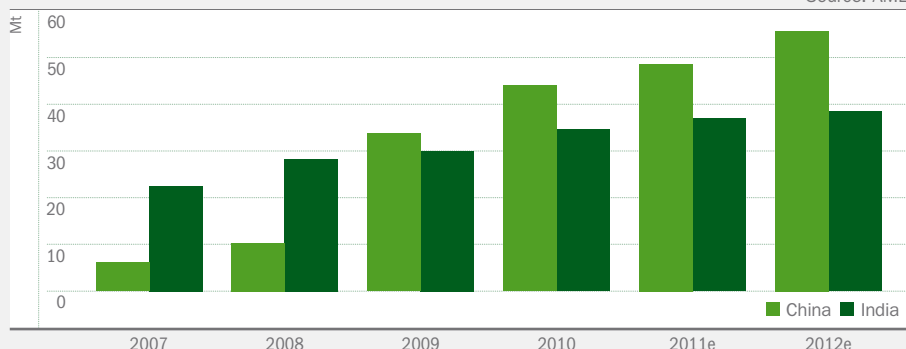
### European coke prices

Source: Resource Net



### Coking coal imports

Source: AME

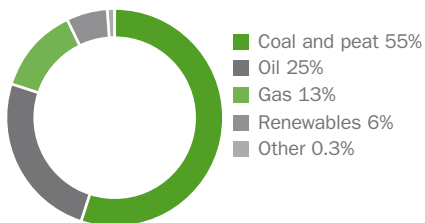




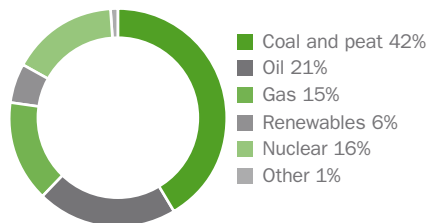
Total primary energy supply<sup>1</sup>

Source: International Energy Agency

## Poland

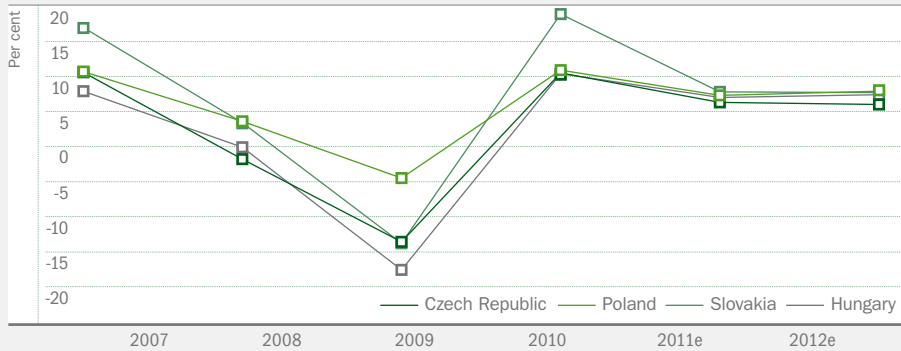


## Czech

<sup>1</sup> For the most recent available year, 2009.

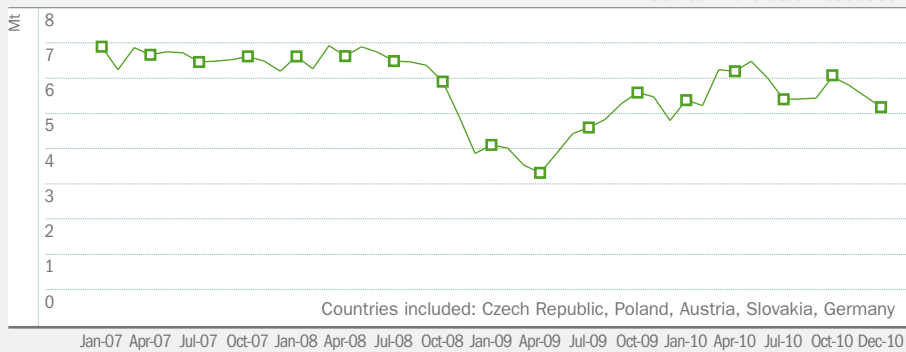
## Industrial production growth in CEE

Source: Consensus Economics



## Steel production in NWR's customer markets

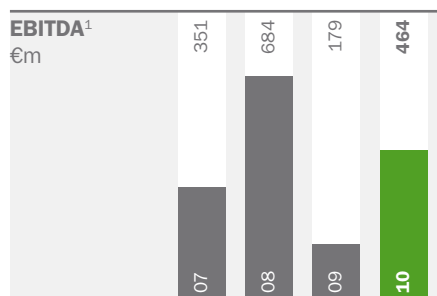
Source: World Steel Association



## Key Performance Indicators ('KPIs')

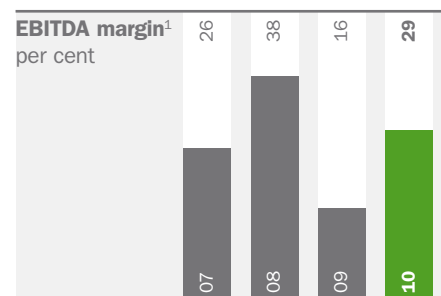
NWR uses a range of financial and non-financial KPIs to help measure and manage its performance. These KPIs reflect the Company's continuous focus on efficiency, cost control and safety across all our operations. However, this list is not exhaustive and we also use additional performance measures internally to monitor our progress.

## Financial



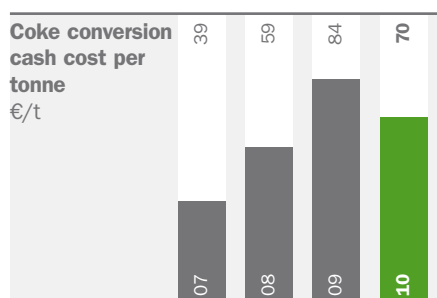
### EBITDA

Earnings before interest, tax, depreciation and amortisation from continuing operations and before exceptional items. This reflects predominantly our sales volumes and realised prices during the year.



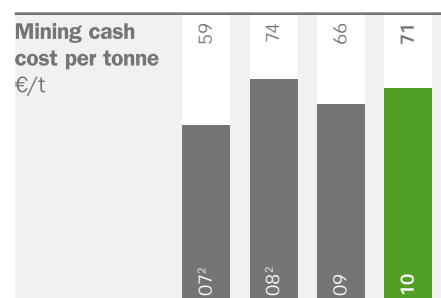
### EBITDA margin

The EBITDA margin shows earnings before interest, tax, depreciation and amortisation from continuing operations and before exceptional items as a percentage of revenue. It measures how efficiently revenue is converted into EBITDA.



### Coke conversion cash cost per tonne

Coke conversion cash cost per tonne reflects the operating costs incurred in converting coking coal into coke. It does not include the cost of internally or externally purchased coking coal.



### Mining cash cost per tonne

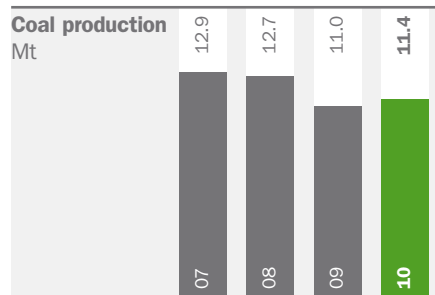
Mining cash cost per tonne reflects the operating costs incurred in mining both coking coal and thermal coal. The main line items included are the consumption of material and energy, service, personnel and other operating expenses. Containment of our mining cash costs is a major focus and these cash costs have remained stable over the past three years.

1 2007 the electricity trading segment is included and as of 2008 the segment is classified as Discontinued Operations.

2 2007 and 2008 figures include transportation costs.

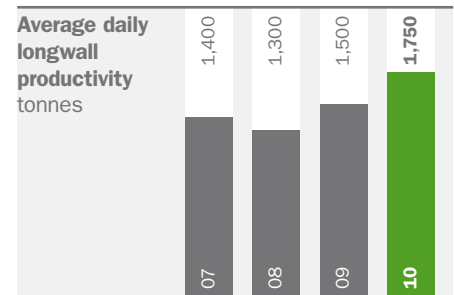
More detailed information on NWR's performance during 2010 can be found in our Business Review on pages 12 to 39.

## Operational



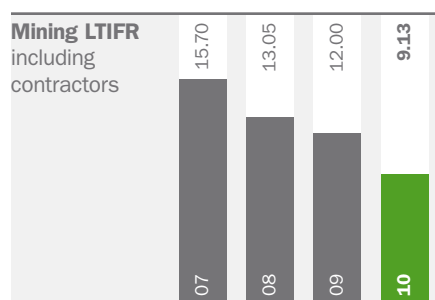
### Coal production

Total production of thermal and coking coal. Production rose slightly in the past year as a result of increased customer demand.



### Average daily longwall productivity

Average daily longwall productivity is the average productivity from the combined performance of each of our operating longwalls on a daily basis. It is a measure of the efficiency of our operations. Productivity has risen by 35 per cent over the past three years, largely as a result of our POP 2010 investment programme.



### Mining LTIFR

Lost Time Injury Frequency Rate (LTIFR) represents the number of reportable injuries after three days of absence divided by total number of hours worked expressed in millions of hours and includes contractors. We are committed to the highest health and safety standards with the ultimate aim of zero harm. LTIFR at our mining operations improved by 24 per cent in 2010 compared to 2009.

# FOCUS

NAME: BOLESLAV REITZ  
JOB TITLE: PROJECT LEADER  
OF POP 2010  
MINE: DARKOV



## POP 2010 – PRODUCTIVITY OPTIMISATION PROGRAMME

**Last year marked the first full year of operational efficiencies from POP 2010, a project that involved implementing state of the art longwall mining and drilling technology.**

The investments in POP 2010 are delivering increased productivity and improved safety standards. Last year the number of occupational accidents in our mines dropped by 22 per cent to 271, from 346 in 2009. The annual LTIFR in the same period decreased from 12.00 in 2009 to 9.13 last year. The new equipment has also had a positive impact on reducing dust levels.

During the first and second phase of the POP 2010 project at the Darkov, Karviná and ČSM Mines a total of nine high-performance drilling sets with new generation type ex roadheaders were introduced. The roadheader is equipped with a newly designed jet rohr, verified by tests undertaken by Coal Research Institute in Radvanice, in the Czech Republic.

The roadheaders have an added height capacity and are able to bore larger sections of galleries. Every roadheader is equipped with a camera that automatically records and transmits drilling progress. These machines are equipped with a safer, state of the art ventilation system, together with dust-removing technology.

Having completed and seen the first benefits of POP 2010, we will now focus our attention on further optimising the efficiency of the new technologies, as well as further improving health and safety standards in line with our aim to reach zero harm levels.

## Business Review – Coal

# COAL

Our subsidiary, OKD, a.s. ('OKD') is the sole producer of hard coal in the Czech Republic and a significant player in the Central European market. Its four operating mines are located in the Karviná and Ostrava region, situated just south of the Polish border on the Upper Silesian coal basin.



Klaus-Dieter Beck, Executive Director of NWR, Chief Executive Officer of OKD and Chairman of the Board of Directors of OKD

### Divisional highlights

Coal revenues up 35 per cent to EUR 1,082 million, with revenues for coking coal up 65 per cent to EUR 739 million  
11.4Mt of coal produced

### Performance

Overall longwall productivity up 15 per cent  
LTIFR down 24 per cent

### Market summary

Strong recovery in demand for coking coal, with vehicle production up 9 per cent and steel production up 28 per cent

Thermal coal market remains stable

Coal revenues increase

# +35%

We produce quality coking coal and thermal coal (also known as steam coal) sold to markets in Central and Eastern Europe; our coking coal provides the raw material for the steel industry and our thermal coal powers energy suppliers including electricity and heat producers and other industrial users.

### Key achievements in 2010

Our coal mining business delivered a robust performance in 2010. We achieved our production targets, increased our productivity and improved our safety results – one of the most important measures of success for our business.

Delivering significant improvements in both productivity and safety during 2010 is a source of considerable pride within OKD. As part of our EUR 350 million Productivity Optimisation Programme ('POP 2010'), we installed 10 new longwalls over the course of 2008 and 2009, which generated significant productivity gains in 2010. As a result overall longwall productivity was 1,750t of coal per longwall per day in 2010, an increase of just over 15 per cent compared with 2009. Some new longwall sets achieved, under good conditions, average daily production levels of as high as 6,000t of coal.

Our ongoing focus on productivity continued to generate impressive results due to the introduction of the new longwall equipment. We produced 11.4Mt of coal, slightly ahead of last year (2009: 11.0Mt), with fewer longwalls sets in operation thanks to POP 2010: 17.6 constant operating longwall sets delivered 15 per cent higher volume of coal as 20 sets for the same period in 2009.

The new mining equipment is also contributing to safer operations in our mines. The Lost Time Injury Frequency Rate ('LTIFR')<sup>1</sup> fell by 24 per cent to 9.13 down from 12.00 in 2009 reflecting the benefits of the new equipment, a consistent focus on health and safety training and the completion of our SAFETY 2010 project, a EUR 17 million capital investment programme focused on improving personal safety equipment for every miner.

### Operational performance

The geological environment we are operating in is a challenging one: we are mining down to a depth of 1,100 metres below the surface, and also down to a seam thickness of

0.8 metres. Combined with our skills and capabilities in mining at these depths, the new equipment enhances our ability to mitigate the additional cost required to mine deeper each year.

### Sales

Our comprehensive service enables us to deliver coal in a timely manner and build stronger relationships with our customers. We can also ensure the quality and consistency of our products and the reliability and timeliness of deliveries.

We have well-established relationships governed by long-term framework agreements. In some cases, customers have relied on our coal for decades.

Demand for both thermal and coking coal has remained robust throughout the year, with total coal revenues rising strongly, up 35 per cent to EUR 1,082 million compared to EUR 800 million in 2009. Although volumes were evenly split between coking coal and thermal coal at 49:51 per cent, coking coal accounted for 68 per cent of total coal revenues due to the higher prices and margins it commands.

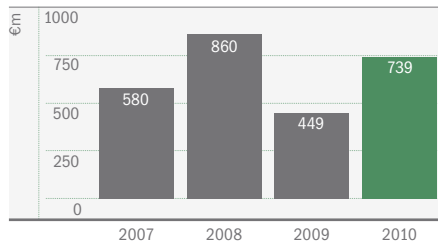
### Coking coal

Revenues for 2010 rose strongly to EUR 739 million, up 65 per cent on the previous year (2009: EUR 449 million). This reflected the marginal increase in sales volume to 5,257kt as economic conditions improved, as well as the recovery in demand, which drove prices substantially higher. Coking coal prices reached an average of EUR 141 per tonne, compared with the EUR 87 achieved in 2009. For the first time in our history we priced 80 per cent of our coking coal volumes on a Japanese Fiscal Year ('JFY') basis, setting prices from April 2010 to March 2011 and ensuring that our

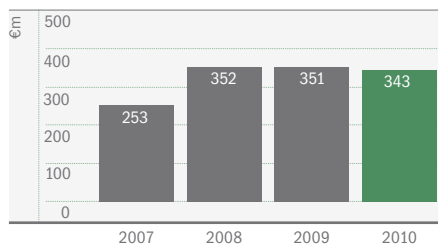
<sup>1</sup> LTIFR = number of reportable injuries after three days of absence divided by total hours worked expressed in millions of hours.

## Business Review – Coal continued

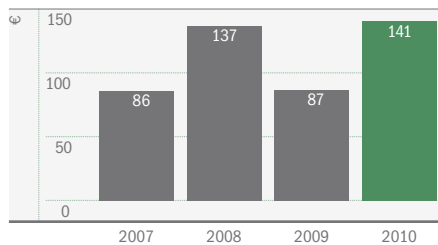
### Coking coal revenues



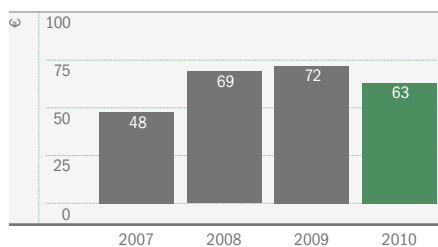
### Thermal coal revenues



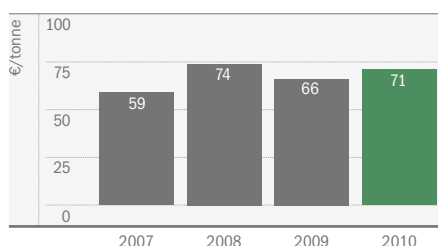
### Coking coal prices



### Thermal coal prices



### Mining cash cost per tonne<sup>1</sup>



<sup>1</sup> 2007 and 2008 figures include transportation costs.

prices better reflected the global supply and demand situation. Around 42 per cent of coking coal sales in 2010 were hard coking coal and 58 per cent were semi-soft grades.

#### Thermal coal

By contrast, prices for thermal coal softened to EUR 63 per tonne, a 13 per cent decrease on 2009 when prices were positively affected by growing customer concerns about the ability of local supply to meet market demand. All our thermal coal is priced on a calendar year basis.

Revenues reached EUR 343 million (2009: EUR 351 million) and volumes rose, up 12 per cent on 2009 to 5,455kt reflecting improved demand. Thermal coal sales were composed of approximately 80 per cent coal and 20 per cent middlings.

#### Costs

Several factors contributed to a 4 per cent rise in our mining cash costs per tonne (on a constant currency basis), to EUR 71 compared with EUR 66 in 2009.

In 2010 we intensified our underground development works, which combined with the fact that we mine deeper each year, increased our materials and energy costs and also additional shifts were required resulting in higher contractor expenses and maintenance costs.

Although base salaries did not rise following extensive consultations with the trade unions, good operational results led to performance-related bonus payments during the year, leading to a modest increase in total personnel costs.

We remain focused on containing our mining unit costs, driving further efficiency gains to counter general mining sector inflationary pressures and rising costs related to the increasing depths at which we mine. However, these efficiency gains can only partially offset the impact of higher prices for steel and other materials, the cost of electricity, compressed air and heat and the overhaul and maintenance of older equipment.

#### Reserves

One of the largest, richest sources of hard coal in Central Europe, the Upper Silesian Coal Basin underpins the long-term sustainability of our mining operations in the region. Our JORC<sup>2</sup> reserves from our four mines were 396 million tonnes as at 1 January 2011 including 190 million tonnes in our Dębieńsko site in Poland.

#### Looking ahead

We will continue to focus on improving productivity in the coming year to help us address the challenges of mining at ever increasing depths. We mine approximately 20m deeper each year and this generates geological issues and tougher working conditions. Investment in 2011 will also focus on a fully integrated IT system (SAP), which includes more sophisticated planning and engineering procedures, more precise online control and monitoring features of production and infrastructure activities. Successfully implementing culture change in our workforce to encourage a proactive, participative approach is another focus for the year ahead. Communications and training are at the heart of this, with every worker briefed on the Company's targets and strategy and extensive training programmes focusing on health and safety as a priority but also including softer issues such as interpersonal skills. Our contractors form an integral part of our workforce and are included in all our programmes to ensure standards and behaviours are consistent throughout.

Whilst we were pleased to see further improvement on our LTIFR results this year, safety will always remain our top priority and we remain focused on reaching zero harm levels. To get there we want safety fully integrated into our working culture, with everyone alert to safety issues at all times.

<sup>2</sup> Full name: Joint Ore Reserves Committee. The Group currently uses both the FSU system and the JORC system in parallel to report reserves and resources. The Group employs a certified geologist who prepares the reserve numbers in accordance with JORC certified expert.



Following the completion of POP 2010, which marked a huge step forward for the Company in terms of its technology, the PERSpective 2015 Programme ('PERSP 2015'), launched in 2010, sets out our objectives and targets for improving performance over the next five years. It covers our approach to dealing with our people fairly, our targets for increasing productivity and our plans to open up new reserves. It also aims to enhance our interaction with the local communities, drive up safety standards and build upon our reputation of being a reliable business partner.

**Klaus-Dieter Beck**

Executive Director of NWR, Chief Executive Officer of OKD and Chairman of the Board of Directors of OKD



Plowset

## Business Review – Coal – Our markets

### Our markets

#### The Central and Eastern European coal market

In 2010 the economies of Central and Eastern Europe ('CEE'), along with the rest of Europe, began to recover from the turmoil of the financial and economic crisis of the previous year. Following several quarters of contraction, modest GDP growth returned to most European economies although some peripheral countries continued to struggle with public debt imbalances. The key driver of growth in the Eurozone and CEE region was a rebound in industrial exports on the back of strong growth in Germany.

NWR's main customers are blue chip organisations in the Czech Republic and neighbouring countries including Austria, Germany, Poland and Slovakia. They are primarily based in the industrial belt of eastern Czech Republic and Poland where a concentration of heavy industry is located. The industries in the region

have a strong interdependence, with coal miners supplying the steel mills who in turn supply the automotive, construction and manufacturing industries. As a result of the economic recovery, demand in all of these sectors experienced renewed growth during 2010. For instance vehicle production in the Czech Republic grew by 9 per cent during the year while general steel consumption in Europe returned to positive growth.

Our close proximity and excellent logistic links to our customers underpin long-term relationships. This in combination with the long distances to deep-water ports, gives us a competitive advantage over seaborne imports, which incur higher transportation costs.

In the neighbouring Silesian state-owned Polish mines, total production has been declining steadily since the 1980s. Poland is subsequently struggling to meet its own domestic demand, which is evidenced by the fact that the country became a net importer of coal in 2008. Further afield, increasing volumes of coal are being imported to the

region from Ukraine, Russia as well as seaborne to plug the missing production, but logistical constraints and high transportation costs will keep these imports limited.

#### The coking coal market

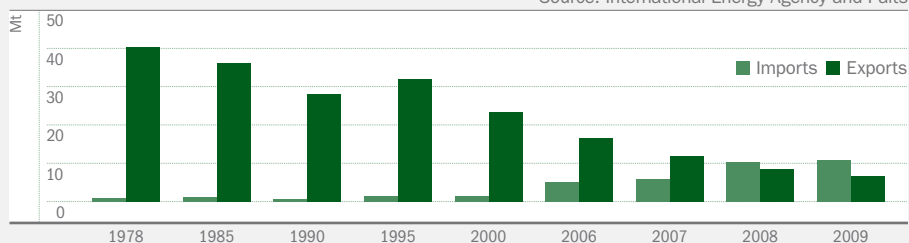
The health of the coking coal market will always be closely aligned to that of the steel industry, which moves very much in line with GDP growth. In recent years the steel industry in NWR's markets has experienced increasing demand, particularly with the rapid development of the Eastern European economies.

NWR's coking coal customers are predominantly the major steel producers in the region (including ArcelorMittal, US Steel, and voestalpine) where production levels rose by 28 per cent during 2010 on the back of recovering GDP growth, after having dropped 27 per cent during 2009 as a result of the economic crisis.

Coking coal demand in the region during the year has subsequently followed the rise in steel production levels, leading to stronger

#### Poland hard coal imports and exports<sup>1</sup>

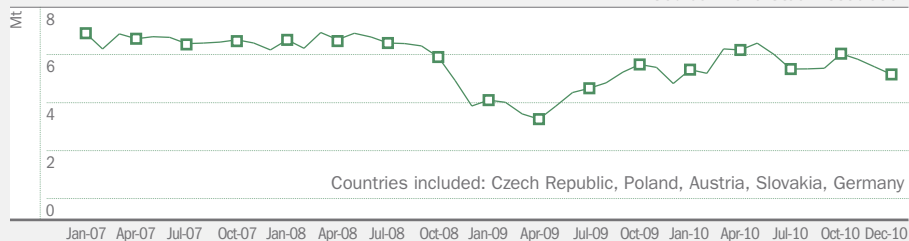
Source: International Energy Agency and Palts



1 For the most recent available year, 2009.

#### Steel production in NWR customer markets

Source: World Steel Association



Countries included: Czech Republic, Poland, Austria, Slovakia, Germany

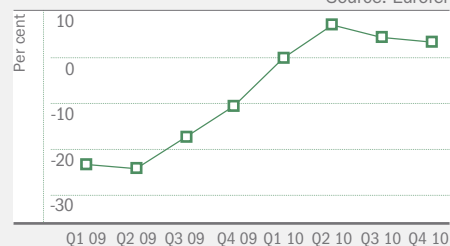
#### GDP growth

Source: Bloomberg



#### European steel use growth

Source: Eurofer



demand in 2010 compared to 2009 but still short of the pre-crisis levels.

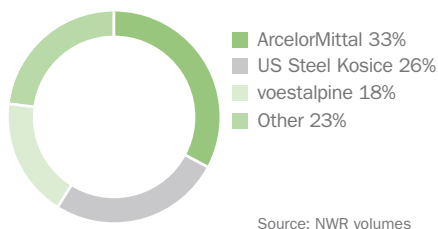
#### The thermal coal market

The demand for thermal coal largely depends on the demand for electricity and heating energy as well as the supply and demand of other energy sources. Poland, for instance, generates over 90 per cent of its electricity from hard coal.

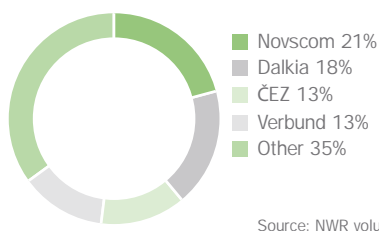
The thermal coal market in Central Europe is relatively static as it is not economically viable to transport the coal long distances. A well-established thermal energy infrastructure in the region ensures a steady and reliable customer base for NWR's thermal coal and with limited alternative domestic fuels available, coal will continue to make up a significant portion of the region's energy mix.

The major customers for our thermal coal are large energy companies operating in the region such as ČEZ, Dalkia and Verbund.

#### NWR coking coal sales by customer 2010



#### NWR thermal coal sales by customer 2010



Mid-seam POP 2010 equipment set: shields



# PROGRE

NAME: PETR PROKOP  
JOB TITLE: LONGWALL FOREMAN  
MINE: PASKOV



SS

## THE CONTINUOUS IMPROVEMENT PROGRAMME IN 2010 – IMPROVING EFFICIENCY AND SAFETY AT NWR’S OPERATIONS

**The programme is designed to increase the involvement of NWR’s employees in daily operational life, to work together to improve efficiency and safety at the operations.**

Teams as well as individuals are encouraged to put forward their suggestions on issues including ways of improving working conditions, increasing occupational safety and methods of streamlining workflows. The project is not only open to NWR’s own employees but also contractors, and anyone who provides a feasible idea is rewarded. Specially deployed optimisation teams solely focus on this project and then implement these ideas. In 2010, those who contributed successfully received cash bonuses as well as other special rewards.

Employees of OKD and its suppliers submitted 742 practical improvement proposals in 2010. Of these, 558 projects have been completed, and another 154 are being implemented. Thanks to this single programme, OKD has made overall savings of around EUR 9 million. We remain committed to improving our operations and welcome further input from our employees during 2011.

## Business Review – Coke

# COKE

Our coking subsidiary, OKK Koksovny, a.s. ('OKK Koksovny') is the largest producer of foundry coke in Europe, now operating from one site, Svoboda in Ostrava. OKK Koksovny produces both foundry and blast furnace coke from four batteries with a maximum capacity of 850kt per year following the conclusion of the consolidation process.



Ján Fabián, Chief Operating Officer of NWR, Vice Chairman of the Board of OKD

### Divisional highlights

Coke revenues up significantly by 188 per cent to EUR 303 million

1.0Mt of coke produced

### Performance

Production consolidated onto a single site

Refurbishment of existing battery complete

Additional new coking battery brought on-stream

### Market summary

Improved demand for steel drove up volumes and prices

Coke revenues increase

# +188%

Coke is produced by heating up coking coal in furnaces at temperatures of up to 1,200°C without access to oxygen, to extract volatile components such as gases and produce a highly efficient, high carbon fuel. There are two types of coke: blast furnace coke which is used as a reducing agent in smelting iron ore to produce steel and foundry coke which is used to melt pig iron in the manufacture of iron castings by the iron founding industry.

### Key achievements in 2010

It has been an outstanding year for OKK Koksovny as we completed the consolidation of production onto one site, built a new coking battery, and completely refurbished another whilst production continued. Health and safety remained our highest priority during this period of intense activity and we maintained our strong track record delivering a coking Lost Time Injury Frequency Rate ('LTIFR')<sup>1</sup> of 2.55 with only four registered accidents (2009: 2.39; four registered accidents).

In line with our strategy to enhance profitability by investing in equipment and technology, we successfully completed our Coking Plant Optimisation Programme 2010 ('COP 2010'), which aimed to increase the efficiency and reduce the cost base of our coking operations by consolidating all operations at one site on time and to budget. Notably, we maintained high safety standards throughout the project.

A key achievement of COP 2010 was successfully consolidating all production at our Svoboda site. Shutting down the Jan Šverma site by the end of 2010 posed a significant environmental challenge as health and safety standards needed to be maintained whilst dealing with the gas and chemical outputs of the shut down process. Extensive consultation with the labour unions meant that approximately 50 per cent of the workforce at the Jan Šverma site was transferred to the Svoboda site and the remainder left the Company by mutual agreement.

We also constructed a new battery, one of the few coking batteries that have been built in the region recently, which will enable us to respond to the demand for foundry and blast furnace coke more flexibly. With 56 chambers and a maximum production capacity of 225kt per year, the new battery no. 10 has a state of the art device to capture the air pollutants generated during production, significantly reducing environmental impact. The new

battery was slowly heated from June 2010, trial production started in October 2010 and moved into full production at the beginning of 2011.

A further phase of COP 2010 was the refurbishment of battery no. 8, prolonging its life for more than 20 years. This was a complex project as the chambers were refurbished in stages whilst the battery continued to operate.

### Operational performance

Our operations performed strongly in 2010, producing 1.0Mt of coke during the year, up 19 per cent on 2009 when volumes were reduced to 843kt in response to weak customer demand. This is a very good result considering that parallel to normal operations we completed COP 2010.

### Sales

Significantly improved coke market conditions pushed sales up to 1.1Mt; split by 55 per cent blast furnace coke, 33 per cent foundry coke and 12 per cent other types. Blast furnace coke sales were driven by improved demand in the steel industry where our customers started to reach their integrated coke production capacities and source supplies externally. In the foundry coke market, we are one of the main suppliers in the region to a wide range of customers who were faced with rising demand in the automotive industry.

Revenues for 2010 accelerated to EUR 303 million compared with EUR 105 million the previous year as prices rose to an average of EUR 275 per tonne. Coke prices are set quarterly and have remained well ahead of 2009's average of EUR 149 per tonne reflecting the recovery in demand and reduced coking capacity in the region.

<sup>1</sup> LTIFR = number of reportable injuries after three days of absence divided by total hours worked expressed in millions of hours.

## Business Review – Coke continued

### Costs

Coke conversion cash cost per tonne (production costs incurred excluding coal charges), fell substantially during the year to EUR 70 mainly on the back of rising volumes (2009: EUR 84 per tonnes).

The key drivers of total coke production costs are materials and energy. These rose in line with higher production levels as more coking coal was needed to meet the increased production requirements together with increased coking coal price.

Personnel costs decreased mainly due to the reduction in headcount as we proceeded with the closure of the Jan Šverma Coking Plant.

### Outlook

Coke conversion cash costs per tonne are forecast to reduce by approximately 15 per cent in 2011 as the full benefits of consolidating production on one site and the increased efficiency of the new battery continue to deliver improved performance.

We start 2011 in a strong position to capitalise on our investment programmes with an efficient operating base and the production flexibility to respond effectively to fluctuations in demand.

### Ján Fabián

Chief Operating Officer of NWR,  
Vice Chairman of the Board of OKD



Loading platform of coke-quenching car containing coke with a temperature of approximately 1,100°C

## Business Review – Coke – Our markets

### Our markets

#### The Central and Eastern European coke market

As a product of coking coal, coke demand similarly follows the fortunes of the steel industry. However, coke markets tend to be more volatile since many steel mills produce their own coke supply with independent producers complementing their production. However, a number of producers continue to operate out of date coking batteries. There remains further volatility in the Central Eastern European region.

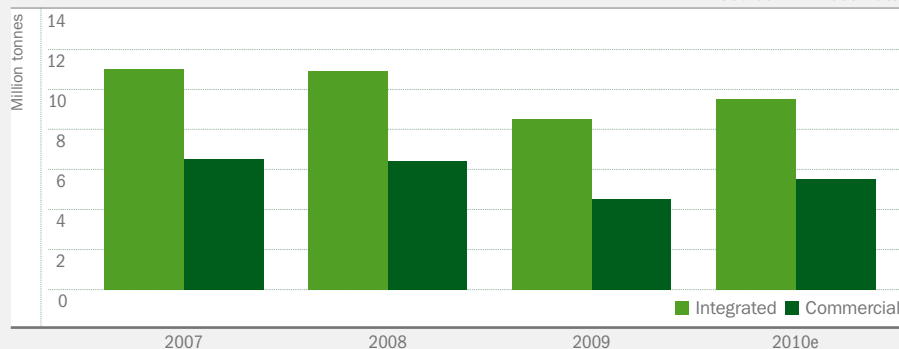
Subsequent to the collapse in steel production, coke demand in Central Europe fell significantly in 2009. In response much coke capacity in the merchant coke market was taken off line. This reduced supply capacity, along with export restrictions from China and rising demand, helped coke prices in Europe to recover in 2010 from the lows of 2009. Monthly European blast furnace coke prices rose in 2010 by an average of 90 per cent while monthly foundry coke prices rose by an average of 35 per cent.

Sales of our blast furnace coke are concentrated within a small number of large customers in the steel industry who in turn supply the automotive, construction and manufacturing sectors. Customers include blue chip organisations such as voestalpine and Moravia Steel with whom we have forged close, long-standing relationships.

Sales of foundry coke are more widely distributed over a larger number of smaller customers with their own foundries. Foundries mainly supply the automotive industry.

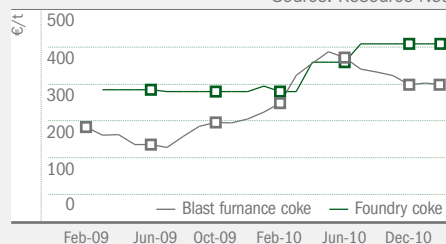
#### Coke production in CEE

Source: NWR estimates

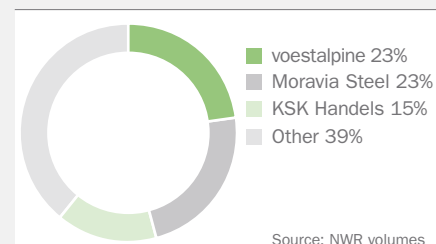


#### European coke prices

Source: Resource Net



#### NWR coke sales by customer 2010



Source: NWR volumes



# MODERNISA

NAME: JIŘÍ RADOŠOVSKÝ  
JOB TITLE: CHIEF OPERATIONS  
MECHANIC  
OPERATION: OKK KOKSOVNY



# TION

## COP 2010 – COMPLETED ON TIME AND TO BUDGET

**NWR successfully completed COP 2010 at the end of 2010. With a capital investment of EUR 63 million, this two-year project streamlined and modernised NWR's coking operations.**

During the year, the Jan Šverma Coking Plant was decommissioned, consolidating all NWR's coking operations at a single site, Svoboda.

At Svoboda, the newly constructed battery no. 10 has 56 chambers and meets the highest environmental standards. The battery and the service machinery are fitted with state of the art equipment for capturing air pollutants created by coke production. The maximum production capacity of the battery is approximately 225kt of coke per year. Trial operations commenced in October 2010 and moved into full production at the beginning of 2011. The battery is fired by its own coke-oven gas, and is connected to the latest systems to improve the process of handling by-products of coke production such as tar, benzol and coke-oven gas. All waste materials produced during the construction of this battery were disposed of in an environmentally friendly manner.

Additionally, battery no. 8 has undergone a complete refurbishment, including the construction of new pushing and charging machines.

With more flexible facilities we are now in a better position to meet our customers' specific coking demands. The Svoboda plant operates four coke-oven batteries with a total of 210 chambers, and capacity of approximately 16 tonnes of coke per chamber over a production cycle of around 32 to 34 hours. The total maximum production capability is 850kt of coke per year.

## Business Review – Business Development

# BUSINESS DEVELOPMENT

We have made encouraging progress during the year in delivering our growth strategy, and examined a number of opportunities to demonstrably create value for our shareholders.

### Good progress on Dębieńsko

Detailed feasibility study commenced

World class engineering and technical team recruited

Land and infrastructure acquisition started

Hard coking coal reserves

# 190Mt

### Exploration

Our current development projects are located in Poland, focused on opportunities that address our existing target market. Work to develop one of the first new large scale mines for some time in the region, at Dębieńsko, has continued as well as further work on the mothballed Morcinek mine to develop it for a return to production in the future.

### Dębieńsko

Dębieńsko represents a significant part of our growth strategy.

NWR KARBONIA S.A. ('NWR KARBONIA') oversees NWR's two development projects in southern Poland – Dębieńsko and Morcinek. We were granted a mining licence to enable us to extract coal from Dębieńsko, valid for 50 years in 2008, and in 2010, we applied for an amendment to this licence along with acquisition of land and recruitment of a world-class engineering and technical team.

EUR 25 million has been set aside for the first phase of this project, to be invested on the completion of a Detailed Feasibility Study ('DFS'), which includes geological exploration, land purchase, engineering work and some infrastructure projects.

The growing reputation of NWR has allowed us to successfully recruit a world-class engineering and technical team and put in to place contracts with industry-leading consultants and engineering contractors for the project execution.

During 2010, the first boreholes at the planned future shaft and decline locations were drilled and documented in anticipation of a double slope opening. The development of mine plans continued, based on the study of 3D models showing the geology of the area.

In parallel, we have acquired some plots of land necessary for surface infrastructure, in addition to an electricity supply line and related substation.

We expect to break ground in Dębieńsko towards the middle of 2011 with first production still about five years away.

### Morcinek

Last mined in the late 1990s, Morcinek is a mothballed mine, situated in southern Poland close to the Czech border. NWR KARBONIA was granted a 12-year exploration licence in 2003 for Morcinek 1, followed by an additional six-year licence for a second area, in 2008. The signing of an intergovernmental agreement in August 2008 allowing cross-border mining activities gives us increased optionality when exploring Morcinek.

Geological documentation is scheduled for completion by the end of 2011 for Morcinek 1. Once the Polish Ministry of the Environment has accepted this, an application for a mining licence will be submitted for an area containing abundant mineable coal.

A further deep exploration borehole is planned for 2011 in the second, Morcinek 2 area, with a further six to be drilled during 2012 to 2014, with the aim of preparing geological documentation.

### Strategic development

In addition to our current development projects, we believe the long-term rationale for consolidation in the Central and Eastern European coal sector is compelling and we continue to pursue our regional consolidation strategy. This will deliver both growth and synergies in mining skills and resources. As the first privatised coal mining business in the region and the first to access international capital markets, we have already gained the necessary experience to implement this strategy. Our operational knowledge, combined with our commercial and financial expertise, puts us in a strong position to capitalise on any opportunities that may emerge.

With its huge coal reserves, Poland remains a key target region for us to exploit our technical expertise of mining in the Upper Silesian basin. Developing Dębieńsko and Morcinek increases our presence in the region where we anticipate further opportunities for development.

We also continue to explore potential opportunities in Ukraine, a coal-rich region, where privatisation of the mining industry is well under way. Our successful track record of productivity and efficiency improvements means that we can bring both capital and operational expertise to potential partners.



View of the Dębieńsko Site hoist tower in Southern Poland



## Business Review – Business Development – Markets for development

### Markets for development

#### The Polish and Ukrainian coal markets Poland

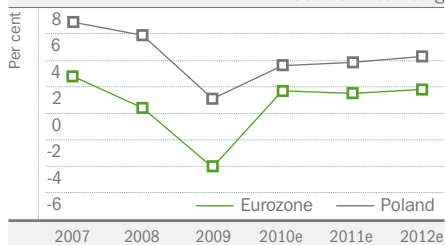
Poland represents a very promising market for investment considering its size and the progressive development of its economy. Poland was the only country in the European Union to avoid a recession in 2009 and also recorded stronger GDP growth than most countries during 2010. The government continues with its agenda of economic reforms and liberalisation, including its privatisation programme, which saw a number of companies join its stock exchange in 2010. The country's manufacturing base, which is a supplier to German producers, has rebounded strongly in 2010 on the back of Germany's export driven recovery. Construction demand is also robust due to a large infrastructure programme and in preparation for Poland's co-hosting of the UEFA European Football Championship in 2012.

The strong demand for coal remains, as heavy industry continues to play an important role in the economy with increasing steel and electricity demand. Electricity production is still almost exclusively generated from hard coal. However, coal production in Poland has been steadily declining in recent decades since many inefficient mines have come off-line as the industry brings itself up to international competitive and environmental standards. Poland has, therefore, started to import more coal to meet its domestic requirements.

Most coal companies in the country are still state owned but are part of the government's wider plans for privatisation. Such privatisations represent promising opportunities to invest in the modernisation of Poland's coal industry and to tap into its continued development.

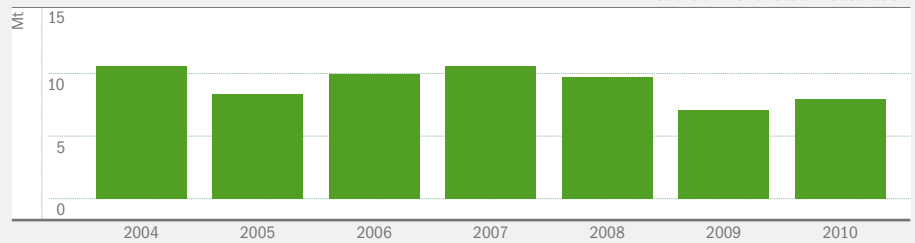
#### GDP growth

Source: Bloomberg



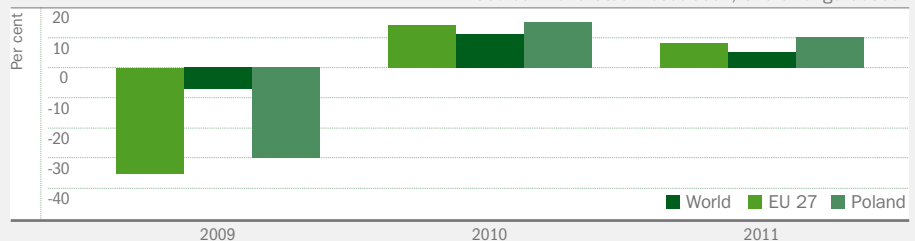
#### Steel production in Poland

Source: World Steel Association



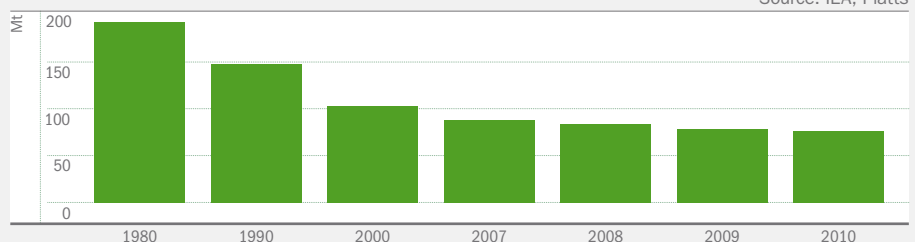
#### Steel consumption growth rate

Source: World Steel Association, Short Range Outlook



#### Total hard coal production in Poland

Source: IEA, Platts





### Ukraine

Although more economically and politically challenging than Poland, the Ukrainian coal market also offers a promising investment opportunity. The country possesses large deposits of coal with the World Energy Council estimating total coal reserves at 52 billion tonnes, the 8th largest in the world. As in Poland, coal production has been declining since the 1990s as the country embarked on large-scale industrial reform following independence. However demand for both thermal and coking coal have not fallen to the same extent, since steel production and electricity demand have been growing as the economy expands. Domestic coal production no longer keeps up with demand, leading Ukraine to import 25% of all its coking coal requirements in 2010.

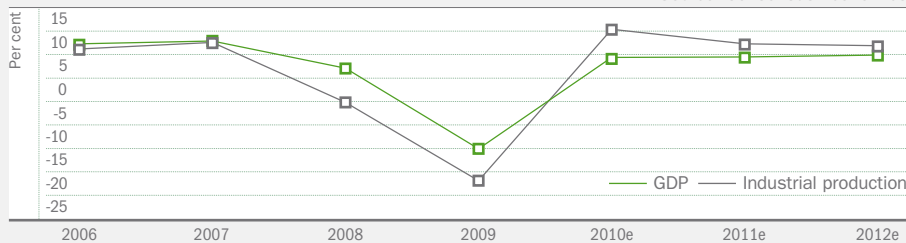
The Ukrainian economy is expected to show strong levels of growth in the coming years since the country is still in the early stages

of development. Domestically, large infrastructure programmes will require increasing amounts of steel whilst heavy industry should continue to reap the benefits of low costs whilst serving large export markets to the east and to the west. Such growth and development should increase further the demand for thermal and coking coal.

The country's coal mines are still predominantly publicly owned and considered quite inefficient and underdeveloped. The average age of mines exceeds 50 years with very few new mines brought into operation in the last 20 years. The government has recently declared its commitment to the modernisation of the coal sector in partnership with private investors to substantially increase production. This investment friendly environment presents a good opportunity to take part in the development of the Ukrainian coal industry.

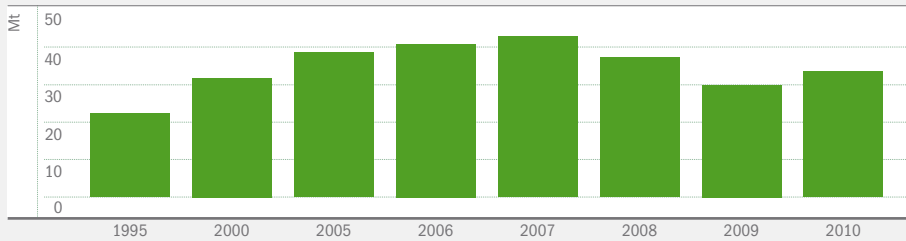
### Ukraine macro indicators

Source: Consensus Economics




### Ukraine steel production

Source: World Steel Association



# PEOPLE



NAME: ARKADIUSZ STRENCZEK  
JOB TITLE: SHIFT LONGWALL  
FOREMAN AT THE SOUTHERN SITE  
MINE: ČSM

## PERSPECTIVE 2015

**The PERSpective 2015 programme was designed as a continuation of the POP 2010 programme. Its main objective is to enhance NWR's competitive advantage by maximising 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 ('PERSP').

Our **People** are our most valuable asset and we believe it is important to adequately remunerate them for the challenging work they perform. We also recognise the importance of providing them with appropriate education and training as well as providing them with the necessary tools to develop their qualifications and skills. In 2010, the average wage of our miners was CZK 32,583, 48 per cent above the regional average. We also supported several dozens of our employees in their university and postgraduate studies.

In addition to improving safety standards, our investments in mining technology aim to increase **Efficiency** and productivity in our operations. Our goal is to increase productivity by 4 per cent per year to 5 tonnes per man-shift by the end of 2015 from 4 tonnes per man-shift in 2009. Our Continuous Improvement project should further contribute to increase efficiency gains, as we continue to welcome and implement the best innovation suggestions proposed by our employees.

With a view to securing NWR's future operations up to 2030, we continue to work on augmenting our **Reserves** base. We are now in the process of preparing our upcoming mining plans and the related administrative processes necessary in order to achieve that.

Safeguarding the health and promoting the **Safety** of our workers is an integral part of our business. We aim to continue investing in the best in class personal protection and safety aids and equipment, as well as engaging all of our workers in the process of supporting further improvements in safety standards. We endeavour to minimise accidents, with the ultimate aim of zero harm, and we are targeting to decrease the accident rate index ('LTIFR') in our mines to five by the end of 2015.

We highly rank our relationships with our customers, suppliers and the municipalities where we operate and appreciate the significance of **Predictability** as an aspect of the mining business. We remain focused on further improving our customer and supplier relations as well as holding regular discussions with the municipalities from the areas where our coal extraction takes place. We are committed to working on mutually beneficial cooperations with a view to mitigating the impacts of the damage caused by mining.

## Business Review – Finance Director's Review

## FINANCE DIRECTOR'S REVIEW



Marek Jelínek, Executive Director and Chief Financial Officer

Adjusted earning per A share  
of EUR 0.86

Significant reduction in  
net debt, down by 34 per cent  
to EUR 321 million

Strong cashflow from operating  
activities of EUR 315 million

Return to dividend payments

Successful placing of  
EUR 500 million senior  
secured notes

EBITDA

€464m

We re-instated dividend payments this year. We paid an interim dividend of EUR 0.21 per A share, and declared a final dividend of EUR 0.22 per A share taking the total dividend for 2010 to EUR 0.43 per A share in line with our dividend policy.

Strong cash position

€529m

### Overview

We delivered a strong financial performance in 2010 but perhaps our key achievement was to reach our stretch coal production target of 11.4Mt while keeping unit costs under control.

Our revenues rose significantly to EUR 1,590 million, up 42 per cent compared with 2009 (2009: EUR 1,117 million), helped by the increase in sales volumes and a strong recovery in commodity prices, especially for coking coal and coke, as we saw prices increasing quarter on quarter throughout the year.

EBITDA from continuing operations also increased significantly by 160 per cent to EUR 464 million (2009: EUR 179 million) driven by a combination of three factors: the increase in sales volumes, rising prices and stringent cost control.

Total EBITDA increased to EUR 468 million in 2010 (2009: EUR 186 million) including EUR 4 million from discontinued operations.

Adjusted earnings per A share were EUR 0.86, compared with EUR (0.25) for the same period in the previous year.

### Revenues

Our largest source of revenue is from sales of coking coal, which accounted for 68 per cent of total revenues in 2010 with rising prices driving up revenues by 65 per cent to EUR 739 million (2009: EUR 449 million). Average sales prices for coking coal reached EUR 141 per tonne in 2010, up 62 per cent on the EUR 87 realised in 2009.

By contrast, revenues for thermal coal fell slightly to EUR 343 million (2009: EUR 351 million), reflecting a 13 per cent decline in average sale prices for thermal coal to EUR 63 (2009: EUR 72 per tonne).

We saw a dramatic increase in coke revenues, up 188 per cent to EUR 303 million (2009: EUR 105 million), largely driven by

increased sales volumes and an 84 per cent increase in prices to EUR 275 per tonne compared with EUR 149 per tonne last year, as demand recovered.

### Operating expenses

Our total operating expenses including depreciation and amortisation rose by 12 per cent to EUR 1,271 million (2009: EUR 1,137 million) reflecting increases in external coal consumption for coking coal and due to higher levels of coke production, increased consumption of mining materials and higher personnel and contractor expenses as a result of increased production and development works. Total operating expenses also include transportation costs, which are re-invoiced to customers and thus have no impact on our bottom line.

Costs for energy consumed in coal mining declined by 14 per cent as a result of a 22 per cent fall in electricity prices, partially offset by an increase in electricity consumption of 4 per cent. Increased production drove up the number of shifts by 20 per cent and led to an increase in the number of contractors employed, resulting in a 30 per cent increase in contractors costs.

Although an agreement with the unions held our basic wages at the same level as in 2009, we delivered on our promise to share the success of our strong performance and paid a well-deserved summer and winter bonus to our mining employees. As a result, total personnel expenses increased by 2 per cent on a constant currency basis.

Mining unit cash cost rose by 4 per cent on a constant currency basis to EUR 71 per tonne as we intensified our development efforts at the end of 2009 and into 2010 with a view to returning to higher operational capacity. Previously postponed repairs to longwall equipment were completed, driving up maintenance costs and the inevitable additional costs of mining deeper in more demanding geological conditions added to the increased usage of mining material and equipment for the new longwalls.



## Business Review – Finance Director's Review continued

Unit cash costs for coke showed a very positive trend, declining 20 per cent on a constant currency basis, from EUR 84 per tonne in 2009 to EUR 70 per tonne in 2010. This decrease was mainly driven by the significant increase in production, up 19 per cent to 1.0Mt. We expect this trend to continue into 2011 as we reap the benefits of consolidating our coke production onto a single site.

### Capital expenditure ('CAPEX')

Total CAPEX in 2010 was 12 per cent below 2009 levels primarily as a result of the completion of the POP 2010 investment programme in 2009.

Our CAPEX for the year was EUR 221 million, including the final investment in the Productivity Optimisation Programme 2010 ('POP 2010') where we had negotiated deferred payment terms to help conserve cash in 2009. Significant productivity improvements from POP 2010 have fully vindicated our decision to continue investing during the downturn and we are now reaping the benefits of that investment.

The Coking Plant Optimisation Programme 2010 ('COP 2010') project was completed by the end of 2010. The concentration and modernisation of the coke works makes us a more cost efficient, environment friendly operation and gives us more flexibility to adapt to market demand by making it easier to switch between the production of blast furnace coke and foundry coke, adapting to market demand. There will be some on-going costs to decommission the Jan Šverma site and we are currently looking at the most efficient ways of completing this process.

### Exchange rates

The Czech Koruna/Euro exchange rate is the foreign exchange rate relevant for us, as our revenues and expenses are a mix of both currencies. The Czech Koruna has been volatile during 2010, strengthening towards the end of the year leading to an average exchange rate of CZK/EUR 25.28 and appreciating by 4 per cent during the year. We partially mitigate the effects of the currency fluctuation with our hedging policy, as we aim to cover approximately 70 per cent of our cash flow exposure with currency forwards. Whilst this policy will not change going forward, we will be changing the way we implement this to reflect the increasing move to quarterly pricing of our products.

### Cash flow

Cash flow in the period was strong, influenced by the positive dynamics of commodity pricing, increased revenues from coal and coke and a corporation tax rebate.

The net proceeds from the sale of NWR Energy a.s. to Dalkia Ceska republika a.s., which amounted to EUR 125 million, led to a further positive effect on net debt.

Net operating cash flow amounted to EUR 315 million in the year, up by EUR 139 million as compared with 2009. The significant reduction in our inventories also contributed to cash flow improvements (a EUR 30 million impact). At the same time, during 2010, there was a negative impact of EUR 66 million with respect to the increase in receivables. Our working capital is now back to normal levels.

### Dividends

As our financial performance improved, we re-instated dividend payments this year. We paid an interim dividend of EUR 0.21 per A share, and declared a final dividend of EUR 0.22 per A share adding up to total dividend for 2010 of EUR 0.43 per A share. This is in line with our dividend policy, to distribute 50 per cent of the Mining Division's consolidated annual net income over the course of the business cycle, which remains unchanged going forward.

### Liquidity and capital resources

During the year we significantly reduced our net debt by over a third to EUR 321 million, from EUR 486 million at the end of 2009. As of 31 December 2010, we held cash and cash equivalents of EUR 529 million.

We undertook a major balance sheet initiative in the spring of 2010, refinancing a package of senior secured bank facilities. We successfully placed EUR 500 million senior secured notes due in 2018 with 7.875 per cent coupon to repay the senior secured bank facilities supplemented by approximately EUR 181 million from cash resources.

Net operating cash flow

# €315m

We start 2011 in a strong financial position with a favourable environment in which to pursue our strategy.

This enabled us to defer our debt maturity, with our earliest bond maturity date in 2015. This timing is important as it gives us the necessary financing headroom in light of the high level of capital expenditure we expect over the next five years related to the development of Dębnieńsko. We were also able to take advantage of a strong credit market in the spring to lock in favourable terms. We had withdrawn a bond earlier in the year as spreads widened following worsening conditions in peripheral European economies, only returning to the market when conditions had improved. This demonstrates our ability to remain flexible and disciplined and move opportunistically to take advantage of favourable market conditions.

We have also strengthened our financial position by securing a EUR 100 million Senior Secured Revolving Credit Facility ('RCF') in the first quarter of 2011. The RCF will be available for three years after the date of signing and the proceeds will be used for general corporate purposes. Although we do not envisage drawing down in the near future, we are always aware that we operate in an industry, which can be unpredictable at times, making it prudent to have additional resources at our disposal if required.

#### Outlook

We start 2011 in a strong financial position with a favourable environment in which to pursue our strategy. However, we will continue to experience the general mining sector inflationary pressures as well as rising costs related to the increasing depths at which we mine. We also expect the Czech Koruna to continue strengthening during 2011, which will translate into higher headline costs.

For 2011, we have revised our CAPEX requirements in light of incremental development with a view to maintaining production volumes and mix, as well as ongoing provision for replacement and renewal of longwalls in particular. Additionally, we are also provisioning for higher safety-related CAPEX, especially as the underground environment becomes increasingly challenging. We believe that going forward our CAPEX requirements will be between EUR 200–225 million per annum. On the assumption that the Dębnieńsko project is signed off, a further EUR 50 million of CAPEX has been allocated for next steps in 2011.

Our plans for reincorporating in the United Kingdom during 2011 and thus becoming eligible for FTSE UK Series Index indices inclusion continue to progress. The reincorporation should give us increased exposure and further access to premium international capital markets.

We will also continue to pursue strategic opportunities in the region, underpinned by our financial strength and track record of successful operational performance and financial expertise.

#### Marek Jelínek

Executive Director and Chief Financial Officer

# RESP NSI

NAME: JAROSLAV PROVÁZEK  
JOB TITLE: CHIEF MECHANIC  
OPERATION: HBZS



# BLE

## SAFETY – AN ONGOING COMMITMENT TO ZERO HARM

**NWR successfully completed its SAFETY 2010 programme at the end of 2010. SAFETY 2010 entails the largest purchase of mining work equipment ever realised in the Czech Republic. This two-year project was primarily focused on replacing personal work wear and technical equipment with the latest innovations. The new equipment has not only improved safety but also general working conditions underground.**

As in other technological fields, advances in science allow equipment to become more compact and lighter. For example, the new underground mining lamps are now half the size and weight of their predecessors, which makes a noticeable difference to the miners on a daily basis. Thanks to the use of NiMh dry accumulators, the new lamps have enhanced safety.

Furthermore, as part of NWR's ongoing commitment to improving safety conditions, the Company has implemented stringent safety regulations, processes and monitoring systems at all its operations. Additionally, employees are encouraged to appreciate not only wider potential risks but also to have a greater sense of responsibility for their own safety and that of their colleagues. NWR runs several initiatives to promote a safer workplace, which are based on an improved dialogue between employees and senior staff in day-to-day operational life. These include 'suggestion boxes' for employees on ways to improve safety, working conditions and efficiency with the most viable ideas being rewarded.

As a result of the initiatives we have undertaken, the number of injuries at OKD, decreased by 22 per cent, from 346 injuries recorded in 2009 to 271 in 2010. Similarly, the LTIFR dropped from 12.00 to 9.13, exceeding the target set for 2010.

## Business Review – Principal Risks and Uncertainties

# PRINCIPAL RISKS AND UNCERTAINTIES

The risks outlined below have been identified as the principal risks and uncertainties for the Group which could have a financial, operational or reputational impact on the Group. Further information on our approach to risk management is provided in the Corporate Governance report on pages 52 to 70.

| Risk description   | Potential impact   | Mitigation   |
|--|--|--|
| <b>Economic environment</b><br>In 2010, the economies of Central and Eastern Europe ('CEE') began to recover from the turmoil of the financial and economic crisis of the previous year. However, the economic situation remains uncertain.                                      | Economic conditions globally and in the CEE region may have an adverse effect on demand for NWR's products and therefore on the Group's financial performance.   | We closely monitor economic developments, both local and global, to ensure that NWR is ready for appropriate action when necessary. We are in regular contact with our main suppliers and customers so that we can minimise the potential impact of negative economic conditions wherever possible. In addition, OKK Koksovny, a.s. ('OKK Koksovny') has constructed a new battery at Svoboda, which will enable us to respond more flexibly to changing economic conditions and demand by switching between production of foundry and blast furnace coke as appropriate.  |
| <b>Fluctuations in currency exchange rates and interest rates</b><br>Currency fluctuations may have a material effect on NWR's financial results due to our operations being exposed to a mixture of Czech Korunas and Euros whilst the Group reports its results only in Euros. | The mix of the Group's revenues and costs means that appreciation of the Czech Koruna against the Euro tends to result in an increase in costs that is more significant than the corresponding increase in revenues and as such will lead to a decline in the result of operations. As some of our development projects are located in Poland, changes in the exchange rate of the Polish Zloty may also adversely affect the results of our operations. In addition, as we may be affected by volatility in variable interest rates via our indebtedness, a significant increase in interest rates could negatively affect the Group's results. | We apply various financial instruments to minimise our exposure to currency fluctuation and interest rate volatility to acceptable levels, depending on the foreseeable time horizons of these exposures. With regard to currency fluctuation, the maximum time horizon is 12 months ahead as this generally matches the time horizon of the Group's expected revenues and costs. We aim to mitigate at least 70 per cent of our exposure to currency fluctuation. The maximum time horizon for financial instruments used to mitigate the exposure to interest rate volatility matches the contracted periods of NWR's indebtedness, as this ultimately determines the degree to which NWR is exposed to the volatility of floating interest rates. |
| <b>Price volatility</b><br>Price volatility may affect the Group in two ways:<br>1. A significant and rapid change in realised coking and thermal coal and coke prices and;<br>2. A significant increase in input costs.   | A reduction in the Group's earnings if:<br>1. Received prices do not enable the Group to meet its margins given the fixed elements of production costs; and<br>2. Increased input costs cannot effectively be passed on to customers.  | 1. We have long-term contracts in place with many of our customers, in which we negotiate prices on a regular basis. With regard to coking coal, in 2010, the majority of our coking coal sales were priced for the full Japanese Fiscal Year to reduce volatility.<br>2. We continue to have long-term business relationships with both our customers and key suppliers of our strategic commodities.   |
| <b>Customer base</b><br>A substantial proportion of the Group's sales volumes of coal is made to a small number of customers.  | A significant decrease in demand for NWR's products or the inability to collect payment from a customer could affect financial results and performance.  | We have long-term framework agreements with our main customers, expiring at various times until 2016. These agreements, as well as the annual and quarterly supply agreements, are reviewed and re-negotiated periodically, ensuring medium-term stability in sales levels and pricing of the Group's products. We closely monitor our customers' solvency to ensure their continued ability to honour their contracts.  |



## Risk description

### Employees

The Group needs to recruit, develop and retain sufficient skilled employees to meet its needs in maintaining or expanding production to ensure its competitive position.

## Potential impact

Operational inefficiencies and inability to fully capture growth.

## Mitigation

We are focused on attracting a younger workforce through a number of initiatives including liaison with local education institutes and programmes, setting up apprentice classes and hiring college graduates. The Group provides regular and comprehensive training for employees in conjunction with equipment manufacturers. Our remuneration policies include incentive arrangements which clearly link performance to bonus payments.

### Health and safety, and the Environment

NWR's operations in coal mining and coke production are subject to significant operating risks that could result in decreased coal production or have an undesired impact on health and safety or the environment we operate in. Failure to ensure/implement effective health and safety procedures or an inability to properly respond to health and safety incidents.

In case we cannot ensure a constant and positive performance in health and safety and minimise our impact on the environment, this can have an impact on operations, as well as our reputation. Thereby our ability to attract talent and investor support as well as the validity of the Group's licences to exploit its resources could be threatened.

Health and safety will always remain a top priority on NWR's agenda, both for our employees and for the environment in which the Group operates. The 'SAFETY 2010' project, completed by the end of 2010, involved significant investment in upgrading safety tools and equipment. Following on from SAFETY 2010, we have launched the 'PERSpective 2015 Programme' which focuses on improving safety KPIs as well as giving us the capability to further monitor safety performance and act appropriately and proactively on possible safety issues. The Group is also working on implementing new mining techniques and processes that will significantly decrease the likelihood of damage caused by our mining activities.

NWR continues to strive to minimise its impact on the environment by investing in state of the art technology, as well as developing and pursuing best practice operating processes. In cases where we cannot avoid some environmental impact, NWR continues to focus on rehabilitation of land affected by our activities. We are co-operating closely with regional and local organisations and governments to ensure appropriate and meaningful rehabilitation. An example of this is our investment of EUR 24.4 million in the 'Darkov sea' project, which will ultimately see the area restored to a recreational resort. During 2010, we closed down the operations at the Jan Šverma Coking Plant and are now working on the most appropriate way to dismantle all production facilities in an effort to minimise any potential impact on the environment.

### Regulatory change affecting licences and permits

Changes in laws and regulations at EU, national and local government level in the Czech Republic and Poland.

These factors could affect the Group's ability to obtain, keep and/or extend mining licenses and permits which could limit the Group in its growth or its existing production capacity.

We monitor political, regulatory and social risks and hold regular discussions with local, regional and national governments in the Czech Republic and Poland and monitor current and possible future regulations closely. During 2010, we cooperated with local and regional governments to develop sustainable development projects that are meaningful for both the region and the Group.

### Geological Conditions

Like all mining operations anywhere in the world, the Group's mining operations are subject to geological conditions. The Group's mines are among the deepest mines in CEE. They are currently ranging from approximately 600 to 1,100 metres deep but may in the future extend to a depth of 1,400 metres.

Worsening geological conditions as a result of deeper mining results in increased operational risk. Future production could be lower in terms of quality and quantity due to increased operational risk. Less production and/or a lesser quality of the coal produced will have a direct negative impact on the Group's financial results.

This risk is inherent to running a coal mining business in CEE and even though the Group uses some of the most advanced mining technology, and continuously monitors and analyses the geological conditions thoroughly, it is impossible to fully mitigate such risk.

### Future growth

Plans for future growth are based on developing and acquiring projects where success is dependent on a number of factors including: our capacity and resources, external relationships and project delivery and execution.

The inability to develop growth opportunities, which will constrain our ability to create long-term value for our shareholders.

NWR is developing two organic Polish projects (Dębienisko and Morcinek). We are currently progressing our project at Dębienisko having put together a world-class team that is undertaking a detailed feasibility study to eliminate much of the uncertainty and execution risk. We are also exploring and developing hard coal reserves in existing mining areas. In addition we have built a solid and stable foundation for our business, from which we are well positioned to take advantage of acquisition opportunities to strengthen our regional position.

## Corporate Social Responsibility

# OUR APPROACH

Corporate and social responsibility ('CSR') underpins NWR's entire operations.

### Strategy

Corporate responsibility and sustainable development are key elements of NWR's corporate strategy. The core areas of our CSR strategy are corporate governance, our employees, environmental protection, the application of modern technologies, and relationships with communities where NWR operates.

### Corporate Governance

NWR is committed to maintaining high standards of corporate governance, which takes into account international best practice requirements. Management's role is to promote the achievement of the corporate objectives and protect the interest of NWR Group, its shareholders and other stakeholders including business partners and customers.

### Our people

Caring for our employees across areas including safety, health care, a suitable working environment, fair remuneration and education, is a top priority. Every year NWR invests considerable amounts of time and money in improving safety measures implemented at our workplaces as well as in training our employees.

### Communities

NWR maintains close relationships with the communities in which we operate and aims to develop and maintain mutually beneficial partnerships. We also invest significantly in cultural, sports and educational activities wherever we operate.

### Environment

As a mining company, we are very aware of the impacts of our activities on the environment wherever we operate. NWR strives to employ all means available to optimise the benefits and mitigate any adverse environmental impacts of our operations.

### Health, Safety and Environment Committee ('HSEC')

The HSEC was established in 2007 to assist NWR's Board of Directors in its oversight of health, safety and environmental risks within NWR and its subsidiaries including the Group's compliance with applicable legal and regulatory requirements associated with HSE matters. Thus the HSEC provides the Board with additional focus, insight and guidance on key HSE issues of NWR Group and global trends. The members of the HSEC are: Paul Everard (Chairman), Mike Salamon, Klaus-Dieter Beck and Steven Schuit. The meetings are also regularly attended by Ján Fábian, Chief Operating Officer of NWR who is responsible for the operations of NWR KARBONIA S.A. ('NWR KARBONIA') and OKK Koksovny, a.s. ('OKK Koksovny'), and by two external experts, Stan Suboleski and Karl-Friedrich Jakob, both members of the Board of OKD, a.s. ('OKD').

Further details on functioning and activities of the HSEC may be found in the Corporate Governance section of this report on page 57.

### Sponsorship and Donation Committee ('SDC')

CSR activities are co-ordinated by the NWR SDC which was established by the Company's Board of Directors in 2009. Reporting to the Company's Board, the SDC has decision making powers in respect of collecting incoming applications for financial assistance, evaluating, assessing and adopting decisions on the applications received, in line with the CSR strategy and the budget, administering the approved projects, communicating with the applicants, and submitting annual reports on sponsored projects to the Board. The Committee meets at least once a year and more frequently as necessary. In the interim, the Committee assesses application requests.

### Sustainability Reporting

The extent of the CSR activities has outgrown the scope of the regular Annual Report. Thus, for the first time, NWR is publishing a separate CSR review which includes a comprehensive overview of these activities in 2010. In line with our aim to further develop our sustainability reporting, NWR intends to issue a sustainability overview annually, shortly after the release of the Annual Report and Accounts 2010.

### Our performance in 2010

In 2010, NWR continued to develop the core areas of its CSR strategy: Corporate Governance, Our people, Community, Environment. Our performance in each of these areas is outlined in more detail below.



Mine rescuer training at HBZS, OKD mining rescue service

## Our activities in detail

### Our people

At NWR, employee safety is a key priority, along with the provision of comprehensive health care, support for employees' education and fair compensation that stands well above the regional average.

#### 1. Safety

Safeguarding the health and promoting the safety of our workers is an integral part of our business. We have well-developed safety guidelines, processes and monitoring systems throughout our mines and coking plants. Every one of our employees is trained to be aware of risks and to take personal responsibility for their own safety and that of their fellow workers.

#### Safety investments

Our safety record is comparable to international industry standards and we are constantly striving to improve it.

NWR's dedicated safety investment programme, 'SAFETY 2010', has seen EUR 17 million invested in improving health and safety across our mining operations, including upgrading equipment for our miners with the aim of providing each miner with new and better equipment by the end of 2010. As a result, more powerful, lighter lamps, stronger boots, clothing with reflective strips and the latest self-rescue devices were issued to every miner.

#### Results of our investments

Our constant efforts to improve safety, our

focus on accident prevention and our investment in new mining technologies, protective aids and equipment have delivered encouraging results. Over 2010, the Lost Time Injury Frequency Rate ('LTIFR')<sup>1</sup> has dropped by 24 per cent at our mining operations compared to 2009, from 12.00 to 9.13 respectively.

The cutting edge technology installed across our mines within the EUR 350 million Productivity Optimisation Programme 2010 ('POP 2010') has also had a direct impact on improved health and safety.

#### Mining Rescue Service – OKD, HBZS, a.s.

The main role of OKD, HBZS is to provide mining rescue services across all OKD's mines. As well as responding rapidly and efficiently whenever required to deal with any incidents on site, including saving lives and providing first aid underground, the Mining Rescue Service is also on hand to assist the civic emergency services in responding to incidents involving the general public.

#### Continuous Improvement

Under the Continuous Improvement Programme employees are invited to submit suggestions on ways to improve safety, working conditions and efficiency. Each successful suggestion earns the employee responsible a 1,000 Czech Koruna award, with additional incentives once the proposal has been implemented and benefits recognised. In 2010, more than 1,075 suggestions were submitted, of which 742 were implemented by the Company.

## Corporate Social Responsibility continued



MFK OKD Karvina Football Club

### 2. Care for our employees' health

We care about our employees' health and quality of life. All employees receive periodical medical check-ups. Also, employees at certain mining operations of our OKD subsidiary are entitled to reconditioning stays and rehabilitation care. Children of employees can obtain contributions towards medical assistance. NWR also contributes to premium health care for active as well as retired miners. The Company foundation regularly contributes towards new diagnostic equipment for hospitals via grants. Preventative care in the area of employees' health is also a major commitment at our OKK Koksovny subsidiary.

### 3. Fair rewards and holidays

NWR maintains a constructive relationship with our employees and the trade unions. The Company believes that remuneration should correspond to work levels and market conditions. The average wage of NWR's mining operations employees exceeds the regional average by nearly 50 per cent.

All employees are entitled to five weeks holiday per year. Mining operation workers are additionally rewarded for their demanding work with an extra week of leisure.

We provide our employees with financial contributions for holidays and Christmas, for recreational activities for their children and covering transport costs. Furthermore, NWR sponsors the children of its employees via scholarships at carefully selected schools in the region.

### 4. Leisure time

NWR's care for its employees also extends to their leisure time. Employees receive vouchers for sports, cultural activities, medical needs, wellbeing and so forth, varying according to the number of years worked for the Company. The Company also supplies transportation for employees travelling to specific operations of the Company.

### 5. Everyday communication with employees

OKD has developed an Intranet interface with easy access to information for its employees as well as English, Czech and Polish language versions of the Company's website.

### 6. Training and development

As one of the largest private sector employers in Central Eastern Europe, NWR is wholly committed to improving the skills of our workers and to helping them develop their full potential. NWR provides several different types of training for employees at our own training centre.

#### OKD

OKD provides several different types of training for employees at its OKD Central Training Centre. The center serves all our miners in the Karviná region, as well as contracted staff working for OKD.

## Social responsibility in action at NWR

### Q If you were to sum up the key principles on which your corporate social responsibility is based, what would they be?

**A** If we are to describe our approach to corporate social responsibility, we need to start from the nature of the operations our Company is engaged in. By its nature, the extraction of any type of mineral resource has some effect on the natural environment and landscape. In addition, many historical stereotypes in the perception of coal mining still persist, particularly those concerned with environmental pollution. As a result, sustainability has to be the guiding principle for all of us who work in the mining industry. In the areas where we mine coal, our Company has been active in various forms for more than 100 years and we wish to continue pursuing our activities here into the future. If we want to offer the residents of the areas we operate in the prospect of not only long-term employment but also quality of life over the next several decades, then all the steps we take and the investments we make must be governed by the idea of sustainability. That is our fundamental challenge and it is on this that we base our policy of corporate social responsibility.

Petra Mašíňová, Head of Corporate Communications

### Q The core of your activities revolve around your corporate foundation. Why have you opted for this particular model?

**A** The OKD Foundation, created three years ago, is a truly significant pillar of our corporate responsibility, but it is certainly not the only one – there are also projects for increasing occupational safety, employee care and educational support as well as other initiatives. If we talk about the motives for establishing the Foundation, we should go back a few years in our history. NWR's management and shareholders wanted to return a designated portion of the Company's income back into the region in which it operates. The idea was to create a model for resources distribution that would meet the requirements of complete transparency. And a corporate foundation, with four clearly defined grant programmes and a fixed cycle of grant-awarding rounds, best fitted these requirements. The public clearly knows in advance what areas the Foundation aims to channel its resources into, and everyone knows when and under what conditions they can apply for grants. An assessment of the submitted projects is performed in accordance with completely transparent criteria by a panel of publicly selected administrators recruited from respected non-profit organisations from all over the country. And finally, the Foundation provides a continuous stream of information on the actual allocation and use of the resources on its website, in its Annual Report and through other channels.

### Q You mentioned other areas of interest: safety, employees...

**A** At the very beginning, we defined the goal of becoming a model corporate citizen. That, in our opinion, requires not only a comprehensible and transparent programme of corporate philanthropy, but also other equally significant principles of conduct. The relationship with our employees reflects our dedication to creating a safe and healthy working environment for both our employees and their families. This approach includes ensuring safe and adequate working conditions, fair remuneration and open dealings with our employees. We invest considerable resources greatly exceeding the statutory requirement in improving the safety of our operations each year. We consider this to be a matter of course. We have completed a major replacement of the working and protective gear for all those who work underground, increasing not only the level of safety, but also the level of comfort during work. The new state of the art equipment is fully comparable to that used in the most modern mines worldwide. The nature of the mining work is also gradually changing with the introduction of highly automated technology underground.

### Q Why have you not previously released a standard corporate social responsibility report?

**A** We wanted to avoid approaching our CSR policy in a formal manner right at the very beginning. We were more concerned with first starting specific projects, which we considered necessary. Only after that did we wish to present the projects to the public. That is why it is only this year that we are stepping forward with a CSR report. But future reports will be more extensive – we are preparing for regular comprehensive CSR reporting and plan to fully implement it starting from next year.

### Q What was the highlight of 2010 for you?

**A** That would undoubtedly be the great recognition achieved in the Top Philanthropist 2010 ranking, a contest that provides the most prestigious acknowledgement in the field of corporate philanthropy in the Czech Republic. We placed second, which we consider to be an outstanding result given our still rather brief history of sponsorship and donations.





## Corporate Social Responsibility continued

All companies within the NWR Group provide long-term support to employment in the regions in which they operate. Although the desire to work in heavy industry among young people is in decline, this trend can be reversed. Our approach also aims to increase positive perceptions of a career in the industry.

In 2010, a total of 20,605 employees completed training in separate modules, with training time amounting to 17.3 hours per person; 2,409 employees completed the initial training, 4,620 qualifying, re-qualifying, and special courses, and 13,576 regular occupational health and safety training.

OKD has renewed its collaboration with the Vocational School of Technology and Services in Karviná, supporting the introduction of a new three-year curriculum to train mining operation specialists, such as mining electricians and locksmiths.

The families of our workers are also included in the programme. For instance OKD's Academy project, designed to support children in their studies at high school and university maintaining the traditions of the mining profession and transferring experience from generation to generation.

### OKK Koksovny

OKK Koksovny is participating in drawing up a new secondary school curriculum in the Czech Republic for students majoring in coke production technologies. The new curriculum will be integrated into the study of metallurgy, and offered to students by the Secondary Technical School in Frýdek-Místek.

All companies within the NWR Group provide long-term support to employment in the regions in which they operate. Although the desire to work in heavy industry among young people is in decline, this trend can be reversed. Our approach also aims to increase positive perceptions of a career in the industry.

### 7. Respect for traditions

Every year a traditional mining festival is organised by OKD. The festival is attended by thousands of people who come, both to have fun and, at the same time, to pay tribute to the demanding but rewarding mining profession. The celebration is dedicated to our employees and their families, but the general public are also welcome.

### Community

The long-term development of NWR's business undertakings requires maintaining positive relationships with local communities based on mutually beneficial partnerships. 2010 saw NWR continue to pursue CSR in the two essential fields of donations and sponsorships.

### Donations

#### OKD Foundation

In 2010, NWR donated EUR 250,000 to the OKD Foundation.

The OKD Foundation, a charitable organisation established by OKD in 2008, has rapidly become a well respected leader in the not-for-profit sector and has supported almost 800 public benefit projects to date through the following key programmes:

- > For Health – social and health care projects.
- > For Joy – cultural and educational projects.
- > For the Future – development of the region and environment.
- > For Europe – help for non-profit-making organisations in obtaining support from EU funds.

One of the projects supported was the civic association 'Filadelfie', which received the OKD Foundation prize in the 'For Health' category in 2010 in recognition of its project to place children from children's homes with surrogate families. The association supports foster care by providing new housing for families that take in several children. The fundamental principle of the association is that children belong in families, not institutions. The award-winning project 'Children Belong in a Family' led to the construction of a seven-room house in the Karpentná quarter of the town of Trinec. The applicants received CZK 1 million from the OKD Foundation fund.

#### St. Barbara Civic Association

NWR donated a further EUR 20,000 to St. Barbara Civic Association.

In addition to the OKD foundation, NWR also directly supports the St. Barbara Civic Association, which helps children who have lost a parent through a mining accident.

The Association was set up by OKD and currently cares for 87 Czech, Polish and Slovak children, supporting their education, health and leisure time by providing them with the finance for a wide range of needs including school fees, accommodation at halls of residence or school hostels, learning aids, language courses, driving lessons, artistic and hobby activities and health care for both the miners' children and their widows.

### Sponsoring

In 2010 NWR supported various sponsorship projects, with a total contribution of EUR 153,126.



Rehabilitation project – Lazy settling reservoirs in Karviná

NWR's 2010 sponsorship activities focused on encouraging public discussion on the best utilisation of natural resources in the Czech Republic and Poland. This included support for several specialised conferences. The Company also provided financial support for numerous cultural and sporting activities as well as for regular meetings of entrepreneurs in the Czech Republic.

The Group continued to provide its longstanding support to various sports clubs, and cultural and educational events organised in the Moravian-Silesian region of the Czech Republic. The Company has also provided financial support for an independent festival of modern art.

### Environment

NWR constantly strives to minimise the impact of its operations on the environment in the regions where it operates.

#### 1. Rehabilitation

NWR maintained this approach in 2010 when it further pursued activities including the rehabilitation of landscape affected by its mining activities and processing of coal mining by-products and waste materials.

In 2010, OKD continued its intensive rehabilitation and restoration projects in the Karviná region, which currently cover 55 sites simultaneously. The 'Darkov Sea' project, the

largest project of its kind in Moravia, covering 145 hectares, is nearing completion (estimated in 2014). The investment in this rehabilitation project has exceeded EUR 24.4 million to date and ultimately should see the area restored to a recreational resort. The area is now covered by a lake, with wildlife already returning to the clean waters and its future as a sports and recreation area is assured.

#### 2. Waste management

NWR minimises the impact of waste from its operations.

OKD maintains waste disposal storage sites for waste rock and also sells a portion of waste rock for local use in road building and construction. It also cooperates with Green Gas International B.V. ('GGI'), a company specialising in methane extraction, to purchase superfluous gas from our mines. In 2010 GGI purchased more than 60mm<sup>3</sup> of methane from OKD.

OKK Kokšovny's waste management strategy mainly addresses reduction in the amount of waste production, waste separation and safe disposal from its coking operations.

#### 3. Emissions

OKK Kokšovny permanently monitors carbon dioxide emissions and progressively improves emission monitoring methods.

The newly built coke battery at the Svoboda coking plant in Ostrava, which was a key part of the Coking Plant Optimisation Programme 2010 ('COP 2010') capital investment programme, is fitted with the latest technologies for capturing air pollutants resulting from the coke production process.

## Corporate Governance

### Approach to corporate governance at NWR

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

The Company has announced its intention to re-incorporate in the United Kingdom during the first half of 2011, subject to regulatory clearances. The Company believes that this should allow FTSE UK Series Index eligibility, raising the profile of the Group with international investors and further demonstrating the Group's commitment to the high governance and control standards according to which it operates its business.



**Ivona Ročárková**  
Company Secretary

## Highlights 2010

- > Board evaluation review concluded that considerable progress had been made since the first external evaluation in 2009.
- > Marked improvement in communications between the Board and its Committees.
- > Launch of a new Remuneration Policy for the Board and implementation of a new remuneration plan across NWR Group.
- > Ongoing review of Group-wide risks and adoption of a Group Risk Management Policy.
- > Improvement of the structure and content of Board meetings to increase the focus and time spent on strategic matters.
- > Two-day strategy meeting of the Board including a site visit to the Czech operations.
- > Improvement to the Whistleblower Procedure applied at OKD, a.s. ('OKD'), meaning that complaints are now dealt with by an independent internal committee, to increase employees' trust in the system.

## Board of Directors and Senior Management



During 2010 there were seven Board meetings (plus a strategy meeting) and the below table outlines the attendance record:

|                    |   |
|--------------------|---|
| Mike Salamon       | 8 |
| Marek Jelínek      | 8 |
| Klaus-Dieter Beck  | 8 |
| Zdeněk Bakala      | 8 |
| Peter Kadas        | 8 |
| Hans Mende         | 6 |
| Pavel Telička      | 7 |
| Kostyantín Zhevago | 7 |
| Bessel Kok         | 8 |
| Hans-Jörg Rudloff  | 6 |
| Steven Schuit      | 7 |
| Paul Everard       | 8 |
| Barry Rourke       | 8 |

### 1. Mike Salamon

#### Executive Chairman of the Board, NWR

Mike Salamon was appointed a Director and Executive Chairman of NWR on 1 September 2007. Mr. Salamon also serves as a non-executive member of the board of directors of OKD, a.s. ('OKD'), co-president of AMCI Capital and non-executive director of Central Rand Gold, Gem Diamonds and Ferrexpo plc. He has extensive knowledge of the international mining and extractive industries. His career spans more than 30 years, the latter part of which was spent with BHP Billiton, the world's largest diversified resources company.

Between 2003 and 2006, Mr. Salamon served as an executive director of BHP Billiton with responsibilities for the aluminium, copper and nickel businesses. From 2001 to 2006, he also chaired BHP Billiton's operating committee which was accountable for inter alia the BHP Billiton group's health, safety and environment, projects, purchasing and operating excellence. In 2001, Mr. Salamon oversaw the merger integration of Billiton plc and BHP Limited. He was a co-founding director of Billiton plc in 1997, and oversaw the Company's listing on the London Stock Exchange in 1997. Between 1985 and 1997, Mr. Salamon worked for Gencor Ltd, initially as marketing manager for coal. In 1989, he was appointed managing director of

Gencor Ltd's coal business, Trans-Natal Coal Corporation, and was then appointed director of Gencor Ltd from 1993 to 1997. During this time, he was also executive chairman of Samancor Ltd and Chairman of Columbus Stainless Steel. Previously, Mr. Salamon was with the coal division of Shell Group in various capacities between 1981 and 1985. Prior to that, he worked for the Anglo-American group, both in the Gold Division and at De Beers in trainee and junior management capacities. He commenced working for De Beers directly after graduation. Mr. Salamon graduated in 1975 from The University of the Witwatersrand, Johannesburg with a degree in Mining Engineering (Cum Laude) and obtained an MBA from the London Business School, University of London in 1981. (British, 14 April 1955)

### 2. Klaus-Dieter Beck

#### Executive Director of NWR, Chief Executive Officer of OKD

Klaus-Dieter Beck is a Director of NWR and was appointed on 12 June 2007. He has served as CEO and chairman of the board of directors of OKD since 1 July 2007. Mr. Beck also served as a member of the board of directors of OKK Koksovny a.s. ('OKK Koksovny') from 9 February 2009 to November 2010. Prior to joining OKD, he was senior vice-president for planning and engineering at Foundation Coal Holdings, Inc. (German, 8 March 1955)



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### 3. Marek Jelínek

#### Executive Director and Chief Financial Officer of NWR

Marek Jelínek is a Director of NWR and was appointed on 6 March 2007. A member of the board of directors of OKD since his appointment on 1 November 2007. Since March 2007, he has been Chief Financial Officer of NWR and, in such capacity, is responsible for the restructuring activities within the NWR Group, the build up of NWR's headquarters team, including the Group-wide finance and treasury functions. In 2007 and 2008, Mr. Jelínek led the Group's bond issue and the successful Initial Public Offering in London, Prague and Warsaw. Since March 2009 to March 2010, Mr. Jelínek was 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)

### 4. Zdeněk Bakala

#### Vice-Chairman and Non-Independent Non-Executive Director

Zdeněk Bakala is a Director of NWR and was appointed on 15 August 2006. Mr. Bakala was appointed as Vice-Chairman of NWR's Board on 22 October 2007. 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, Czech publishing house, and is acting as a vice-chairman of the board. Mr. Bakala was also a member of the supervisory board of the Prague Stock Exchange from 2005 to 2010. In 1994, he founded Patria Finance, a Prague based investment banking boutique in the Czech Republic, which was sold to KBC, a Belgian banking group, in 2001.

Between 1990 and 1994, Mr. Bakala worked as head of the Czech desk for Credit Suisse First Boston and was responsible for establishing a branch office 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 an A.B. degree (with honours) in Economics, and obtained a Master of Business Administration degree from the Amos Tuck School of Business Administration, Dartmouth College USA, in 1989. (Czech, 7 February 1961)

### 5. Peter Kadas

#### Vice-Chairman and Non-Independent Non-Executive Director

Peter Kadas was appointed as a Director of NWR in August 2006. He is also Vice-Chairman of NWR from 2007. 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, management committee of Renaissance Capital, and vice-chairman of the board of directors of České radiokomunikace.

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

### 6. Hans Jürgen Mende

#### Non-Independent Non-Executive Director

Hans Jürgen Mende is a Director of NWR and was appointed on 15 August 2006. Mr. Mende is president of the AMCI Group since he co-founded the company in 1986. Mr. Mende has served as a chairman of the board of directors of ANR Holdings from 2003 to 2005.

Mr. Mende is currently a member of the board of directors of Excel Maritime Inc. (Nasdaq-US), Whitehaven Coal Co. and White Energy (ASX-Australia), and MMX in Brazil, all publicly traded entities. Mr. Mende was born in Lovosice, Czech Republic in 1944, was educated in Germany and the US. (German, 13 March 1944)

### 7. Pavel Telička

#### Non-Independent Non-Executive Director

Pavel Telička is a Director of NWR and was appointed on 11 September 2007. 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 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 EC 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 as 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)

## Board of Directors and Senior Management continued



### 8. Kostyantyn Zhevago

#### Non-Independent Non-Executive Director

Kostyantyn Zhevago was appointed a Director of NWR on 28 April 2009. 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

#### Senior Independent Director

Bessel Kok is a Director of NWR and was appointed on 11 September 2007. He has served as chairman of Astelit/LIFE since 2005. From 1995 to 2004, he was vice-chairman and chief operating officer

of Český Telecom (now Telefonica/02) in the Czech Republic. In the same years, he also served as chairman of the board of directors of Eurotel.

Mr. Kok was President of Belgacom from 1989 to the end of 1994 and oversaw its privatisation. 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

#### Independent Director

Steven Schuit is a Director of NWR and was appointed on 20 November 2007. He is also currently a part-time professor of International Commercial and Financial Law at Utrecht University and a part-time professor of Corporate Governance and Responsibility at the Strategy Center of Nyenrode Business University. He is currently a member of the supervisory board of ZBG Capital N.V., Breevast B.V. and of Sahara B.V. and Chairman of Stichting Giving Back. He is currently 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. 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 Independent Director

Paul Everard is a Director of NWR and was appointed on 20 November 2007. Between 2001 and 2005, when he retired, 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, HSE, 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, and has an MA in Mechanical Sciences. He completed the Advanced Management Program at Harvard Business School in 1979. (British, 6 May 1940)

### 12. Barry Rourke Independent Director

Barry Rourke is a Director of NWR and was appointed on 20 November 2007. He served as an audit partner at PricewaterhouseCoopers from 1984 until 2001. Mr. Rourke is currently director and chairman of the audit committee of 3Legs Resources plc, 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, and is a non-executive director at Avocet Mining plc and Ruukki Group plc. 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 Independent Director

Hans-Jörg Rudloff is a Director of NWR and was appointed on 11 September 2007. 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 1995, having previously served as vice-president since 1983 and managing director from 1980 to 1983. He was also a member of the executive board for Credit Suisse, Zurich from 1986 and both Credit Suisse Holding & Credit Suisse First Boston Group Inc. from 1990 to 1995. Between 1968 and 1980, Mr. Rudloff served at Kidder Peabody International, where he became chairman in 1978, having previously served as managing

director. In 1980, he was also nominated to the board of Kidder Peabody Inc. New York. Mr. Rudloff is currently chairman of the audit committee for Rosneft, a position he has held since 2006. Mr. Rudloff has also served as chairman of ICMA since 2005 and Bluebay Asset Management plc since 2001. He was vice-chairman, member of the audit committee and head of the compensation committee of Novartis from 1996 until 2011 and chairman of Bluebay Asset Management Ltd from 2001 to 2011. Mr. Rudloff also serves as chairman to ICMA since 2005. He has also been a board member of Thyssen Bornemisza Group since 1995, Ros Business Consulting since 2002, ABD Capital SA since 2003, Energie Baden-Württemberg since 2000 and Landeskreditbank Baden-Württemberg 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 in 1965 with a degree in Economics. (German, 11 October 1940)

### 14. Ján Fabián Chief Operating Officer

Ján Fabián was appointed Chief Operating Officer of NWR in November 2008. As part of his position, he has overall responsibility for the operations of OKK Koksovny and the Polish business operations of NWR KARBONIA S.A. ('NWR KARBONIA'). Mr. Fabián also serves as vice-chairman of the board of directors of OKD where he oversees the strategic planning and organisational development of OKD.

Prior to joining NWR, Mr. Fabián was advising companies from the energy sector, resources, steel, machinery and automotive industries. Major areas of focus included turn-around, privatisation, restructuring and process optimisation strategies. He graduated from the Technical University in Košice, Slovakia in 1988 with a degree in mining and gained a PhD in production optimisation for the underground mining from the Technical University in Berlin in 1998. (Slovak, 2 May 1966)

## Corporate Governance

### 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, Mike Salamon. As at 31 December 2010, the Board had 13 members in total. Of these, three were Executive Directors and five were Independent Non-Executive Directors. Non-Executive Directors assist in developing NWR's strategy and also monitor the performance of Executive Directors and Group management. Non-Executive Directors are also responsible for proposing appropriate levels of remuneration of Executive Directors and 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.

The Chief Financial Officer of NWR, Marek Jelínek, has been delegated authority to achieve the corporate objectives of NWR Group. 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.

Klaus-Dieter Beck, Chief Executive Officer of OKD, a.s. ('OKD') and Chairman of OKD's Board of Directors is responsible for the operation of OKD. Ján Fabián, NWR's Chief Operating Officer has the overall responsibility for OKK Koksovny and NWR KARBONIA. They both report to NWR's Board.

#### 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 and other stakeholders. Matters specifically reserved for the Board's decision 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, Divisional Policy Statements, Share Dealing Code, the terms of reference of the Board's committees, etc.);
- > determination of the annual remuneration of Executive and Non-Executive Directors within the scope of the Remuneration Policy and adoption of the Group's compensation plan;
- > review of the financial and Annual Reports; and
- > approval of major transactions, including acquisitions, by NWR and its subsidiaries.

Decisions of the Board regarding a major change in the identity or character of the Company or the enterprise shall be subject to the approval of the General Meeting of Shareholders. In particular, shareholders would need to approve:

- > transfer of the business or the majority business of NWR to a third party;
- > conclusion or cancellation of any long-lasting cooperation by NWR or a subsidiary with any other legal person if such cooperation is of essential importance to NWR; and
- > acquisition or disposal of a participating interest in the capital of NWR with a value of at least one-third of the sum of the assets according to the consolidated balance sheet of the last adopted annual accounts of NWR, by NWR or a subsidiary.

In addition, pursuant to the Listing Rules, shareholders need to approve certain other significant transactions.

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 58).

#### Main activities of the Board in 2010

The Board holds scheduled meetings regularly during the year and meets on an ad hoc basis as required. In 2010, the Board met seven times and also held a special two-day strategic meeting, which included a site visit to our Czech operations.

At its strategy meeting, the Board discussed the strategy, business development and critical issues of NWR Group. Topics for discussion included a long-term outlook for the global and regional coal markets as well as a long-term vision for the coking industry. The Board also considered the strategic opportunities open to the Group to pursue future growth. Directors visited the Company's operations, namely the Lazy site of the Karviná Mine IOU and the Svoboda coking battery at OKK Koksovny. It was agreed that the two-day event had been extremely useful and that it will now take place on an annual basis.

In line with its strategic investment plans to expand the Group's activities and its reserve base, the Board considered and approved a tender offer to acquire all of the issued and outstanding shares of a Polish mining company Lubelski Węgiel 'BOGDANKA' S.A. ('Bogdanka'). As announced closer to the year-end, the offer lapsed due to the acceptance threshold of 75 per cent of Bogdanka's issued share capital not being met and NWR refusing to increase its offer. NWR's decision not to proceed with the transaction demonstrates the Company's determination to maintain strict financial discipline.

NWR remains thoroughly committed to its development projects and investments in Poland. The Board therefore adopted a project execution strategy and established a Project Executive Committee to complete a definitive feasibility study for Dębiesko.

Further, in line with NWR's strategy of focusing on its core activities of coal mining and coke production, the Board approved the final terms of the sale of the Group's energy assets to a third party.

The Board also reviewed the annual remuneration of the Executive and Non-Executive Directors. Further to the Directors' request raised during the 2009 evaluation process to align executive remuneration with industry best practice, the Board approved, upon a proposal of the Remuneration Committee, the rules of a new share-based incentive plan for the Executive Directors and senior and key

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employees of the Group (the 'Deferred Bonus Plan'), which applies from January 2011. Subsequently, the Board proposed an amendment to the Remuneration Policy of the Board, which was adopted by the Annual General Meeting of Shareholders in April 2010, and approved a Compensation Manual describing the Group-wide remuneration principles. Due to the implementation of the Deferred Bonus Plan, the Board decided to discontinue the Company's Stock Option Plan as per 31 December 2010. A full description of the changes in remuneration and other relevant information can be found in the 'Remuneration Report' on page 72.

In the area of corporate governance, the Board adopted a Group Risk Management Policy, which sets out objectives of risk management within NWR Group, risk evaluation, documentation and reporting processes. The Board also proposed an amendment to the Articles of Association to reflect the changes in the organisation since the Initial Public Offering in May 2008 and clarify certain provisions. The amendment was adopted by the Annual General Meeting of Shareholders in April 2010.

The Board also approved an amendment to the charter of the Health, Safety and Environment Committee, reflecting the committee's new role in terms of reviewing sustainability reports and taking responsibility for the HSE components of the reports.

### Attendance at Board and committee meetings

There are five committees of the Board: the Audit and Risk Management Committee; the Remuneration Committee; the Finance and Investment Committee; the Health, Safety and Environment Committee; and the Real Estate 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. A description of the activities of the committees during 2010 is included in separate reports of the committees.

|                    | Board meetings<br>(7 plus strategy<br>meeting) | Audit and Risk<br>Management<br>Committee (5) | Remuneration<br>Committee (5) | Finance and Investment<br>Committee (7) | Health, Safety and<br>Environment Committee<br>(3) | Real Estate Committee<br>(6) |
|--------------------|--|---|-------------------------------|---|--|------------------------------|
| Mike Salamon       | 8  | –   | –                             | Member (7/7)                            | Member (3/3)                                       | –                            |
| Marek Jelínek      | 8  | –   | –                             | Member (7/7)                            | –  | –                            |
| Klaus-Dieter Beck  | 8  | –   | –                             | –                                       | Member (3/3)                                       | –                            |
| Zdeněk Bakala      | 8  | –   | Chairman (5/5)                | Member (7/7)                            | –  | –                            |
| Peter Kadas        | 8  | –   | –                             | Chairman (7/7)                          | –  | –                            |
| Hans Mende         | 6  | –   | –                             | –                                       | –  | –                            |
| Pavel Telička      | 7  | –   | –                             | –                                       | –  | –                            |
| Kostyantín Zhevago | 7  | –   | –                             | –                                       | –  | –                            |
| Bessel Kok         | 8  | Chairman (5/5)                                | Member (5/5)                  | –                                       | –  | –                            |
| Hans-Jörg Rudloff  | 6  | Member (5/4)                                  | Member (5/4)                  | –                                       | –  | –                            |
| Steven Schuit      | 7  | Member (5/5)                                  | –                             | –                                       | Member (3/3)                                       | Member (6/6)                 |
| Paul Everard       | 8  | –   | –                             | –                                       | Chairman (3/3)                                     | Member (6/6)                 |
| Barry Rourke       | 8  | Member (5/5)                                  | –                             | –                                       | –  | Chairman (6/6)               |

Terms of reference of each committee can be found on NWR's website at [www.newworldresources.eu](http://www.newworldresources.eu).

The Board has also established the Sponsorship and Donations Committee to consolidate the donor and sponsorship activities of NWR Group. The committee comprises of the Senior Independent Director and employees of the Group responsible for this area. In 2010, the committee met once and the meeting was attended by all its members but one.

### Non-Executive Directors

Dutch law currently only provides for a two-tier governance structure, i.e. a management board and a separate supervisory board. It is, however, established practice in the Netherlands to have a board structure similar to a one-tier structure. Although in such cases all members of the Board of Directors are formally directors, the articles of association of the relevant company may provide that certain directors have tasks and obligations, which are similar to those of executive directors and that other directors have tasks and obligations which are similar to those of non-executive directors.

In addition to their attendance at Board and, as appropriate, committee meetings, the Non-Executive Directors also met once during 2010 – 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.

### 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.



## Corporate Governance continued

### Director appointment and reappointment

In compliance with the Articles of Association of NWR, the Annual General Meeting of Shareholders (the 'AGM') appoints Directors based on the binding proposal of the Board. While no Director has been appointed by holders of B shares, the B shareholders have the right to nominate one Director pursuant to the Articles of Association. Such proposals must include the names of at least two candidates as well as an indication of whether the Director proposed is to be an Executive or a Non-Executive Director. In the event the Board or the holders of B shares, as the case may be, have not made or have not made in time a binding nomination, the AGM may appoint a Director at its discretion.

The AGM may at all times overrule the binding nature of a proposal by resolution adopted with an absolute majority of the votes cast representing at least one-third of the issued share capital. If an absolute majority of the votes cast is in favour of the resolution to overrule the binding nature of a proposal, but such majority does not represent at least one-third of the issued share capital, a second meeting may be convened at which the resolution may be passed by an absolute majority of the votes cast, regardless of the portion of the issued share capital that this majority represents. If a binding proposal has been overruled by the AGM, the AGM may appoint a Director at its discretion.

The Directors may be suspended or dismissed at any time by the AGM. Directors are appointed for a term of four years and retiring Directors are eligible for reappointment. The AGM held in April 2010 approved the Board's proposal to reappoint Mr. Bakala, Mr. Kadas and Mr. Mende for a second term since they had served as Directors since 2006. The Board will propose reappointment of Mr. Beck, Mr. Telička, Mr. Rudloff and Mr. Kok for a second term at the AGM in 2011 since they have served as Directors since 2007. A Director may be appointed for a maximum of three four-year terms. NWR has adopted a retirement scheme for Directors in order to prevent the simultaneous departure of more than one-third of its Directors; details of this scheme may be found on NWR's website. Reappointment is not automatic and the Board will not endorse a Director for reappointment if his performance is not considered satisfactory. Retiring Directors who are seeking reappointment by shareholders are subject to a performance appraisal.

### 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 environmental issues. The Board believes that this complies with best practice provisions III.3.2 of the Dutch Corporate Governance Code. Full biographical details for each Director are given on pages 48 to 51.

### Information and professional development

Directors receive a tailored induction 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 the normal management reporting process. They also have access to training and seminars in respect of their duties as Board members.

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 2010.

### Company Secretary

The Board has appointed Ivona Ročárková to act as Company Secretary. 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 conducted the first external evaluation of its effectiveness in 2009. The internal evaluation process conducted by the Company Secretary in 2010 and confirmed by the Board concluded that the vast majority of the Directors' concerns raised in 2009 had been addressed. The request to extend strategic discussions and Board's induction was partly addressed at the special two-day strategy meeting. The call for a systemisation of executive remuneration was fully satisfied by implementing the Deferred Bonus Plan, the rules of which are well defined, understood and adopted by all Group entities. The budget setting process and succession planning for key executives were recognised as areas that will acquire special attention in 2011.

### Audit and Risk Management Committee ('ARMC') report ARMC members

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

- > Bessel Kok (Chairman and Senior Independent Director)
- > Hans-Jörg Rudloff
- > Barry Rourke
- > Steven Schuit

The Board has determined that ARMC members 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:

- > ensuring the integrity of consolidated financial statements and consolidated accounts;
- > advising the Board on audit, accounting and financial disclosure matters regarding the Real Estate Division of NWR;
- > reviewing with the Board and auditors the integrity of the financial statements and other formal announcements relating to NWR's financial performance;
- > overseeing the process for selecting the external auditor and making recommendations to the Board on the appointment, dismissal, terms of engagement and fees of the external auditor;
- > assessing the external auditor's effectiveness, independence and objectivity, and the provision of non-audit services;
- > reviewing the annual audit plan and reports by the external auditor on internal control systems and procedures;
- > making recommendations to the Board on the appointment and dismissal of the internal auditor of NWR, reviewing the remit of the Group internal audit and the annual audit plan, and ensuring that the internal audit function is adequately resourced;
- > reviewing the effectiveness of the systems for internal control, compliance, budgeting, forecasting and financial reporting of the

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NWR Group and procedures for identifying strategic and business risks;

- > reviewing compliance issues and advising the Board on conflicts of interests, related party transactions and loans to Directors; and
- > monitoring the effectiveness of the Whistleblower Procedures within the NWR Group.

#### Activities undertaken during the year

In 2010, the ARMC met five times. NWR's Chief Financial Officer, the Group's internal auditor and the external audit partners observed all meetings of the ARMC. On one occasion, the Chairman of the Audit Committee of OKD and OKD's internal auditor were invited to attend a meeting of the ARMC. In accordance with its rules, the ARMC also met with the external audit partner as well as with the Group's internal auditor without management present.

#### Integrity of financial reporting

The ARMC assists the Board in ensuring the integrity of financial reports to shareholders and banks by reviewing, 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 Environment 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.

#### 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 Czech 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.

#### External audit

NWR is based in the Netherlands, whilst its largest operations are located in the Czech Republic, therefore both the Dutch and Czech offices of the external auditor must be highly involved in the audit process. The representatives of the external auditor attend all meetings of the ARMC.

The external auditor provides the ARMC with regular status reports on its audit work based on the audit plan for the year that focuses on the evaluation of financial reporting risks and their impact, accounting issues and other areas specific to the Group, including Group financing structure, inventories, mining damages provisions, hedge accounting, employee benefits, share-based payments and impairment charges. In addition, every year the external auditor conducts a preliminary assessment of risks impacting the financial statements, including fraud risks, for the purposes of planning and scoping audit procedures and financial reporting.

The ARMC is also responsible for reviewing related party transactions against internal policies and procedures. Related party transactions are audited by the external auditor. 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 and has primary responsibility for making recommendations to the Board on the appointment, reappointment and removal of the external auditor. In addition, the external auditor is required to adhere to a rotation policy based on best practice and professional standards. The ARMC is responsible for ensuring that the rotation of the audit engagement partner is carried out in compliance with best practice and applicable regulation.

The ARMC's assessment of the external auditor includes:

- > reviewing and approving the terms of engagement of the external auditor;
- > reviewing the scope of the external auditor's work;
- > assessing the process for the interim review;
- > monitoring the fee levels;
- > reviewing and approving the annual audit plan.

The ARMC also monitors the provision of non-audit services by the external auditor to NWR and its subsidiaries and the related fees, in order to preserve the independence of the external auditor. In 2010, the external auditor only provided tax compliance work and comfort letter procedures in relation to a prospectus.

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 2010.

Following this process, the ARMC recommended that the Board propose to shareholders the reappointment of KPMG Accountants N.V. at the AGM on 28 April 2011 in Amsterdam in the Netherlands.

#### Internal audit

The Group internal audit function has been outsourced since November 2008. The Group's internal auditor is 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 functionally reports to the ARMC and its Chairman in particular and administratively to NWR's Chief Financial Officer. The Group's internal auditor reports the main findings of the completed audits and the status of their implementation to the ARMC.

The ARMC assesses the performance of the Group's internal auditor on an annual basis.

At OKD, the internal audit function is performed by an internal audit team, which assesses whether the internal control, risk management, and governance processes are adequate and effective. The head internal auditor reports internal audit findings and recommendations to the senior management team and the audit committee of OKD. He submits annual reports on the activities of the internal audit team to the audit committee, the Board of Directors and the supervisory board of OKD. He has all necessary access to organisation units and their management and the right to request information and explanations, and has unfettered access to the audit committee and supervisory board of OKD. The internal audit team works closely with the Group's internal auditor. Internal audit in the Polish operations is carried out by the Group internal audit function.

## Corporate Governance continued

The internal audit functions at NWR and OKD have aligned audit processes on both levels and supervised implementation of their audit recommendations. The communication link between the ARMC and the audit committee of OKD has been further strengthened by engaging the ARMC's Chairman as a member of the OKD's audit committee, which also enables the ARMC to adequately monitor the performance of the audit committee of OKD.

### 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 is 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 policy was widely discussed by the ARMC and approved by the Board upon the ARMC's recommendation. The document has implemented, inter alia, a risk map and the risk registers, whilst leaving room for each entity to take their own approach.

The risk management policy can be found on the NWR website at <http://www.newworldresources.eu/nwr/pages/governance/policies>.

In 2010, the ARMC continued its review of the Group key risks identified by PricewaterhouseCoopers Advisory N.V. in 2008. The following risks were reviewed:

- > internal audit;
- > competency;
- > dispute;
- > external communication;
- > change management;
- > machinery availability; and
- > budgeting and controlling.

The risk on objective setting was excluded from the review due to unconfirmed criteria.

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

The ARMC has a crucial role in opining and making proposals to the Board in all matters where a potential conflict of interest exists between NWR, its Directors, its controlling shareholder and other shareholders. In 2010, the ARMC examined a limited number of potential cases of conflict of interest.

### 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, etc. 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 2010, 19 reports were received and reported to the ARMC. Reports received were kept strictly confidential and were referred to appropriate line managers for resolution. Where appropriate, action was taken to address the issues raised.

The whistleblowing rules can be found on the NWR website at <http://www.newworldresources.eu/nwr/pages/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

#### RC members

The RC consists of Non-Executive Directors appointed by the Board. Two of them are Independent Directors:

- > Zdeněk Bakala (Chairman)
- > Bessel Kok
- > Hans-Jörg Rudloff

The RC is chaired by Zdeněk Bakala. As a major shareholder representative Mr. Bakala is not considered to be independent. However the Board regards Mr. Bakala's membership of the RC as critical to the further alignment of executive remuneration with shareholder interests.

The Executive Directors of the Board attend meetings of the RC by invitation only and assist the RC in its discussions, except in matters associated with their own respective remuneration.

#### Main responsibilities

The RC is responsible for advising the Board in relation to the Board's responsibilities with respect to:

- > Remuneration Policy for Directors of the Board;
- > salary levels, bonuses and other benefits for Executive Directors of the Board;
- > contractual terms for Executive and Non-Executive Directors of the Board;
- > share-based incentive plans for Executive Directors of the Board, selected senior managers and key employees of NWR Group;
- > succession plans for selected senior executives across NWR Group; and the
- > Remuneration Report of the Board.

The RC does not have decision-making power for setting remuneration for Executive Directors, thus is not compliant with the UK Corporate Governance Code (provision D.2.2). Instead, the RC makes specific proposals to the Board with respect to the salary, bonuses and other benefits for Executive Directors and the Board remains responsible for its decisions with respect to salary, bonuses and other benefits for both Executive and Non-Executive Directors of the Board. This is common practice among companies in continental Europe.

#### Activities undertaken during the year

The RC met five times during 2010. Further to its engagement as the Company's compensation adviser in early 2009, Mercer Limited reviewed the RC processes and existing arrangements with Directors and senior executives in line with Dutch and UK Corporate Governance Codes and provided clarification of the role of the RC. Subsequently, Mercer reviewed the Group compensation principles and proposed a modified remuneration scheme for Executive Directors, senior managers and key employees of NWR Group. The new scheme is based on a deferred bonus plan using predetermined performance conditions and includes clawback provisions. The new scheme establishes a universal and transparent Group-wide remuneration policy in line with industry best practice and its principles follow current trends in the remuneration plans of financial institutions. The RC resolved to accept the proposed deferred bonus plan and amended the Remuneration Policy of NWR, which was

subsequently approved by the Board. On 27 April 2010 this Policy was also approved at the Annual General Meeting. The deferred bonus plan was implemented throughout NWR Group and began in January 2011. Please see a detailed description of the new remuneration principles in the Remuneration Report on page 72.

To ensure uniform application of the remuneration principles across NWR Group, the RC prepared a Compensation Manual, which outlines compensation principles of the Board and the senior and key positions within NWR Group, providing a framework for the Board and the RC. The Board adopted the manual in November 2010. By adopting the Compensation Manual, the Board has delegated its powers and responsibilities to certain authorised officers of NWR and its subsidiaries, who shall decide on the salary, bonuses and other benefits for senior managers and key employees in line with internal rules and practices of the respective entity, which shall however reflect the Compensation Manual and other relevant policies.

The RC further reviewed the remuneration of the Executive Directors and the fee levels for the Non-Executive Directors for 2010. Further details may be found in the Remuneration Report on page 72.

Finally, the RC determined whether the performance conditions set up for options granted on 24 June 2009 were met, proposed a grant of new options to several eligible employees under the Company's Stock Option Plan and proposed the performance conditions for this new grant. The Board terminated the Stock Option Plan as per 31 December 2010 and no further options will be granted under that plan.

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

#### **Finance and Investment Committee ('FIC') report** **FIC members**

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

- > Peter Kadas (Chairman)
- > Zdeněk Bakala
- > Mike Salamon
- > Marek Jelínek

#### **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 2010, the FIC met seven times. Among the main items discussed by the FIC and recommended for the Board's approval were:

- > the Group's budget for 2010;
- > the issuance of 7.875 per cent Senior Secured Notes due 2018;
- > the proposal of an all-cash tender offer to acquire all of the issued

and outstanding shares of Bogdanka including financing of the acquisition;

- > the intention to re-incorporate in the United Kingdom; and
- > the execution strategy for the Dębieńsko development project.

The FIC further advised the Board in connection with share issuance. It also regularly reviewed financial and operational results and the financing and cash position of the Group including cash investments, cash pooling and hedging arrangements. The FIC continued to monitor the Group's debt position and compliance with bank covenants and also took a number of decisions regarding financial and operating matters of NWR's subsidiaries. The FIC reviews, on a regular basis, market analysis, analyst and investor feedback and the performance of NWR's shares as well as the shareholder register. The FIC reports to the Board.

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.

#### **Health, Safety and Environment Committee ('HSEC') report** **HSEC members**

- > Paul Everard (Chairman)
- > Mike Salamon
- > Klaus-Dieter Beck
- > Steven Schuit

The meetings were also regularly attended by Ján Fabián, Chief Operating Officer of NWR who is responsible for the operations of NWR KARBONIA and OKK Koksovny, and by two external experts, Stan Suboleski and Karl Friedrich Jakob, also members of OKD's Board of Directors. Stan Suboleski is an independent mining consultant who was previously a Commissioner with the US Federal Mine Safety and Health Review Commission. Dr. Suboleski previously retired as interim COO of Massey Energy Company and continues to serve on the Massey board. Karl Friedrich Jakob held numerous prominent managerial positions in German as well as international mining companies and also worked for the German State Mining Authority.

#### **Main responsibilities**

The HSEC assists the Board in its oversight of health, safety and environmental risks within NWR and its subsidiaries as well as the Group's compliance with applicable legal and regulatory requirements associated with health, safety and environmental matters.

The HSEC's main duties are to:

- > oversee the Group's performance on health, safety and environmental matters;
- > review the policies and systems within the Group to ensure compliance with applicable health, safety and environmental legal and regulatory requirements;
- > review reports and meet with senior management of the subsidiaries to discuss the effectiveness of the Group's policies and systems for identifying and managing material HSE risks;
- > liaise with the ARMC to ensure appropriate oversight of the Group's systems for managing risks;
- > monitor the impact of operations on Group reputation;
- > prepare the HSE section of NWR's Annual Report;
- > review sustainability reports prepared by management and assist the Sponsorship and Donation Committee in the area of Corporate Social Responsibility; and
- > report to the Board on key global HSE issues and trends.



## Corporate Governance continued

The HSEC reports the results of its meetings to the Board and to the ARMC.

### Activities undertaken during the year

In 2010, the HSEC met three times and conducted one site visit to the OKD mines in the Czech Republic. At its meetings, the HSEC reviews the health, safety and environmental reports of NWR's core operations and also receives detailed reports on extraordinary events that occur at the operations. These events include fatalities, incidences of spontaneous combustion, coal and gas outbursts, and seismic events (rock bounces). The HSEC also receives regular reports on site visits by the local mining authorities, citations and other HSE-related regulatory matters.

In 2009, the HSEC endorsed key metrics for both health and environment issues in order to improve the reporting system; these metrics also serve to measure performance and generate further improvement in the HSE area.

In 2010, the HSEC was kept informed about the status of a safety project at OKD to replace personal protection devices with the aim of providing each miner with new and better equipment before the year-end.

The HSEC closely followed the investigation into the Massey Energy's tragic coal mine accident in April 2010, when a massive explosion killed 29 miners. The members also took note of a Fatality Avoidance Protocol produced by the International Aluminium Institute, which suggests general safety principles and prevention guidelines for heavy industry.

In performing its new role in the area of Corporate Social Responsibility for NWR Group, the HSEC assists the Sponsorship and Donation Committee and reviews, amongst others, sustainability reports prepared by management. These new responsibilities were formalised in an amended charter of the HSEC, adopted in early 2010.

A detailed description of the trends in the area of health, safety and environment at NWR's operations may be found on page 40 of this Annual Report.

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

The charter of the HSEC is available on NWR's website at [www.newworldresources.eu](http://www.newworldresources.eu).

### Real Estate Committee ('REC') report

#### REC members

The REC is wholly composed of Independent Non-Executive Directors appointed by the Board:

- > Barry Rourke (Chairman)
- > Steven Schuit
- > Paul Everard

#### 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.

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 transactions between the Mining Division and the Real Estate Division and advising the Board on any such transactions, which require the prior approval of the Board;
- > developing and interpreting the Divisional Policy Statements, proposing amendments, providing guidance on provisions and overseeing implementation; and
- > overseeing the compliance of NWR's subsidiaries with the Divisional Policy Statements.

### Activities undertaken during the year

During 2010, the REC met six times. NWR's Chief Financial Officer attended all meetings.

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 (mainly swaps of the real estate assets with the local municipalities). To assist the REC, the core operations submit monthly reports, which provide details on any such transactions. The REC is notified of all transactions (internal or with third parties) in which qualified valuers are involved, in order to facilitate oversight by the REC of such transactions.

In 2010, the REC considered, amongst other things, the financial implications of the sale of the Group's energy assets on the Mining Division and Real Estate Division. The REC also reviewed in more detail the sale of the Mining Museum and the transfer of the museum between the Divisions in particular. The REC advises the Board, which is the ultimate body to approve such transfers, whether they will occur on an arm's length basis, as required by the Divisional Policy Statements. In 2010, all proposed transfers were approved by the Board as well as by the holder of the B shares. The REC further reviewed, on a regular basis, P&L accounts of the Real Estate Division.

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

### Divisional Policy Statements

The Divisional Policy Statements refer to the Mining Division and the Real Estate Division that were 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 of the 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, OKD's subsidiaries 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.



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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. In 2009, the Group's internal auditor conducted an internal audit on the implementation of the Divisional Policy Statements and the accuracy of information provided to the Committee. The audit suggested, amongst other things, formalisation of certain procedures to prevent the Divisional Policy Statements from misinterpretation. Thus a Book of Procedures dealing with the accounting aspects of the Divisional Policy Statements has been prepared and endorsed by the REC.

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

The Divisional Policy Statements are available on NWR's website at [www.newworldresources.eu](http://www.newworldresources.eu).

### **Accountability** **Conflict of interest**

In addition to the regulations of the Articles of Association, 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 ARMC 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 ARMC of whether a conflict of interest exists.

The Board believes that it has complied with the best practice provisions II.3.2 to II.3.4 and III.6.1 to III.6.3 of the Dutch Corporate Governance Code (which relate to conflict of interest of Directors).

### **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.

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 ARMC monitors, through reports received from the Company Secretary, the effectiveness of the procedure. Further details can be found in the report of the ARMC on page 54.

The Code of Ethics and Business Conduct and the Whistleblower Procedure are both available on NWR's website at [www.newworldresources.eu](http://www.newworldresources.eu).

### **Risk management**

The Board recognises the need to continue improving the Group's internal control processes and structures. Internal control and risk management procedures are described in more detail in the

'Principal Risks and Uncertainties' section on pages 38 and 39. NWR Group uses the COSO-framework for the evaluation of the internal control system to mitigate risks. To the best knowledge of the Board, the internal risk management and control systems of the Group are adequate and effective with respect to its current operations.

Oversight of risk management and internal control within NWR Group is the responsibility of the ARMC, which closely monitors the measures implemented to mitigate identified risks and also regularly meets with NWR's Risk Manager and the Group's Internal Auditor. Details of activities in this area are described in the report of the ARMC on page 54.

### **Internal audit**

The Group's Internal Auditor oversees the work of internal audit functions in NWR's subsidiaries. He is 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 the Chief Financial Officer of NWR.

### **Going concern**

The Directors consider that NWR Group has adequate financial resources to continue operating for the foreseeable future and that it is, therefore, appropriate to adopt the going concern basis in preparing the financial statements. The Directors have satisfied themselves that NWR Group is in a sound financial position and that it has access to sufficient borrowing facilities and can reasonably expect those facilities to be available to meet NWR Group's foreseeable cash requirements, particularly those relating to major investments, including capital projects and acquisitions.

### **Insider trading**

In compliance with relevant laws, rules and regulations of the UK, the Netherlands, 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](http://www.newworldresources.eu).

### **Articles of Association**

The Articles of Association may be amended by the General Meeting of Shareholders in which at least three-quarters of the issued share capital is represented and with a majority of at least two-thirds of the votes cast. A resolution to amend the Articles of Association on the proposal of the Board shall be passed by an absolute majority of the votes cast, irrespective of the capital present or represented at the meeting. Certain proposals would require a prior or simultaneous approval of the meeting of holders of B shares. NWR's Articles of Association are available on NWR's website at [www.newworldresources.eu](http://www.newworldresources.eu). As described earlier, the document was amended by the Annual General Meeting of Shareholders held on 27 April 2010.

### **Relations with shareholders**

#### **Market disclosure and relations with shareholders**

The Board regards effective communication with shareholders as a priority.

## Corporate Governance continued

Agnes Blanco Querido, Head of Investor Relations, is responsible for the external financial communications of NWR. Together with her team, she 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, Chief Operating Officer 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.

Petra Mašíňová, Head of Corporate Communications, 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](http://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. No such meetings or discussions were held or requested during 2010.

### Share capital, controlling shareholder

In April 2010, BXR Mining B.V. ('BXR'), the majority shareholder of NWR, informed NWR that BXR Group Limited ('BXR') replaced RPG Partners Limited as the ultimate parent company of BXR. The shares held by BXR in NWR were reduced from 63.66 per cent to 63.64 per cent after NWR issued new A shares in May 2010, and further reduced to 63.57 per cent after the share issuance in December 2010.

Full details on the changes in the shareholding structure of NWR occurring in 2010 may be found in the 'Shareholder Information' section on page 160.

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

The Board is satisfied that NWR is capable of carrying on its business independently of BXR/BXR'G 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 BXR (and the wider BXR'G group) are on arm's length terms, the Company is party to a Relationship Agreement with BXR. If a conflict arises between BXR 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 'Related Party Transactions' section on page 63.

### 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 28 April 2011, at 10:00 CET in Amsterdam, the Netherlands.

### Compliance with corporate governance standards

NWR is required to state in its Annual Report whether it complies or will comply with the principles and best practice provisions of the Dutch Corporate Governance Code (dated 1 January 2009) and, if it does not comply, to explain the reasons for non-compliance. NWR is also required by the Listing Rules of the UK Listing Authority to disclose the significant ways in which its actual governance practices differ from those set in the UK Combined Code. NWR notes that the UK Corporate Governance Code was introduced by the UK Financial Reporting Council in June 2010 to replace the UK Combined Code, and that this will apply for accounting periods beginning on after 29 June 2010. For the financial year ending 31 December 2011 and following financial years, the Company will instead be required to include a similar statement in relation to the UK Corporate Governance Code.

The following section is a report on compliance with the corporate governance regulations and best practice codes applicable in the Netherlands and the UK.

### Dutch Corporate Governance Code

NWR has drawn up internal corporate governance regulations that comply to the extent possible with the Dutch Corporate Governance Code effective from 1 January 2009. As reported in this section, NWR complies with the principles and best practice provisions of the Dutch Code, except for a limited number of best practice provisions described below. Information on the Dutch Corporate Governance Code Monitoring Committee can be found at: [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl). More specific information for the Dutch Corporate Governance Code can be found at: [www.commissiecorporategovernance.nl/Corporate\\_Governance\\_Code](http://www.commissiecorporategovernance.nl/Corporate_Governance_Code).

### Board and committee structure

NWR has a one-tier Board structure consisting of Executive and Non-Executive Directors. The Company complies with the Dutch Code by applying the provisions relating to members of the Management Board to Executive Directors, and the provisions relating to members of the Supervisory Board to Non-Executive Directors. The composition and functioning of the Board allows proper and independent supervision of Executive Directors by Non-Executive Directors.

The Board consists of 13 Directors, which includes five Independent Non-Executive Directors within the meaning of best practice provision III.2.2. The number of Independent Non-Executive Directors is less than the prescribed majority pursuant to best practice provision III.8.4 of the Dutch Code. However, 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 ensure 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.

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NWR has appointed an Executive Chairman, which does not comply with best practice provision III.8.1 of the Dutch Code. NWR believes that the presence of an Executive Chairman is needed to provide leadership at Group level in a holding structure in which the leadership of operations is exercised at operating company level. The presence of majority shareholder representatives on the Board alongside Independent Non-Executive Directors guarantees that there are appropriate checks and balances in place.

NWR has not established a selection and appointment committee (i.e. nominating committee), which does not comply with principle III.5 and best practice provision III.5.14 of the Dutch Code. The Board believes that NWR's current ownership structure makes the establishment of such a committee unnecessary. The Board as a whole fulfils the tasks and responsibilities set out by the Dutch Code for such a committee.

#### Remuneration, share options and awards

The Company does not carry out scenario analysis to determine the level and structure of the remuneration of the Executive Directors as required by best practice provision II.2.2, since their employment terms were determined before the IPO and have not changed since then.

In order for a Director to exercise options, rather than the granting of options to a Director, as set out in best practice provision II.2.4, challenging targets which have been specified before-hand (pursuant to the Company's Stock Option Plan) must be achieved.

The Independent Non-Executive Directors were granted A shares at the completion of the IPO and on the 12-month anniversary thereof in 2009 and 2010, which does not comply with best practice provision III.7.1, which states that no shares shall be granted to Independent Non-Executive Directors. NWR considers its practice complies with international business practice. The Company also considers the granting of A shares as an important incentive to attract individuals with the required skills and expertise to serve as Independent Non-Executive Directors in an international mining company of moderate size.

Under existing employment arrangements of Mike Salamon with NWR and of Klaus-Dieter Beck with OKD, stock options and share awards are granted under terms, which do not comply with best practice requirements set out in chapter II.2 of the Dutch Code. Details of these awards are fully described in the Remuneration Report.

#### Dealing in securities

The Company has a Share Dealing Code, which governs dealing in Company's shares by, inter alia, the Directors, and as such does not comply with best practice provision III.6.5 of the Dutch Code as the Share Dealing Code does not cover ownership of and transactions in other securities. The Company will review the Share Dealing Code in connection with its intended re-incorporation in the UK in 2011.

#### Contacts with shareholders

The Company has not formulated an outline policy on bilateral contacts with shareholders, as provided for by best practice provision IV.3.13 of the Dutch Code, as it intends to re-incorporate in the UK in 2011.

#### UK Combined Code

NWR was, for reasons stated above, not in compliance during the financial year 2010 with the following best practice requirements of the UK Combined Code:

- > The Company has appointed an Executive Chairman, contrary to the recommendation of the UK Combined Code (provision A.2.1).
- > The Executive Chairman did not, upon appointment, meet the independence criteria set out in the UK Combined Code (provision A.3.1).
- > The Board does not contain a majority of Independent Non-Executive Directors, as recommended by UK Combined Code (provision A.3.2).
- > The Board carries out the tasks and responsibilities of the nominations committee whereas the UK Combined Code (provision A.4.1) recommends the appointment of a separate nomination committee.
- > The Remuneration Committee is chaired by Zdeněk Bakala, whereas the UK Combined Code (provision B.2.1) recommends that the Remuneration Committee should be comprised entirely of Independent Non-Executive Directors. In addition, the Remuneration Committee does not have delegated responsibility for setting the remuneration for the Executive Directors, as recommended by the Combined Code (provision B.2.2). Instead, the Remuneration Committee's responsibility is to, inter alia, prepare specific proposals to the Board with respect to the salary, bonuses and other benefits for the Issuer's Executive Directors.

#### UK Corporate Governance Code

NWR is aware of the UK Financial Reporting Council's introduction of the UK Corporate Governance Code in June 2010 to replace the UK Combined Code. The new Corporate Governance Code will apply for accounting periods beginning on or after 29 June 2010 and NWR will report against the new code in the NWR Annual Report and Accounts 2011.

#### 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 Combined Code and any material deviations are similar to those described above.

#### Polish Corporate Governance Code

NWR observes the majority of the principles of corporate governance contained in the Code of Best Practices for Warsaw Stock Exchange Listed Companies (the 'WSE Code')<sup>1</sup>. As the Company is incorporated and organised under Dutch law, certain principles apply to NWR only to the extent allowed by Dutch corporate law and subject to certain reservations stemming from NWR's corporate structure, especially the one-tier Board structure as opposed to the two-tier system that the WSE Code assumes. Therefore, NWR complies partially or is unable to comply fully with Rules I.6, I.7, II 6, III.1-9 of the WSE Code concerning the Supervisory Board and its members. In cases in which NWR is unable to comply with certain principles directly, NWR endeavours to comply with the spirit of such principles.

1. The WSE Code require companies listed on the Warsaw Stock Exchange to publish a detailed statement on any non-compliance or partial compliance with the WSE Code; such a statement shall also be contained within the Company's Annual Report. The companies are required to indicate ways of eliminating possible consequences of such non-compliance, or describe steps, which the Company intends to take to mitigate the risk of non-compliance. In 2010, NWR did not comply with the following rules contained in the WSE Code:

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:

## Corporate Governance continued

- > 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 NWR since it has a one-tier Board structure consisting of Executive and Non-Executive Directors and, therefore, the provisions relating to the Supervisory Board do not apply.

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

Directors shall attend General Meetings to answer questions. Dutch law however does not provide for a mandatory presence of Directors. Although NWR aims to ensure the presence of its Directors at the General Meetings of Shareholders, it cannot guarantee that all Directors will be present.

Rules III.1 to III.9 cannot be directly observed by NWR since NWR has a one-tier Board structure and as such has no Supervisory Board; additional explanation to each rule is given below.

### Rule III.1

In addition to its responsibilities laid down in legal provisions, the Supervisory Board should:

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

The above responsibilities are performed by the committees established by the Board with the intention to assist the Board in performing its duties regarding internal control and management mechanisms, as described below.

Rule III.2 – A member of the Supervisory Board should submit to the Company's Management Board information on any relationship with shareholders who hold 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.

NWR has a one-tier Board structure. Since it does not have a Supervisory Board, it cannot directly observe the above rule.

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

In accordance with NWR's Articles of Association, members of the Board of Directors are entitled to attend the General Meetings of Shareholders and answer questions posed at the General Meeting.

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.

In order to avoid conflicts of interest in a one-tier Board structure, NWR has adopted a Corporate Governance Policy enabling the Board to perform its management as well as 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 an Executive Director has a conflict of interest with NWR, NWR may be represented by other Executive Directors, unless the General Meeting appoints another person for that purpose.

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 the 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 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 Directors of NWR must meet independence criteria set out by NWR's Corporate Governance Policy. Those criteria are based on best practice requirements 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.

The related party transactions are monitored, through reports received from the external auditor, by the Audit and Risk Management Committee established by the Board. The committee examines and advises the Board on such transactions and agreements to ensure they are on arm's length terms in line with the aforementioned rule.

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 160.

Composition and operations of the managing and supervising bodies of the Company and their committees are described in the Corporate Governance Report on page 52.

Detailed description of the 'Principal Risks and Uncertainties' may be found on pages 38 and 39.

**Ivona Ročárková**  
Company Secretary



## Certain Relationships and Related Party Transactions

The following are the related party transactions, being contracts entered into by New World Resources N.V. ('NWR'), and NWR's subsidiaries ('NWR Group') on the one hand and entities affiliated with them ('BXR Group') on the other hand in the last two years and/or in place at the date of this Annual Report. The Company has observed best practice provision III.6.4 of the Dutch Corporate Governance Code.

### Agreements related to the restructuring Cross Guarantee

Former OKD, a.s. ('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 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 BXR Group (removing certain intermediary holding companies from the structure). In connection with the restructuring, and pursuant to Czech law, OKD, a.s. ('OKD'), Green Gas DPB, a.s. (formerly known as OKD, DPB, a.s.; 'DPB'), Advanced World Transport a.s. (formerly known as OKD, Doprava, akciová společnost; 'AWT AS'), RPG Trading, s.r.o. (defunct since January 2010), RPG RE Land, s.r.o., RPG RE Commercial, s.r.o. ('RPG RE Commercial') and RPG Byty, s.r.o. ('RPG Byty'), 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.

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 Koksovny') into NWR Coking, a.s., a wholly-owned subsidiary of NWR, which merged with OKK Koksovny in April 2008, with OKK Koksovny remaining as the surviving entity. OKK Koksovny thus became a direct subsidiary of NWR and also became subject to the statutory cross guarantee.

### Agreements with indirect shareholders and certain of their affiliates Master Advisory and Service Agreement

On 28 March 2007, NWR entered into the Master Advisory and Services Agreement, as amended on 27 July 2007 and on 19 August 2010, with BXR Partners, a.s. (formerly known as RPG Advisors, a.s. and Bakala Crossroads Partners a.s.; 'BXR'), a member of BXR Group, in respect of the provision of certain non-exclusive advisory services by BXR to NWR effective as of 1 September 2006, including services in connection with the acquisition and divestiture of assets, entry into joint venture arrangements, corporate finance matters and market research initiatives within Central Europe, including the Czech Republic. The fees to be paid to BXR are based generally on a cost plus formula, but specific arrangements may be made in respect of individual projects. NWR must reimburse BXR for all expenses incurred by BXR in connection with the provision of advisory services. The Master Advisory and Services Agreement may be terminated, with or without cause, by either party giving prior written notice to the other party; provided that, if the Master Advisory and Services Agreement is terminated for any reason other than a material breach, the notice period is one month. The Master Advisory and Services Agreement includes a one-year post-termination confidentiality clause.

On the basis of the Master Advisory and Service Agreement, NWR and BXR have agreed an ad-hoc success fee with respect to the disposal of the energy business described in section 'Material

Contracts' on page 67, in an amount equal to 1.75 per cent of the total purchase price received by NWR, in addition to external costs and expenses charged to NWR separately. In addition, from time to time, BXR may provide services to NWR Group and be remunerated for such services on terms that are separately agreed.

### Technical Consulting Agreement

On 15 August 2006, NWR entered into the Technical Consulting Agreement with American Metals & Coal International, Inc. ('AMCI') in respect of the provision of certain advisory services by AMCI to NWR effective as of 1 January 2006. Under the Technical Consulting Agreement, NWR agreed to pay AMCI an annual advisory fee of USD 200,000 in semi-annual payments (commencing for the period July–December 2006) in exchange for certain non-exclusive consulting, advisory and management services relating to NWR's coal mining and coke production activities. In addition, upon execution of the Technical Consulting Agreement, NWR paid AMCI a signing fee of USD 100,000. The Technical Consulting Agreement provides that AMCI will advise NWR in connection with: (i) the identification and evaluation of coal and energy acquisition projects outside of the Czech Republic; (ii) the marketing and sale of coke and coal outside of the Czech Republic; (iii) budgeting and business planning, including coal price forecasting, cost assessment and benchmarking; and (iv) technical and production matters. On 9 July 2009, AMCI disposed its shares in RPG Industries Public Limited (formerly known as RPG Industries SE; 'RPGI'), the former majority indirect shareholder of NWR and, consequently, the Technical Consulting Agreement was terminated with effect from 30 June 2009.

### AWT BV Services Agreement

On 9 November 2007, NWR entered into the Services Agreement with Advanced World Transport B.V. (formerly known as New World Resources Transportation B.V.; 'AWT BV') for the provision of certain services by NWR to AWT BV with effect from July 2007. Under the Services Agreement, NWR provided AWT BV with certain non-exclusive corporate maintenance services, including coordination of tax and audit compliance, preparation of financial statements, corporate governance and HR management. The service fees paid by AWT BV to NWR covered expenses incurred by NWR together with a monthly flat fee of EUR 7,500. The costs and expenses of NWR included remuneration for the subcontractors. The Services Agreement was terminated with effect from 30 September 2009. The Services Agreement includes a four-year post-termination confidentiality clause.

### BXR RE Services Agreement

On 26 May 2008, NWR entered into the Services Agreement with BXR Real Estate Investments B.V. (formerly known as RPG Real Estate B.V.; 'BXR RE') for the provision of certain services by NWR to BXR RE with effect from October 2006. Under the Services Agreement, NWR provides BXR RE with accounting and controlling services, advice on treasury and financing, secretarial, administration and IT services and organisation of board meetings. Based on an amendment entered into in February 2010, BXR RE agreed to pay NWR a flat monthly service fee in the amount of EUR 2,400.

### NWR Lease Agreements

NWR has rented an office space to AWT BV, BXR RE and Green Gas International B.V. ('GGI') with effect from 1 January 2009. The total size of the leased offices is 405.3m<sup>2</sup>. AWT BV, BXR RE and GGI received a total credit for rent of EUR 303,817, which will be offset against the rent until the credit is fully utilised. The rent (including utilities) is approximately EUR 164,400 per year. The lease agreements have an indefinite term and may be terminated, with or without cause, by either party upon two months' prior written notice to the other party.



## Certain Relationships and Related Party Transactions continued

### Donation Agreements

In 2009, NWR donated EUR 378,000, OKD donated CZK 129,1 million, RPG RE Management, s.r.o. ('RPG REM') donated CZK 2 million, OKK Koksovny donated CZK 200,000 and DPB donated CZK 220,000 to the OKD Foundation. In 2010, NWR donated EUR 250,000 to the OKD Foundation. In the same year, OKD donated to the OKD Foundation CZK 21.41 million to alleviate the consequences of flooding. The OKD Foundation engages in the field of social responsibility, such as the support of health and social care, the public sector, environmental protection and regional development. The donations may also be used to cover the organisational and administrative costs of the foundation. NWR further donated EUR 38,000 in 2009 and EUR 20,000 in 2010 to St. Barbara Civic Association, which helps children who have lost a parent underground.

### BXRP-OKD Advisory and Service Agreement

On 29 September 2006, OKD entered into the Advisory and Service Agreement with BXRP for the provision of certain advisory services by BXRP to OKD with effect from 1 October 2006. Under the Advisory and Service Agreement, BXRP (or any subcontractors engaged by BXRP with the consent of OKD) is to provide OKD with certain non-exclusive advisory services, including in connection with the realisation of strategic projects, any initial public offering, financing and refinancing, services in connection with the NWR Group's restructuring, acquisition and divestiture of OKD assets and corporate finance and business matters. The advisory fees being paid by OKD to BXRP cover costs and expenses incurred by BXRP together with a specified margin. The costs and expenses of BXRP include remuneration for third party costs (such as subcontractors) and all relevant expenses incurred by BXRP in connection with the advisory services calculated on a pro rata basis according to the time spent. The Advisory and Service Agreement may be terminated, with or without cause, by either party upon one month's prior written notice to the other party. The Advisory and Service Agreement includes a one-year post-termination confidentiality clause.

### RPG REM-OKD Advisory and Service Agreement

On 20 December 2006, OKD entered into the Advisory and Service Agreement with RPG REM for the provision of certain advisory services by RPG REM to OKD with effect from 1 December 2006. Under the Advisory and Service Agreement, RPG REM (or any subcontractors engaged by RPG REM with the consent of OKD) is to provide OKD with certain non-exclusive advisory services, including services in connection with the acquisition and divestiture of fixtures, the initiation of development projects at OKD's current mining sites and the identification and preparation of possible development projects. The advisory fees paid by OKD to RPG REM should cover costs and expenditures incurred by RPG REM together with an amount equal to a 9 per cent margin. The Advisory and Service Agreement includes a one-year post-termination confidentiality clause. Currently, no services are being provided under the Agreement. The notice period for termination is set for six months.

### Cooperation Agreement on Apartment Lease

On 29 May 2009, OKD entered in the Cooperation Agreement with RPG Byty, which owns and operates a large apartment portfolio in the OKD region. 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 with 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 2012 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 on Use of Factory Railway and Assurance of Railway Transport on Factory Railway

OKD entered into the Factory Railway Agreements with AWT AS to provide factory railway transport at OKD mines for an indefinite period of time. The fees to be paid by OKD to AWT AS 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). The Factory Railway Agreements may be terminated, with or without cause, by either party giving 18 months' prior written notice to the other party. The Factory Railway Agreements have been replaced by a single master agreement between OKD and AWT AS with effect from 1 January 2010 for the period from 2011 to 2020 (which will automatically be extended 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 AS to OKD at particular business units, including: (i) railway services and assurance of railway transport on factory railways; (ii) road transport and non-railway technological transport and transportation of raw and washed coal, sludge, etc., including related manipulations; (iii) railway technological transport including related activities; and (iv) 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.

### AWT BV Framework Agreement

On 8 December 2009, OKD entered into the Framework Agreement with AWT BV for coal transportation services to Hungary. The Framework Agreement was entered into for the fixed period of time expiring on 31 December 2010, however, the parties expect to agree on its extension. For the calendar year 2010, the price was agreed as EUR 18.5 per tonne of coal.

### AWT AS Transport Agreements

OKD has entered into the Transport Agreements with AWT AS relating to the transport of coal and other materials from NWR to its largest customers. The Transport Agreements are 'umbrella' agreements covering periods of several years or an unlimited period of time. Under the Transport Agreements, AWT AS shall provide OKD with non-exclusive transport services. The transport fees to be paid by OKD to AWT AS shall be set out in accordance with each respective Transport Agreement or in a price agreement for each calendar year amending the relevant Transport Agreements based on the weight of transported goods. The 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 AS 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: (i) the Czech Republic, where the coal and coke is destined for export. In these agreements, the carrier is an association of AWT SPEDI-TRANS s.r.o. and AWT AS; (ii) the Federal Republic of Germany and the French Republic, in these agreements, the carrier is an association of AWT SPEDI-TRANS s.r.o. and AWT AS; (iii) the Republic of Poland, in these agreements, the carrier is AWT AS; and (iv) the Czech Republic, in these agreements, the carrier is AWT AS.

#### Agreements on Manipulation of Substrates

OKD has entered into the Manipulation Agreements with AWT AS in respect of the extraction and manipulation of certain materials and substrates at its mines. The fees to be paid by OKD to AWT AS are as set out in accordance with each respective Manipulation Agreement or in a special price agreement for each calendar year amending the Manipulation Agreements based on the weight of manipulated substrates. The Manipulation Agreements may be terminated, with or without cause, by either party giving three months' or one-month's prior written notice to the other party in relation to specific business units.

#### Agreements on Sale of Methane

On 20 December 2006, OKD entered into the Master Agreement on the Sale of Methane with DPB, as amended on 26 September 2007, which envisages the conclusion of individual purchase agreements with respect to each OKD mine. Under the Master Agreement on the Sale of Methane, the minimum total annual volume of methane to be delivered amounts to 19,000m<sup>3</sup> 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 the formula 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.

On 27 November 2008, DPB and OKD entered into the 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 NWR Group's energy assets in 2008. 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 the formula 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, and may be repeatedly extended for consecutive terms of five years at OKD's option. OKD may rescind the agreement if DPB interrupts its supplies to NWR Energy.

#### OKD Trading Agreements

OKD has entered into several agreements with AWT AS in relation to the delivery of coal, coking coal, coke, sludge and other products. In 2000, OKD entered into purchase agreements with AWT AS upon which AWT AS 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 Česká republika, a.s. and ČEZ, a.s.

#### Agreements on Gaseous and Liquid Nitrogen Delivery and Tubing Operation

OKD 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, ČSA, ČSM and Lazy (now mines ČSA and Lazy are consolidated in the business unit Karviná Mine IOU). The price to be paid by OKD to DPB shall be set out in accordance with each respective agreement 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 terminate on 31 December 2015.

#### Master Services Agreement Related to Mine Safety

On 13 March 2007, OKD and DPB entered into the 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 was 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 1,67 million per month, later increased to CZK 1,734,693 per month for the years 2009 and 2010 (in each case excluding VAT). Conclusion of individual agreements with respect to each particular OKD mine are contemplated by this agreement.

#### Master Services Agreement for Drilling

On 12 March 2009, OKD and DPB entered into two Master Agreements for Work whereby DPB shall provide OKD with drills for degasation and geological surveying. Amendments to this agreement shall stipulate the drilling works and price list for the respective calendar year. Individual agreements envisaged by this Master Agreement for Work shall stipulate the amount of work in detail. In 2010, the total amount of footage for degasation drills was agreed at 31,050m and for geological survey the total amount of footage was agreed at 13,930m. Both master agreements expire on 31 December 2015.

#### Energy Trading Agreements

In connection with the reorganisation of the energy assets of NWR Group, energy assets of OKD, including its stake in CZECH-KARBON s.r.o. ('CZECH-KARBON'), were transferred to NWR Energy, which was a direct subsidiary to NWR. The spin-off became legally effective as of 1 July 2008. Consequently, a Framework Agreement on Supplies and Services and some other related agreements were entered into by OKD, NWR Energy and CZECH-KARBON. The main purpose of these agreements is to ensure supply of electricity, heat and compressed air and related services to OKD. The Framework Agreement has been amended in a complex manner in connection with the divestiture of the energy assets. See section on 'Material Contracts' for more details on page 67.

#### OKD Lease Agreements

OKD is a party to several real estate leases, including in relation to OKD's headquarters building in Ostrava, which is leased from RPG RE Commercial, a member of BXR Group. The total rented space is 4,656m<sup>2</sup> and the annual rent (including utilities) is approximately CZK 32.7 million. The lease may be terminated, with or without cause, by either party upon three months' prior written notice to the other party, or by agreement between the parties. The total annual rent for the remaining lease agreements concluded between RPG RE Commercial and OKD amounts to approximately CZK 6.3 million.

## Certain Relationships and Related Party Transactions continued

### Agreement on Conduct of Work and Services of Automatic Data Processing

On 21 January 2002, OKD entered into an Agreement on Conduct of Work and Services of Automatic Data Processing with AWT AS in respect of providing certain services relating to automatic data processing for an undefined period of time with effect as of 1 January 2002. The fees to be paid by AWT AS to OKD AS are set out monthly in accordance with the Data Processing Agreement based on hours of services provided. The Data Processing Agreement may be terminated, with or without cause, by either party giving six months' prior written notice to the other party. The Data Processing Agreement includes a confidentiality clause.

### Agreements with Directors

#### Agreement for Coke Sales

Milan Jelínek was a Non-Executive Director of NWR until his unexpected death on 16 August 2009. Mr. Jelínek founded and was President of ICS Trading AG ('ICS'). Since 1994, ICS has been party to a contract with OKD pursuant to which OKD provides coke to ICS.

#### Service Agreement

On 10 April 2007, NWR and Milan Jelínek entered into the Service Agreement under which Milan Jelínek provided certain advisory services to NWR, including providing advice in respect of new projects of NWR and cost and quality improvement for NWR. From 1 January 2007 onwards, Milan Jelínek was paid a fixed monthly advisory fee of CHF 100,000. He was also reimbursed by NWR for reasonable expenses in connection with his advisory work. Mr. Jelínek died unexpectedly on 16 August 2009 and the services under the Service Agreement are no longer provided.

#### Consultancy Agreement

On 31 October 2006, NWR entered into the Consultancy Agreement with BXL Consulting Ltd ('BXL') in respect of certain consultancy services provided by BXL to NWR commencing on 1 October 2006. Pavel Telička, a Non-Executive Director of NWR, is the co-founder and director in charge of the Brussels office of BXL. Under the Consultancy Agreement, NWR 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 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 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.

#### Other Payments and Bonuses

On 20 October 2009, RPI, the former majority shareholder of NWR, awarded Marek Jelínek, NWR's Executive Director, a one-off discretionary bonus of EUR 4 million in recognition of services provided prior to NWR's Initial Public Offering. RPI has indicated that such payment will not be repeated in future years.

#### Relationship Agreement

NWR, Crossroads Capital Investments Inc. ('CCII') and Zdeněk Bakala entered the Relationship Agreement with RPI, which regulates (in part) the degree of control that RPI and its affiliates may exercise over the management of NWR. Following the transfer to BXR Mining B.V. ('BXR') of NWR's shares held by RPI, BXR has assumed RPI's rights and obligations under the Relationship Agreement. The principal purposes of the Relationship Agreement are to ensure that NWR is capable at all times of carrying on its business independently

of BXR Group; and that all of NWR's transactions and relationships with BXR Group are on arm's length terms.

The Relationship Agreement will continue until the earlier of: (i) the NWR's shares ceasing to be admitted to the Official List and to trading on the London Stock Exchange; or (ii) BXR (together with any of its subsidiaries) or CCII, Zdeněk Bakala or any entities that they individually or jointly control (directly or indirectly) ceasing to control 30 per cent or more of the voting rights NWR or having the right to appoint or remove a majority of NWR's Directors.

Both BXR and NWR undertake that they shall (and shall procure that their relevant subsidiaries shall) with effect from the date of the Relationship Agreement conduct any transactions and relationships (whether contractual or otherwise, including any subsequent amendment thereof or variation thereto, including the implementation or enforcement thereof) between BXR or any of its subsidiaries, on the one hand, and NWR or any of its subsidiaries, on the other, on arm's length terms. NWR 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 NWR 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. NWR shall have first right, for a period of 30 days from notification, to pursue the opportunity and neither CCII or Zdeněk Bakala may pursue the opportunity within those 30 days unless NWR decides not to pursue it.

#### Ivona Ročárková

Company Secretary

## Material Contracts

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

### Restructuring of interest rate hedging agreements

On 23 April 2010, in connection with the early repayment of the Senior Facilities Agreement dated 14 February 2006, a detailed description of which may be found in the 2009 Annual Report on page 74, interest rate hedging agreements with Calyon S.A., Czech Republic Branch (a member of the Crédit Agricole group) were terminated. The total amount paid to Calyon S.A., Czech Republic Branch was approximately EUR 9.9 million.

In addition, a restructuring process was agreed with Citibank Europe plc and Barclays Bank plc with whom the remaining interest rate hedging agreements were entered into and which are linked to the new inter-company loan between NWR and OKD, a.s. ('OKD') (tranches 2 and 3). See the description of the '2010 OKD Loan Agreement' for more details.

As part of the restructuring, new ISDA master agreements, together with credit support agreements, were signed pursuant to which OKD is required to provide collateral equal to the current market value of the interest rate hedging agreements. As of 31 December 2010, the balance of the collateral amounts to approximately EUR 11.7 million.

### 2015 Indenture

On 18 May 2007, NWR issued EUR 300 million in aggregate principal amount of its senior notes due 2015 (the 'Senior Notes'). Interest on the Senior Notes accrues at a rate of 7.375 per cent per annum and is payable semi-annually in arrears on 15 May and 15 November. The Senior Notes are senior obligations of NWR, and will rank equal in right of payment to all of its future senior debt. The Senior Notes are not guaranteed by any of NWR's subsidiaries. Therefore, the Senior Notes are effectively subordinated to any existing and future liabilities of NWR's subsidiaries. In connection with the issuance of the Senior Secured Notes (as defined below), the Senior Notes were secured by a second priority pledge over the shares of OKD, OKK Koksovny, a.s. ('OKK Koksovny') and NWR KARBONIA S.A. ('NWR KARBONIA'). The rights and obligations of the Senior Note holders in respect of such security are subject to the Intercreditor Agreement (as defined below).

On 30 September 2009, NWR closed an invitation for tenders of its Senior Notes (the 'Invitation'). Pursuant to the Invitation, NWR accepted for purchase EUR 32,435,000 in aggregate principal amount of its Senior Notes, which reduced the outstanding principal amount of the Senior Notes to EUR 267,565,000. The Senior Notes may be redeemed, in whole or in part, at any time prior to 15 May 2011, at the option of NWR at a redemption price equal to 100 per cent of the principal amount of the Senior Notes redeemed plus the applicable premium, as defined in the indenture establishing the Senior Notes (the '2015 Indenture'). After 15 May 2011, NWR may, at its option, redeem all or any portion of the Senior Notes at the prices set forth in the 2015 Indenture. In addition, prior to 15 May 2010, NWR was permitted to redeem up to 35 per cent of the original aggregate principal amount of the Senior Notes with the proceeds of one or more equity offers (as defined in the 2015 Indenture), at a redemption price equal to 107.375 per cent of the principal amount thereof.

If there is a change of control (as defined in the 2015 Indenture), holders of the Senior Notes shall have the right to require NWR to repurchase all or any part of the Senior Notes at a purchase price equal to 101 per cent of their principal amount. The 2015 Indenture contains covenants that limit the ability of NWR and its restricted

subsidiaries (which, generally, are subsidiaries of NWR other than those primarily engaged in the business of real estate) to, among other things: incur additional indebtedness; make restricted payments (including dividends); create liens; transfer or dispose of voting stock of any restricted subsidiary; sell assets; engage in transactions with affiliates; guarantee any debt of NWR or any of its restricted subsidiaries; and consolidate, merge or sell all or substantially all of its assets.

### 2018 Indenture

On 27 April 2010, NWR issued EUR 475 million in aggregate principal amount of its senior secured notes due 2018 (the 'Senior Secured Notes'). Interest on the Senior Secured Notes accrues at a rate of 7.875 per cent per annum and is payable semi-annually in arrears on 1 May and 1 November. The Senior Secured Notes are senior secured obligations of NWR and will rank equal in right of payment to all of its existing and future senior secured debt to the extent of the collateral securing the Senior Secured Notes. The Senior Secured Notes are secured obligations of NWR and are guaranteed by NWR's subsidiaries, including OKD, OKK Koksovny and NWR KARBONIA. Therefore, the Senior Secured Notes rank equal in right of payment to any existing and future liabilities of such NWR's subsidiaries.

The Senior Secured Notes may be redeemed, in whole or in part, at any time prior to 1 May 2014, at the option of NWR at a redemption price equal to 100 per cent of the principal amount of the Senior Secured Notes redeemed plus the applicable premium, as defined in the indenture establishing the Senior Secured Notes (the '2018 Indenture'). After 1 May 2014, NWR may, at its option, redeem all or any portion of the Senior Secured Notes at the prices set forth in the 2018 Indenture. In addition, prior to 1 May 2014, NWR may redeem up to 35 per cent of the original aggregate principal amount of the Senior Secured Notes with the proceeds of one or more equity offers (as defined in the 2018 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 Indenture), holders of the Senior Secured Notes shall have the right to require NWR to repurchase all or any part of the Senior Secured Notes at a purchase price equal to 101 per cent of their principal amount. The 2018 Indenture contains covenants that limit the ability of NWR and its restricted subsidiaries to, among other things: incur additional indebtedness; make restricted payments (including dividends); create liens; issue or sell capital stock of any restricted subsidiary; sell assets; engage in transactions with affiliates; and consolidate, merge or sell all or substantially all of its assets; and guarantee any debt of NWR or any of its restricted subsidiaries.

On 18 May 2010, NWR issued EUR 25 million in principal amount of its Senior Secured Notes due 2018 (the 'Additional Notes'). The Additional Notes issued were entitled to the same rights and privileges, including the interest payment dates and interest rate, as the EUR 475 million in aggregate principal amount of the Senior Notes that were issued on 27 April 2010. The Additional Notes have been sold at a net purchase price of 99.5 per cent of par value (reflecting a purchase price of 100 per cent of the par value, less applicable purchase fees of 0.5 per cent) plus interest since 27 April 2010.

### Revolving Credit Facility

On 7 February 2011, NWR entered into a Revolving Credit Facility with, among others, Česká spořitelna, a.s., as facility agent, Citigroup Global Markets Limited as documentation agent, and 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').



## Material Contracts continued

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 to pay certain fees including a commitment fee, arrangement fees and agency fees.

The RCF is a secured obligation of NWR and benefits from the share pledges over the shares in OKD, OKK Koksovny and NWR KARBONIA 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 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. 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 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.

### Intercreditor Agreement

NWR is a party to the Intercreditor Agreement dated 27 April 2010 entered into between, amongst others, NWR, the original obligors (being NWR and certain of its subsidiaries), the intra-Group lenders (being NWR and certain of its subsidiaries), Citibank N.A., London Branch as the security agent, Deutsche Trustee Company Limited as the first and second priority note trustee and certain hedging counterparties. The Intercreditor Agreement establishes, amongst other things, when payments can be made in respect of the debt of NWR and certain of its affiliates. The Intercreditor Agreement sets out: (i) the relative ranking of certain debt of NWR and certain of its affiliates; (ii) the relevant ranking of security granted by NWR and certain of its affiliates; (iii) when payments can be made in respect of that debt; (iv) the effects of certain insolvency events; (v) turnover provisions; and (vi) when security and guarantees will be released to permit an enforcement sale. The RCF lenders acceded to the Intercreditor Agreement by signing the RCF.

### OKK Share Pledge Agreement

On 27 April 2010, NWR entered into a share pledge agreement in order to create a Czech law pledge over the shares it owns in OKK Koksovny in favour of Citibank N.A., London Branch (the 'OKK Share Pledge Agreement'). The pledge was granted as security for the payment of all obligations of each of NWR, OKK Koksovny, OKD and/or NWR KARBONIA towards Citibank N.A., London Branch in its capacity as, amongst other things, the security agent (the 'Secured Obligations').

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 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'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 Citibank N.A., London Branch 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 entered into a share pledge agreement in order to create a Czech law pledge over the shares it owns in OKD in favour of Citibank N.A., London Branch (the 'OKD Share Pledge Agreement') 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 in OKD.

### NWR KARBONIA Registered Share Pledge Agreement

On 27 April 2010, NWR entered into a share pledge agreement in order to create a Polish law pledge over the shares it owns in NWR KARBONIA in favour of Citibank N.A., London Branch (the 'NWR KARBONIA Share Pledge Agreement') 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 in NWR KARBONIA.

### ECA Facility

On 29 June 2009, NWR and OKD, as a co-obligor, entered into the ECA facility with, amongst others, Natixis Zweigniederlassung Deutschland as facility agent and Natixis as 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 arrangers and original lenders, as amended on 3 August 2009 (the 'ECA Facility'). The ECA Facility provides for a term loan of approximately EUR 141.5 million, which, following an amendment, was available to be drawn until 30 November 2010 and which will be repayable in 17 semi-annual linear instalments, with a final maturity 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 the Productivity Optimisation Programme 2010 ('POP 2010') capital investment programme. The interest rate on each advance under the ECA Facility for each interest period is the rate per annum, that is the aggregate of: (a) a margin of 1.65 per cent; (b) EURIBOR; and (c) any applicable mandatory cost of compliance with; (i) the requirements of the Bank of England and/or the FSA or; (ii) the requirements of the European Central Bank.

The ECA Facility also provides for NWR to pay certain fees including a commitment fee, arrangement fees and agency fees. The ECA Facility is an unsecured obligation of NWR and OKD as a co-obligor and is not guaranteed by any of NWR'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 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, OKD and certain subsidiaries of NWR 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 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 and OKD.

The ECA Facility contains financial covenants. 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 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. The ECA Facility will also be automatically cancelled if the ECA guarantee is terminated or cancelled.

#### **OKK Intercompany Revolving Credit Agreement**

On 29 April 2009, NWR and OKK Koksovny entered into the Intercompany Revolving Credit Agreement (the 'Agreement'), as amended. Under the Agreement, NWR made available funds in the total amount of CZK 3.6 billion (CZK tranche) and EUR 8 million (EUR tranche) to OKK Koksovny for general payment purposes in connection with OKK Koksovny's operations and activities. The CZK tranche was available for drawing in one or more advances until 30 April 2011, which was also the final maturity date for the CZK tranche. The EUR tranche was made available for drawing until 31 October 2009 and was repaid in full by 31 December 2010.

On 1 January 2011, NWR and OKK Koksovny restructured the Agreement into a 10-year term loan facility. The outstanding amount of CZK 1,712 million is repaid in equal monthly instalments up to the final instalment of CZK 514 million due on 31 December 2020. OKK Koksovny is charged a fixed interest rate of 8.9 per cent per annum on the outstanding principal amount. OKK Koksovny shall pay NWR interest with respect to the outstanding principal amount at the end of each month.

#### **New OKK Intercompany Revolving Credit Agreement**

On 14 January 2011, NWR and OKK Koksovny entered into the new Intercompany Revolving Credit Agreement (the 'New Agreement'). Under the New Agreement, NWR makes available funds in the total amount of CZK 1.14 million to OKK Koksovny for general payment purposes in connection with OKK Koksovny's operations and activities. The funds are available for drawing in one or more advances until 31 December 2011, which is also the final maturity date. The New Agreement may be extended until 31 December 2012, subject to the agreement of both parties. The advanced funds shall be repaid within one to 12 months as selected by OKK Koksovny or as otherwise agreed between the parties. The advances may be rolled over at the option of OKK Koksovny. OKK Koksovny is charged a fixed interest rate of 4.75 per cent per annum on the outstanding principal of each advance. OKK Koksovny shall pay NWR 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, 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 approximately CZK 12.8 billion. As OKD did not have sufficient funds to cover the distribution, NWR agreed to lend this amount to OKD on the basis of a loan agreement dated 12 July 2010 (the '2010 Loan Agreement'). In connection with the decision on the distribution, NWR, in its capacity as the sole shareholder of OKD, further resolved, on 18 May 2010, to approve NWR's contingent equity contribution in excess of the registered capital of OKD in the amount of up to EUR 700 million. This measure represents a requirement under the 2018 Indenture for the protection of the holders of the Senior Secured Notes. The contingent contribution will only be triggered upon an event of default under the 2018 Indenture, a continuing event of default under the 2015 Indenture or a continuing event of default under the documentation governing indebtedness that qualifies as material debt under the 2018 Indenture.

On 14 July 2010, OKD drew down the full amount of the 2010 Loan Agreement in the aggregate amount of approximately EUR 502.8 million. The 2010 Loan Agreement consists of three 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 by 15 February 2016.

#### **Sale of Energy Business**

NWR entered into the Share Sale and Purchase Agreement with Dalkia Česká republika, a.s. ('Dalkia') on 8 January 2010, which provides for the sale by NWR to Dalkia of 100 per cent of the ownership in NWR Energy, a.s. ('NWR Energy'), CZECH-KARBON s.r.o. ('CZECH-KARBON') and NWR ENERGETYKA PL Sp. z o.o. (together the 'Energy Subsidiaries'), which was successfully closed on 21 June 2010 (the 'SPA'). The purchase price paid to date is CZK 3,584 billion in cash, and is subject to further adjustments based on the trading results of CZECH-KARBON for 2010 and 2011. 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'.

The SPA provides for put and call options, as well as a pre-emption right of NWR, in respect of the energy assets and businesses transferred to Dalkia or replacing such energy assets or businesses upon the occurrence of certain events. Before 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. In addition, OKK Koksovny and Dalkia were already, prior to closing, party to an agreement pursuant to which OKK Koksovny supplied Dalkia with coking gas and Dalkia supplies OKK Koksovny with heat and OKD and NWR were parties to an agreement pursuant to which Dalkia, through NWR, 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

## Material Contracts continued

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.

### 2009 Factoring Agreement

OKD and HSBC Bank plc acting through its branch HSBC Bank plc pobočka Praha operating in the Czech Republic ('HSBC') entered into a non-recourse receivables sale agreement effective as of 28 December 2009 (the '2009 Factoring Agreement'). Pursuant to the 2009 Factoring Agreement, OKD agreed to sell and assign certain receivables arising from a delivery of certain goods by OKD to suppliers as specified in the schedule to the 2009 Factoring Agreement to HSBC for the price corresponding to 90 per cent of the principal amount of the assigned receivables. HSBC agreed to maintain and service such transferred receivables. OKD agreed to retain a maximum of 10 per cent of the risk associated with such transferred receivables. OKD is obliged to pay HSBC interest and service fees under the agreement. The maximum available balance under the agreement is CZK 1,725 million, which is approximately EUR 64 million. The 2009 Factoring Agreement is governed by the laws of the Czech Republic. However, certain mutual relationships between OKD and HSBC in connection with the transfer of the receivables are governed by English law. On 31 December 2009, CZK 1,650,132,170.29, which is approximately EUR 61 million, of eligible receivables were sold by OKD under the 2009 Factoring Agreement. The payments of assigned receivables by the sub-debtors are directed to a special account and are available for drawing by OKD (even to the debit) up to 90 per cent of the nominal value of the assigned receivables. The 2009 Factoring Agreement was terminated as of 2 March 2010 pursuant to the 2010 Factoring Agreement (described below).

### 2010 Factoring Agreement

OKD and HSBC entered into a further non-recourse receivables sale agreement effective as of 29 March 2010 (the '2010 Factoring Agreement'). The maximum available balance under the 2010 Factoring Agreement is CZK 1,725 million. The 2010 Factoring Agreement is governed by the laws of the Czech Republic. However, certain mutual relationships between OKD and HSBC in connection with the transfer of the receivables are governed by English law. On 31 March 2010, CZK 1,102,359,603.82 of eligible receivables were sold by OKD pursuant to the 2010 Factoring Agreement.

### Equipment Supply Contract

NWR entered into an equipment supply contract on 16 June 2008, as amended, whereby it agreed to purchase certain equipment for longwall coal extraction for approximately EUR 145 million. All longwall equipment has been delivered, assembled and is operational.

### Hedging Arrangements

NWR has entered into the following interest rate hedging arrangements (outstandings as of 31 December 2010): (i) a hedge in the aggregate amount of EUR 105 million with Česká spořitelna, a.s., Československá obchodní banka, a.s. and ING Bank N.V. in relation to the ECA Facility; (ii) a hedge in the aggregate amount of EUR 200 million with Citibank N.A. in relation to the Senior Secured Notes; and (iii) a hedge in aggregate amount of EUR 59 million with Royal Bank of Scotland. In addition, OKD has entered into an interest rate hedging arrangement with Citibank N.A. and Barclays Bank plc in the aggregate amount of EUR 182 million and CZK 1,516 million in relation to the 2010 OKD Loan Agreement.

### Co-operation Agreement between RPGL and Ferrexpo

In October 2008, RPG Industries Public Limited (formerly known as RPG Industries SE; 'RPGL'), the former majority indirect shareholder of NWR, purchased a shareholding of 25 per cent minus one share in Ferrexpo, a Ukrainian iron ore company (the 'Ferrexpo Transaction'). In connection with the Ferrexpo Transaction, Ferrexpo's controlling shareholder Fevamotinic Sarl, a company incorporated with limited liability in Luxembourg ('Fevamotinic') and RPGL entered into an agreement in which the parties agreed to pursue a strategic alliance whereby RPGL and Fevamotinic would seek to find areas in which they could work together to develop their respective businesses in the CEE. As part of such strategic alliance, RPGL and Fevamotinic agreed to ask NWR 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 RPGL and Fevamotinic to nominate persons to be appointed to the board of directors of the other's affiliate, being NWR and Ferrexpo, respectively. Mike Salamon, the Executive Chairman of NWR, and Marek Jelínek, the Chief Financial Officer of NWR, were appointed as non-executive directors of Ferrexpo, and Kostyantyn Zhevago, the chief executive officer of Ferrexpo, was appointed as a Non-Executive Director of NWR. Mr. Jelínek retired from the board of Ferrexpo in May 2010.

### Agreement on ICT Services

On 29 April 2010, OKD, HEWLETT-PACKARD s.r.o. and Siemens IT Solutions and Services, s.r.o. concluded the Agreement on ICT Services. Under this agreement, the suppliers will provide OKD with IT services for a total consideration of CZK 482 million. The agreement was entered into for a period of 60 months and may be extended for an additional 24 months. The agreement may be terminated by either party in case of a gross breach of the agreement or without cause after a six-month notice period at any time after the second year of the term of agreement.

### Contract for Works

On 20 October 2010, OKD, GASCONTROL, společnost s.r.o., Q-ELEKTRIK a.s. and VOKD, a.s. concluded the Contract for Works. Under this contract, the suppliers are obliged to supply OKD's mine sites with 60 circuit-breakers in 2010. OKD has an option for supply of another 690 circuit-breakers in 2011–2013. The total consideration for the 750 circuit-breakers is CZK 927.5 million.

### Ivona Ročárková

Company Secretary

## Directors' Statement of Responsibility

The financial report is the responsibility of, and has been approved by, the Board of Directors of the Company. The Directors declare that, to the best of their knowledge:

- (a) The consolidated financial statements, set out on pages 81 to 139 have been prepared in accordance with IFRS, as adopted by the European Union, and give a true and fair view of the assets, liabilities, financial position and profit or loss of NWR and the undertakings included in the consolidation taken as a whole;
- (b) The management report includes a fair review of the development and performance of the business and the position of NWR and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

### The Board of Directors

14 March 2011

## Remuneration Report

This Remuneration Report was prepared by the Remuneration Committee and sets out the Company's Remuneration Policy and practice for the Directors. The report also provides details of Directors' remuneration for the year ended 31 December 2010.

### Remuneration Committee

The Remuneration Committee is chaired by Zdeněk Bakala and the other members are Hans-Jörg Rudloff, and Bessel Kok, all of whom are Non-Executive Directors. As a major shareholder representative Mr. Bakala is not considered to be independent. However the Board regards Mr. Bakala's membership of the Remuneration Committee as critical to the further alignment of executive remuneration with shareholder interests.

The Remuneration Committee is responsible for advising the Board on remuneration policy for Directors of the Board including salary levels, bonuses and other benefits for Executive Directors and contractual terms for all Directors of the Board.

During the year, Mercer Limited provided independent advice to the Remuneration Committee on executive remuneration. Mercer Limited did not provide any other services to NWR during the year.

### Remuneration policy

The remuneration policy for the Board of Directors was adopted by the Annual General Meeting of Shareholders in April 2008 and amended on 27 April 2010 by the Annual General Meeting of Shareholders.

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. The Remuneration Committee believes that the remuneration policy remains appropriate for 2011.

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 salary, bonus, if any, and other terms and conditions of employment of the Executive Directors shall be determined by the Board having reviewed proposals submitted by the Remuneration Committee and giving due consideration to the remuneration policy. The remuneration policy also sets out the remuneration of Non-Executive Directors, as described further. 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 2010 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 share grants and stock option grants. The Remuneration Committee ensured that an appropriate balance between the fixed and performance-related elements of executive remuneration was maintained.

Upon its engagement by the Board as the Company's independent remuneration consultants, Mercer Limited proposed to modify the remuneration policy for Executive Directors, senior managers and key employees of NWR Group. Specifically to include, inter alia, a deferred bonus plan using predetermined performance conditions, as described in more detail below (the 'Deferred Bonus Plan'). The

Deferred Bonus Plan has now been implemented throughout NWR Group commencing in January 2011.

### 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, and makes subsequent proposals to the Board. 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 Board upon proposal by the Remuneration Committee. The value of the cash bonus is determined by the Remuneration Committee following evaluation of financial and non-financial benchmarks.

### Stock option plan for the Chairman of the Board

On 1 September 2008, Mr. Salamon was awarded share options equal to 0.5 per cent of NWR's share capital as per the date of grant. Each share option gives Mr. Salamon the right to acquire one A share on the vesting date. The exercise price per option is EUR 0.01. The option award will enable Mr. Salamon to ultimately acquire up to 0.5 per cent of NWR's share capital by 1 September 2012, provided that: (i) he remains an executive member of the Board; and (ii) any other conditions for vesting have been met. The options vest over a period of five years so that 20 per cent of the total awarded options vest annually on each anniversary of 1 September 2008, when the initial 263,800 options vested. The number of options vesting depends on NWR's share capital on 1 September of that year. Mr. Salamon shall be compensated for any shortfall on each anniversary.

### Share awards plan for the chief executive officer of OKD, a.s. ('OKD')

Mr. Beck was entitled to receive from OKD and its affiliates, at the cost of OKD, 250,045 A shares of NWR, or cash in lieu of shares, for each full year of his three-year term ending on 30 June 2010. Since Mr. Beck and OKD have agreed to extend Mr. Beck's employment term beyond the initial three years, his new employment agreement provides that he is entitled to receive 250,045 A shares of NWR for each full year of the term beyond the initial three years up to a maximum of 1,250,225 A shares of NWR.

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

NWR operates a stock option plan (the 'Stock Option Plan'), which was adopted by the Annual General Meeting of Shareholders in April 2008. The Stock Option Plan was designed with the assistance of Mercer Limited. The plan is administered by the Board and the Remuneration Committee.

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.

### Eligibility

Executive Directors, senior managers and key employees of the NWR Group were eligible to participate in the Stock Option Plan. Individual eligibility was determined by the Board upon the recommendation of the Remuneration Committee.

### Grant of options

The maximum number of A shares over which options might have

been granted under the Stock Option Plan could not exceed 3 per cent of the issued A share capital of NWR at the time of its IPO. Option holders were not required to pay for the grant of an option.

As per January 2010, the total number of options granted (excluding options of holders who had left NWR Group) was 3,792,436 and their total monetary value was GBP 6,101,618 (approximately EUR 6,871,344), which was calculated on the Black-Scholes model.

The total number of options granted in March 2010 was 1,742,631 and their total monetary value at the date of the grant was GBP 5,128,618 (approximately EUR 5,722,627), also calculated on the Black-Scholes model.

#### Exercise price

The exercise price of options granted upon completion of the IPO in May 2008 was GBP 13.25. The exercise price in respect of any other options granted under the Stock Option Plan was equal to the average opening value of an A share on the London Stock Exchange on the five business days immediately prior to the date of grant. The exercise price of options granted in 2009 was GBP 2.8285 and the exercise price of options granted in 2010 was GBP 7.128.

#### Exercise of options

Options vest after a three-year period, provided the option holder remains a Director or an employee of NWR Group. The exercise of options is dependent on financial and operational criteria determined by the Remuneration Committee and approved by the Board. For Executive Directors 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. 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. Individual threshold and target performance were proposed each year by the Remuneration Committee and approved by the Board.

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 (see below), 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 2010.

#### Individual limits

Options are not granted to a member of senior management if this would cause the total amount due on the exercise of any options in a single year to exceed his/her fixed annual salary in the 12 months prior to grant, or to exceed five times his/her fixed annual salary in the 60 months prior to grant. Furthermore, options are not granted to a key employee of the NWR Group if this would cause the total amount due on the exercise of any options granted in a single year to exceed 60 per cent of his/her fixed annual salary in the 12 months prior to grant, or to exceed three times his/her fixed annual salary in the 60 months prior to grant.

#### Termination of employment

If an option holder ceases to be a Director or employee of NWR Group for reasons involving misconduct, all his/her options will lapse. If an option holder dies, retires at normal retirement age, is made

redundant or retires through illness or injury, his/her options may be exercised on a proportionate basis dependent upon the time, which has elapsed since the date of grant and the application of any relevant performance condition.

#### Change in control

In the event of a change in control of NWR Group, all options will vest.

#### Issue of A shares and variation in share capital

A shares issued in a single year of options will rank equally with A shares in issue at that time, except in respect of rights arising by reference to a prior record date. Options may be adjusted following certain variations in the share capital of NWR Group, including a capitalisation or rights issue, subdivision or consolidation of share capital.

#### Amendments

The Remuneration Committee has discretion to manage and administer the Stock Option Plan, interpret and propose changes therein to the Board, subject to the provisions of any applicable law, including but not limited to Dutch corporate law and market abuse laws in both the Netherlands and the UK.

#### Deferred Bonus Plan

The Deferred Bonus Plan undertakes to establish universal and transparent Group-wide remuneration principles in line with industry best practice. The Deferred Bonus Plan may be offered to Executive Directors as well as to senior managers and key employees of NWR Group, subject to approval by the Remuneration Committee. Board approval is required for participation of Executive Directors.

The main principles of the Deferred Bonus Plan applicable to the Executive Directors are set out below:

#### Main principles

A bonus opportunity will be set as a percentage of base salary. In line with standard practice, Executive Directors would need to achieve of at least 80 per cent of annual EBITDA target for a bonus to be payable. This condition aims to provide a strong connection between business imperative and performance. If this condition is met the bonus may be between 100 per cent and 250 per cent of annual salary on the basis of performance evaluation of performance criteria. Performance will be measured against a balanced scorecard, providing a shared framework within which specific performance criteria shall be set relevant to the Executive Director and his area of responsibility, which may include one or more of EBITDA, CAPEX, cost control, production, safety, etc. At the end of the year, bonus eligibility will be determined using audited results. The Board, upon the proposal of the Remuneration Committee, shall decide on the actual amount of bonus payable. 50 per cent of the annual bonus award will be payable in cash and 50 per cent will be deferred into A shares for a period of three years. 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. After a period of three years from the date of deferral, the deferred bonus award will vest. The A shares will be delivered to the participant provided that the participant is still employed by NWR Group (otherwise a principal of 'good' or 'bad' leavers will apply). 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. No dividend will be paid out on the deferred shares during the deferral period. The Deferred Bonus Plan allows ad hoc grants, although the use of such grants should be minimized. The value of any ad hoc grant shall not exceed 250 per cent of annual salary in each case in each financial year.



## Remuneration Report continued

### Put option

Each participant will have a put option, which will give the participant a put at market price at the time the A shares are issued or delivered, as the case may be, to him/her to have him/her benefit from 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 or the Board, as the case may be, 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 awarded to the Executive Director, the Board, upon the proposal of the Remuneration Committee, retains the discretionary power to adjust the value of the deferred bonus amounts 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 Executive Director. This right of recovery exists irrespective of whether the Executive Director 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 after a period of three years as of the adoption of the annual accounts in which the variable remuneration is accounted for.

### Change in control

Upon a change in control of NWR Group, deferred shares will vest on a time pro rated basis unless the Board 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.

### 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 (NWR Group does not operate any pension schemes on behalf of, or for the benefit of, its Directors).

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.

### Service contracts of Executive Directors

| Name                           | Date of appointment | Termination date for appointment | Notice period <sup>1</sup>                                |
|--------------------------------|---------------------|----------------------------------|---|
| Mike Salamon                   | 1 September 2007    | –                                | 12 months' notice by NWR; six months' notice by Director  |
| Klaus-Dieter Beck <sup>2</sup> | 1 July 2007         | 30 June 2013                     | Six months' notice by either party                        |
| Marek Jelínek                  | 6 March 2007        | –                                | Two months' notice by NWR; one month's notice by Director |

1 Service contracts of Executive Directors provide for payment of salary alone in lieu of notice.

2 The applicable law governing Mr. Beck's employment agreement provides for a statutory severance payment of three average monthly salaries. However, he would only be entitled to such a severance payment, if the position of Chief Executive Officer has ceased to exist (and not in the event of his replacement).

### Remuneration of Executive Directors in financial year 2010

The tables below provide a description of the pre-tax remuneration of Executive Directors for the fiscal year ended 31 December 2010.

#### Executive Directors' emoluments and cash remuneration

| Name                           | Gross salary (EUR) | Cash bonus (EUR) | Other benefits <sup>3</sup> (EUR) | Total (EUR) |
|--------------------------------|--------------------|------------------|-----------------------------------|-------------|
| Mike Salamon                   | 291,475            | –                | –                                 | 291,475     |
| Klaus-Dieter Beck <sup>1</sup> | 694,848            | 1,977,535        | 131,950                           | 2,804,333   |
| Marek Jelínek <sup>2</sup>     | 290,396            | –                | 102,129                           | 392,525     |

1 Mr. Beck receives his remuneration in CZK. The amounts stated in this table were converted into EUR from CZK at an exchange rate of 25.284 CZK/EUR, which was the average exchange rate in 2010. Gross salary of Mr. Beck includes remuneration received from OKD and OKK Koksovy for his Board membership in 2010. The cash bonus was awarded for the year 2009.

2 Gross salary of Mr. Jelínek includes remuneration received from OKD for his Board membership in January and February 2010.

3 Includes in-kind compensation, e.g. personal travel costs, additional health insurance, housing, etc.

### 2010 Stock option grants

| Name                       | Date of grant    | Granted   | Vesting date     | Vested  | Lapsed |
|----------------------------|------------------|-----------|------------------|---------|--------|
| Mike Salamon <sup>1</sup>  | 1 September 2008 | 1,319,000 | 1 September 2010 | 265,150 | –      |
| Klaus-Dieter Beck          | –                | –         | –                | –       | –      |
| Marek Jelínek <sup>2</sup> | 17 March 2010    | 88,310    | 17 March 2013    | –       | –      |

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| Name              | Exercised | Expiry date | Exercise price | At 1 January 2010 | At 31 December 2010 |
|-------------------|-----------|-------------|----------------|-------------------|---------------------|
| Mike Salamon      | 265,150   | –           | EUR 0.01       | 790,849           | 525,699             |
| Klaus-Dieter Beck | –         | –           | –              | –                 | –                   |
| Marek Jelínek     | –         | –           | GBP 7.128      | 261,665           | 349,975             |

- 1 Mr. Salamon received options under his stock option plan. 263,800 options vested on 1 September 2008, 264,351 options vested on 1 September 2009 and 265,150 options vested on 1 September 2010. An additional 20 per cent of granted options will vest on 1 September 2011 and 2012.
- 2 Mr. Jelínek received options under the Stock Option Plan.

### Share awards

| Name                              | Date of grant | At 1 January 2010 | Granted | At 31 December 2010 |
|-----------------------------------|---------------|-------------------|---------|---------------------|
| Mike Salamon                      | –             | –                 | –       | –                   |
| Klaus-Dieter Beck <sup>1, 2</sup> | 1 July 2010   | –                 | 250,045 | –                   |
| Marek Jelínek <sup>3</sup>        | –             | –                 | –       | –                   |

- 1 In January 2010, Mr. Beck received a cash amount of CZK 41,724,729 (which is approximately EUR 1,650,242) equal to the then market value of 250,045 A Shares of NWR that Mr. Beck was entitled to receive in July 2009 and which Mr. Beck and OKD agreed, following deferral until 2010 in response to the economic situation of OKD in 2009.
- 2 In July 2010, Mr. Beck received a cash amount of CZK 54,858,713 (which is approximately EUR 2,169,700) equal to the then market value of 250,045 A Shares of NWR that Mr. Beck was entitled to receive in accordance with his share awards plan.
- 3 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 resolved, on 3 March 2011, on an ad hoc grant of 30,000 deferred shares to Mr. Jelínek. The deferred shares will vest in three years, provided that Mr. Jelínek is employed with NWR Group on the vesting date. The grant is not subject to any performance criteria but is subject to the continuing provisions of the Deferred Bonus Plan.

### Total remuneration of Executive Directors

| Name              | Salary (EUR) | Cash bonus (EUR) | Other benefits (EUR) | Value of stock options exercised in FY 2010 (EUR) | Value of share awards in FY 2010 (EUR) | Total in FY 2010 (EUR) |
|-------------------|--------------|------------------|----------------------|---|--|------------------------|
| Mike Salamon      | 291,475      | –                | –                    | 2,342,419   | –                                      | 2,633,894              |
|                   | 11%          | –                | –                    | –   | 89%                                    | 100%                   |
| Klaus-Dieter Beck | 694,848      | 1,977,535        | 131,950              | –   | 3,819,942                              | 6,624,295              |
|                   | 10%          | 30%              | 2%                   | –   | 58%                                    | 100%                   |
| Marek Jelínek     | 290,396      | –                | 102,129              | –   | –                                      | 392,525                |
|                   | 74%          | –                | 26%                  | –   | –                                      | 100%                   |

### Remuneration of Non-Executive Directors

Each Non-Executive Director has entered into a letter of appointment with the Company, 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. No 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 General Meeting. The Annual General Meeting of Shareholders held in April 2010 approved a proposal of the Board, as recommended by the Remuneration Committee, to increase the annual fee for the members of the Health and Safety Committee to the levels paid to the members of the Real Estate Committee. The Remuneration Committee believes remuneration rates remain appropriate for 2011.

The 2010 Annual General Meeting of Shareholders further approved the Board's proposal to continue the share plan for the Independent Non-Executive Directors in 2010. (Details of this plan are described in the 2009 Annual Report on page 81.) Following the approval referred above, each of the Independent Non-Executive Directors were awarded additional A shares valued at EUR 200,000 in May 2010. The number of A shares awarded was equivalent to EUR 200,000 divided by the average opening price 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, and each Director received 20,693 A shares valued at a total of EUR 1 million.

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

## Remuneration Report continued

### Remuneration of Non-Executive Directors in financial year 2010

| Name                            | Annual fee<br>(EUR) | Committee<br>chairmanship<br>annual fee<br>(EUR) | Committee<br>membership<br>annual fee<br>(EUR) | Total actual<br>compensation <sup>5</sup><br>(EUR) |
|---------------------------------|---------------------|--|--|--|
| Zdeněk Bakala <sup>1</sup>      | 0                   | 0  | 0  | 0  |
| Peter Kadas <sup>1</sup>        | 0                   | 0  | –  | 0  |
| Hans Mende                      | 76,065              | –  | –  | 76,065   |
| Pavel Telička <sup>2</sup>      | 76,065              | –  | –  | 76,065   |
| Kostyantín Zhevago <sup>3</sup> | 76,065              | –  | –  | 76,065   |
| Bessel Kok                      | 76,065              | 63,387   | 25,355   | 164,807  |
| Hans-Jörg Rudloff               | 76,065              | –  | 57,049   | 133,114  |
| Steven Schuit <sup>4</sup>      | 76,065              | –  | 89,038   | 165,103  |
| Barry Rourke                    | 76,065              | 63,387   | 31,694   | 171,146  |
| Paul Everard <sup>4</sup>       | 76,065              | 59,358   | 31,694   | 167,117  |

1 Mr. Bakala and Mr. Kadas waived their fees for the whole of 2010.

2 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 2010 Annual Report.

3 Mr. Zhevago agreed to waive his annual fee for the benefit of a charity.

4 Includes the increased fee for the membership in the Health, Safety and Environment Committee, which applied from 27 April 2010.

5 Excludes the value A shares awarded to Independent Non-Executive Directors.

6 The Health, Safety and Environment Committee includes Messrs. Stan Suboleski and Karl-Friedrich Jakob as associate members. Their annual fee corresponds with the annual fee of other members of this committee and amounts to EUR 31,694.

### Directors' interest in shares

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

| Name                       | At 1 January 2010                  | At 31 December 2010                |
|----------------------------|------------------------------------|------------------------------------|
| Mike Salamon               | 437,618 shares and 790,849 options | 570,193 shares and 525,699 options |
| Marek Jelínek              | 7,075 shares and 261,665 options   | 7,075 shares and 349,975 options   |
| Klaus-Dieter Beck          | 12,490                             | 12,490                             |
| Zdeněk Bakala <sup>1</sup> | –                                  | –                                  |
| Peter Kadas <sup>1</sup>   | –                                  | –                                  |
| Hans Mende                 | 38,000 <sup>2</sup>                | 38,000 <sup>2</sup>                |
| Pavel Telička              | –                                  | –                                  |
| Kostyantín Zhevago         | –                                  | –                                  |
| Bessel Kok                 | 68,830                             | 54,308                             |
| Hans-Jörg Rudloff          | 115,150                            | 90,843                             |
| Steven Schuit              | 65,150                             | 25,843                             |
| Paul Everard               | 85,150 <sup>2</sup>                | 67,843                             |
| Barry Rourke               | 65,150                             | 55,843                             |

1 Please refer to the 'Shareholder Information' on page 160 in respect of the individual interests of entities affiliated with Messrs. Bakala and Kadas in the A shares and B shares of NWR.

2 Includes shares held in the name of spouse (or other member of family if applicable), fund, trust or other nominee.

### Loans to Directors

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

### Pension scheme

NWR Group does 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.

However, NWR Group does accrue certain pension liabilities under applicable Czech law for medical leave, employment length of service (which is a special benefit paid to all employees in the mining profession once a year based on length of employment) and termination payments for its employees. For additional information, see Note 28 to NWR Group's consolidated financial statements for the year ended 31 December 2010.

This Remuneration Report has been approved by the Board.

### Zdeněk Bakala

Chairman of the Remuneration Committee

27 January 2011

## General Information

### Executive Directors

Mike Salamon (Chairman)  
Klaus-Dieter Beck  
Marek Jelínek

### Non-Executive Directors

Zdeněk Bakala  
Peter Kadas  
Hans-Jürgen Mende  
Pavel Telička  
Kostyantín Zhevago

### Non-Executive Independent Directors

Bessel Kok  
Hans-Jörg Rudloff  
Steven Schuit  
Paul Everard  
Barry Rourke

As of 31 December 2010, the Board of Directors consisted of three Executive Directors and 10 Non-Executive Directors, five of whom qualified as independent. The Company may be represented by any Executive Director. The Board of Directors adopts its resolutions by an absolute majority of votes cast. Further distinction between an Executive Director and a Non-Executive Director follows from the Articles of Association and is described in more detail in the Annual Report and Accounts 2010.

### Registered Office

Jachthavenweg 109h  
1081 KM Amsterdam  
The Netherlands

### Company Registration Number

Trade Register Amsterdam 34239108

### Auditors

KPMG Accountants N.V., Amsterdam, The Netherlands

## Directors' Report

Management hereby presents to the shareholders consolidated and non-consolidated financial statements of New World Resources N.V. (the 'Company') for the year ended 31 December 2010.

### General information

The principal business of the Company and its subsidiaries (the 'Group') is hard coal mining and coke production. The Group, through OKD, a.s. ('OKD'), is the Czech Republic's largest hard coal mining producer and is a leading producer of hard coal in Central Europe, serving customers, primarily in, the Czech Republic, Slovakia, Austria, Poland, Hungary and Germany. It is one of the largest industrial groups in the Czech Republic in terms of revenues and employees.

The Company has a one-tier Board of Directors (the 'Board') comprising of both Executive and Non-Executive Directors. Currently the Board consists of 13 Directors, which includes five Independent Directors. Such Board composition ensures the effective achievement of the corporate objectives, the protection of the interests of Company's shareholders and stakeholders and the governance of the Group. Non-Executive Directors monitor the performance of Executive Directors and management of goals and objectives of the Company. Non-Executive Independent Directors are judged to be independent of the Group and free of material relationships with the Group and its affiliated entities.

The decision-making of the Board is supported by five committees established by the Board in 2007: the Audit and Risk Management Committee, the Remuneration Committee, the Health, Safety and Environment Committee, the Finance and Investment Committee and the Real Estate Committee, each of them with defined responsibilities and own rules, which were approved by the Board. While the committees advise the Board in its work, the Board remains responsible for its decisions.

In April 2010, BXR Mining B.V. ('BXR') informed the Company that BXR Group Limited ('BXR') had replaced RPG Partners Limited as the ultimate parent company of BXR. Accordingly, BXR has a 63.57 per cent indirect interest in the A shares and a 100 per cent indirect interest in the B shares.

On 5 October 2010, the Company announced an all-cash offer to acquire all of the issued and outstanding shares of Lubelski Węgiel 'BOGDANKA' S.A. ('Bogdanka') for PLN 100.75 in cash per Bogdanka share (the 'Offer'), amounting to PLN 3,427 million in total (approximately EUR 857 million). Completion was conditional upon a minimum of 25,510,193 Bogdanka shares (representing 75 per cent of Bogdanka's issued share capital) being tendered in acceptance of the Offer and the approval of Polish competition authorities. The Offer subscription period closed on 29 November 2010 and as the acceptance threshold of 75 per cent of Bogdanka's issued share capital was not met, the Offer has lapsed.

On the same day the Company announced its intention to re-incorporate in the United Kingdom. The Company believes that this should allow FTSE UK Index Series eligibility, raising the profile of the Group with international investors and further demonstrating the Group's commitment to the high governance and control standards according to which it operates its business. The re-incorporation in the United Kingdom is expected to take place in 2011.

### Business strategy

The Group seeks to distinguish itself from its competitors in terms of responsiveness to customer specifications, production of high quality coal and coke products, timeliness of delivery and knowledge of market trends to maintain its leading market position in the Czech

Republic and Central Europe. The Group intends to accomplish this by pursuing the following focused business strategy:

1. improving efficiency and profitability of mining operations;
2. strengthening reserve base from existing mines;
3. actively pursuing growth opportunities in Poland, the rest of Central Europe and elsewhere;
4. maintaining strong health and safety record; and
5. seeking to implement and maintain international best practice in corporate governance.

### Employees

During the year 2010 the Company and its subsidiaries employed an average of 15,146 employees (including discontinued operations) and utilized an average of 3,407 workers employed by contractors. The Company expects a gradual decrease of the headcount in the future, following its aim to increase the productivity and efficiency of its operations. The development of average wage depends on negotiations with labour unions, which take place generally once a year. In 2010, the basic wages of employees remained at the same level as those for 2009. On the basis of the Company's strong performance during the year 2010 the Group paid summer and winter bonuses to its mining employees resulting in an increase of personnel expenses by approximately 3% on a constant currency basis. For 2011, under an agreement with the Trade Unions, OKD employees will receive a 4% increase in their basic wage, along with summer and winter bonuses.

### Investments

Over the course of 2008 and 2009, the Group implemented its Productivity Optimisation Programme 2010 ('POP 2010'). All 10 longwall sets have been successfully installed and are now fully operational. The new equipment is delivering expected results, thus improving productivity, efficiency as well as labour safety. In the long term the equipment should enhance the Group's reserve base, since the new equipment is better suited to the existing coal seams and provides improved strength to allow deeper mining.

Having completed the implementation of POP 2010, the Company launched a new, PERSpective 2015 Programme, a set of cultural values intended, amongst other things, to build on the gains and efficiencies achieved by the POP 2010 investment by further improving employee care and labour productivity and ensuring consistent exploitation of coal reserves, occupational safety and good customer relations.

In addition, the implementation of the Group's coking refurbishment programme, COP 2010, to consolidate all coke production at a single, more efficient coking plant at Svoboda was completed in 2010 and the newly constructed coke battery No. 10 is now running at full capacity. The new battery is expected to enable the Group to increase its foundry coke share in its total coke production volume. In addition, it is expected to improve the efficiency and extend the life of the Group's coking operations. With the construction of the No. 10 coking battery at the Svoboda plant, the No. 4 coking battery at the Šverma plant was fully shut down by the end of 2010 and production at the Šverma plant was ceased. As part of COP 2010, the refurbishment of coking battery No. 8 was also completed in December 2010.

The Group focuses on maintaining a safe work environment to minimise injuries to its workforce and maintain the efficiency of its operations. The Group believes that its emphasis on safety is one of the key drivers of its relationship with its employees. The Group's ability to avoid lost time injuries fosters good relationships with its employees, regulatory agencies and regional and municipal



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governmental authorities, which ultimately enhances the Group's business. The equipment purchased as part of POP 2010 involves further automation of extraction and enhances the safety environment for the Group's workforce. A number of safety initiatives were introduced in recent years, including new personal protective equipment, safety audits and safety briefings, resulting in a steady positive trend in the safety environment of the Group.

Capital expenditures of the Group reached EUR 220,871 thousand for the year 2010.

### Changes in the Group

On 24 June 2009, the Board approved the intention to sell the Group's energy business consisting of NWR Energy, a.s. (now known as Dalkia Industry CZ, a.s.; 'NWR Energy') and its two subsidiaries, NWR ENERGETYKA PL Sp. z o.o. and CZECH-KARBON s.r.o. ('CZECH-KARBON') (the 'Energy Subsidiaries'). Following the Board's decision to sell the energy business, the assets and liabilities of these entities have been classified as held for sale in the financial statements. Part of the energy business, which historically has been presented as the electricity trading segment, is presented as discontinued operations in these financial statements.

The Group is focused on its core business of coal mining and coke production. The Company entered into the Share Sale and Purchase Agreement with Dalkia Česká republika, a.s. ('Dalkia') on 8 January 2010, which provides for the sale by the Company to Dalkia of 100 per cent of the ownership in the Energy Subsidiaries, which was successfully closed on 21 June 2010. The purchase price received to date is CZK 3,584 billion in cash (approximately EUR 139,156 thousand), and is subject to further adjustments based on the trading results of CZECH-KARBON s.r.o. for 2010 and 2011. The Company realised a gain of EUR 81,976 thousand on the sale. The sale price is further subject to standard representations and warranties resulting from the share purchase agreement. In connection with the sale of the Energy Subsidiaries, the Company will continue to purchase utilities from NWR Energy and CZECH-KARBON s.r.o. under a framework agreement, expiring in 2029.

### Financial information

The Company's strong performance in the year 2010 reflects the improved environment in its markets after the global economic downturn, when demand for steel declined rapidly during the first half of 2009. Recovering production in the steel sector, that began in the last quarter of 2009 and continued in 2010, resulted in higher demand for coal and coke and improved the product's pricing as well. The Company's revenues increased by 42 per cent mainly due to the increase in sales volumes and prices for both coking coal and coke.

After merging two mines in 2008 and closing one coking site in 2010, the Group now operates four mines and four coking batteries in the Czech Republic and serves several large steel and energy producers in Central and Eastern Europe. The Group's revenues for the year ended 31 December 2010 accounted for approximately EUR 1,590 million. The Group's largest business in terms of revenue is the production of coking coal, which accounted for approximately EUR 739 million of sales to third parties in 2010 on an EXW basis ('EXW' refers to the 'Ex Works' Incoterm, which is an international delivery condition under which the seller fulfils his obligation to deliver upon having the goods available at his premises to the buyer). Coking coal is sold to steel producers and to independent coke producers. Beside coking coal the Group produces thermal coal, which accounted for approximately EUR 343 million of sales in 2010 on an EXW basis. The Group also produces coke, from its own coking coal, as well as from externally purchased coking coal, for sale to steel

producers and foundries. Coke sales to third parties for 2010 were approximately EUR 303 million, representing a dramatic increase by 188 per cent. The Group also generates revenue from the sale of coke by-products and the sales of coal-bed methane. As part of invoicing its customers, the Group passes on the majority of the cost for coal and coke transportation. The sources of additional revenues represented approximately EUR 205 million in 2010.

Due to its landlocked nature and the significant cost of transportation for coal importers outside of Europe (Asia, Australia), the Czech Republic and neighbouring Central European countries represent a largely localised market for coal. The only significant regional coal producers capable of importing into the Czech market at competitive prices are mines in Poland, where there is significant domestic coal demand. As a result, historically there have been limited imports of coal into the Czech Republic with the majority of imports from Poland. Driven by low wages, skilled labour force, a stabilising economic and political environment and the proximity to established and other emerging markets, Central and Eastern Europe has been experiencing significant private sector investments in industrial production and manufacturing capacity in recent years.

Increases in coal production and development at OKD resulted in higher mining material consumption, personnel expenses and contractor costs (amongst others), and an increase in coke production resulted mainly in higher consumption of external purchased coking coal. In comparison to 2009, this led to an increase of total operating expenses by 12 per cent.

The financial results of the Group for the year 2010 were positively affected by the sale of the energy business with a positive one-off impact on total net profit of EUR 81,976 thousand.

The Group continues to keep a stable liquidity and capital position. This is reflected by the decision of the Company to pay out dividends in line with its dividend policy. In October 2010, the Company paid out a dividend to the holders of the A shares in an amount equivalent to EUR 55,531 thousand, paid in EUR, CZK, GBP and PLN in accordance with the currency elections of the holders of the A shares of Company.

On 27 April 2010, the Company issued EUR 475 million Senior Secured Notes due 2018. The Notes were issued with a coupon of 7.875 per cent. 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, the Company 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 2018, including a coupon of 7.875 per cent.

### Environmental and personnel related information

The hard coal mining industry in the Czech Republic is principally regulated by the Czech Act on Mining and Geological Works (the 'Mining Act'). There are a number of implementing regulations issued under these two statutes. Besides regulations specific to the mining industry, the Group is subject to other relevant legislation, including governing environmental, health and safety and employment matters. One of the relevant obligations under the Mining Act is the duty to reclaim the land affected by the exploitation and to compensate any damage caused to third-parties. To be able to cover future reclamation expenses and pay damages, the Group is required to make mandatory reserves. The Environmental Impact Assessment Act (the 'EIA') sets forth a duty to conduct in certain cases an EIA

## Directors' Report continued

prior to the approval of a new investment project by the relevant authorities. The public is allowed to participate actively in the intended investment project from when the investor applies for EIA analysis.

The Health, Safety and Environment Committee assists the Board in its oversight of health, safety and environmental risks within the Group as well as the Group's compliance with applicable legal and regulatory requirements associated with health, safety and environmental matters.

### Information regarding financial instruments

The Group's principal financial instruments, 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 instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash, restricted cash and short-term deposits, which arise directly from its operations.

The most significant risks that the Group are exposed to are foreign exchange rate risks on sales and purchases in foreign currencies, interest rates tied to variable market interest rates, volatility risk and credit risk as an increase in secondary insolvency of key customers, which might occur especially in the steel industry.

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 2010 and 2009 the Group's policy that no speculative trading in derivatives shall be undertaken. The Board reviews and agrees policies for managing each of these risks, which are summarised in the section 'Financial Instruments and Risk Management' in the Notes to the consolidated financial statements.

### Information technology

The Group provides information to investors primarily through the Company's website: [www.newworldresources.eu](http://www.newworldresources.eu), and through the website of OKD: [www.okd.cz](http://www.okd.cz). Internally the Group is using a single system for controlling and accounting with unified processes and a centralised internal administration centre. OKD has developed its internal information system for production data related to coal mining.

### Internal audit

The Company has created an internal audit function at the Group level. Its tasks are to ensure coverage of main risks and internal control issues at the Group level, oversee and align operational risk and control reviews performed by local teams at subsidiary levels where applicable, create and maintain a Group-wide risk and internal control approach and mechanism, and inform the Board of issues and developments in these areas. The Group internal auditor has a direct reporting line to the chairman of the Audit and Risk Management Committee of the Board and works in a close co-operation with Company's risk manager of the and management. OKD has established its own internal audit team and audit committee. The OKD's internal auditor assesses whether the internal control, risk management and governance processes, as designed and represented by management, are adequate and effective. Internal audit in the other operations, OKK Koksovny, a.s. and NWR KARBONIA S.A. is carried out by the Group internal audit function.

### Remuneration of the Board

The members of the Board received EUR 7,789 thousand for their services in 2010, of which EUR 6,075 thousand was received in shares and share options. The amounts correspond to values recorded in the books of the Company for 2010, including accruals. Please refer to the 'Remuneration Report' in the 2010 Annual Report for further information.

### Other

Please see also the 'Corporate Governance' and 'Shareholder Information' sections of the 2010 Annual Report, which include information required by the Takeover Directive.

Amsterdam, 14 March 2011

### Members of the Board of Directors

Mike Salamon  
Klaus-Dieter Beck  
Marek Jelínek  
Zdeněk Bakala  
Peter Kadas  
Kostyantín Zhevago  
Bessel Kok  
Hans-Jörg Rudloff  
Hans-Jürgen Mende  
Steven Schuit  
Paul M. Everard  
Barry J. Rourke  
Pavel Telička

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## Consolidated income statement prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

|  | Note    | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--|---------|---|---|
| <b>Continuing operations</b>                                 |         |   |   |
| Revenues   | 3       | 1,589,990   | 1,116,838   |
| Change in inventories of finished goods and work-in-progress |         | (34,954)  | 18,869  |
| Consumption of material and energy                           |         | (373,153)   | (292,313)   |
| Service expenses   |         | (341,843)   | (293,571)   |
| Personnel expenses   | 4,28,29 | (361,117)   | (351,072)   |
| Depreciation   | 13      | (161,145)   | (164,497)   |
| Amortisation   | 14      | (9,203)   | (8,352)   |
| Reversal of impairment of receivables                        |         | 79  | 1,184   |
| Net gain from material sold                                  |         | 5,177   | 4,048   |
| Gain from sale of property, plant and equipment              |         | 715   | 4,117   |
| Other operating income                                       |         | 5,062   | 3,514   |
| Other operating expenses                                     | 5       | (25,064)  | (28,812)  |
| <b>Operating income</b>                                      |         | <b>294,544</b>  | <b>9,953</b>  |
| Financial income   | 7       | 35,518  | 48,931  |
| Financial expense  | 7       | (150,373)   | (116,804)   |
| Profit on disposal of energy business                        | 8       | 72,391  | –   |
| <b>Profit/(loss) before tax</b>                              |         | <b>252,080</b>  | <b>(57,920)</b>                                       |
| Income tax expense   | 9       | (30,811)  | (5,811)   |
| <b>Profit/(loss) from continuing operations</b>              |         | <b>221,269</b>  | <b>(63,731)</b>                                       |
| <b>Discontinued operations</b>                               |         |   |   |
| Profit from discontinued operations net of tax               | 10      | 12,045  | 2,135   |
| <b>Profit/(loss) for the year</b>                            |         | <b>233,314</b>  | <b>(61,596)</b>                                       |
| Attributable to:   |         |   |   |
| Non-controlling interests                                    |         | –   | –   |
| <b>Shareholders of the Company</b>                           |         | <b>233,314</b>  | <b>(61,596)</b>                                       |
| <b>Earnings per share (eur/share)</b>                        | 25      |   |   |
| Basic earnings per A share                                   |         | 0.86  | (0.25)  |
| Diluted earnings per A share                                 |         | 0.85  | (0.25)  |
| Basic earnings per A share from continuing operations        |         | 0.81  | (0.26)  |
| Diluted earnings per A share from continuing operations      |         | 0.80  | (0.26)  |
| Basic earnings per A share from discontinued operations      |         | 0.05  | 0.01  |
| Diluted earnings per A share from discontinued operations    |         | 0.05  | 0.01  |
| Basic earnings per B share                                   |         | 699.30  | 384.60  |
| Diluted earnings per B share                                 |         | 699.30  | 384.60  |

The Notes on pages 86 to 139 are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

| Consolidated statement of comprehensive income<br>For the year ended 31 December 2010          |  |                                  |                               |                                   |   |
|--|--|----------------------------------|-------------------------------|-----------------------------------|---|
|  | Foreign<br>exchange<br>translation<br>reserve<br>EUR'000 | Restricted<br>reserve<br>EUR'000 | Hedging<br>reserve<br>EUR'000 | Profit for the<br>year<br>EUR'000 | Total<br>comprehensive<br>income<br>EUR'000 |
| Profit for the year  | –  | –                                | –                             | 233,314                           | 233,314                                     |
| <b>Other comprehensive income</b>  |  |                                  |                               |                                   |   |
| Foreign currency translation differences   | 60,265   | 7,103                            | 1,305                         | –                                 | 68,673                                      |
| Derivatives – change in fair value for the year  | –  | –                                | (1,172)                       | –                                 | (1,172)                                     |
| Derivatives – reclassification through profit and loss   | –  | –                                | (6,758)                       | –                                 | (6,758)                                     |
| Other movements  | –  | –                                | –                             | 937                               | 937   |
| Total other comprehensive income for the year including tax effects                            | 60,265   | 7,103                            | (6,625)                       | 937                               | 61,680                                      |
| <b>Total comprehensive income for the year attributable to the shareholders of the Company</b> | <b>60,265</b>  | <b>7,103</b>                     | <b>(6,625)</b>                | <b>234,251</b>                    | <b>294,994</b>                              |

| Tax charge or credit on items of other<br>comprehensive income<br>As of 31 December 2010 |                       |                       |  |
|--|-----------------------|-----------------------|--|
|  | Before tax<br>EUR'000 | Tax credit<br>EUR'000 | Total<br>comprehensive<br>income net<br>off tax<br>EUR'000 |
| Tax effects on other comprehensive income  |                       |                       |  |
| <b>Other comprehensive income</b>  |                       |                       |  |
| Foreign currency translation differences   | 68,673                | –                     | <b>68,673</b>  |
| Derivatives – change in fair value for the year  | (1,172)               | –                     | <b>(1,172)</b>   |
| Derivatives – reclassification through profit and loss                                   | (8,361)               | 1,603                 | <b>(6,758)</b>   |
| Other movements  | 937                   | –                     | <b>937</b>   |
| <b>Total</b>   | <b>60,077</b>         | <b>1,603</b>          | <b>61,680</b>  |

| Consolidated statement of comprehensive income<br>For the year ended 31 December 2009          |  |                                  |                               |                                 |   |
|--|--|----------------------------------|-------------------------------|---------------------------------|---|
|  | Foreign<br>exchange<br>translation<br>reserve<br>EUR'000 | Restricted<br>reserve<br>EUR'000 | Hedging<br>reserve<br>EUR'000 | Loss for the<br>year<br>EUR'000 | Total<br>comprehensive<br>income<br>EUR'000 |
| Loss for the year  | –  | –                                | –                             | (61,596)                        | (61,596)                                    |
| <b>Other comprehensive income</b>  |  |                                  |                               |                                 |   |
| Foreign currency translation differences   | 14,350   | 1,886                            | 1,038                         | –                               | 17,274                                      |
| Derivatives – change in fair value for the year  | –  | –                                | (76)                          | –                               | (76)  |
| Derivatives – reclassification through profit and loss   | –  | –                                | (5,343)                       | –                               | (5,343)                                     |
| Other movements  | –  | –                                | –                             | (1)                             | (1)   |
| Total other comprehensive income for the year including tax effects                            | 14,350   | 1,886                            | (4,381)                       | (1)                             | 11,854                                      |
| <b>Total comprehensive income for the year attributable to the shareholders of the Company</b> | <b>14,350</b>  | <b>1,886</b>                     | <b>(4,381)</b>                | <b>(61,597)</b>                 | <b>(49,742)</b>                             |

| Tax charge or credit on items of other<br>comprehensive income<br>As of 31 December 2009 |                       |                       |  |
|--|-----------------------|-----------------------|--|
|  | Before tax<br>EUR'000 | Tax credit<br>EUR'000 | Total<br>comprehensive<br>income net<br>off tax<br>EUR'000 |
| Tax effects on other comprehensive income  |                       |                       |  |
| <b>Other comprehensive income</b>  |                       |                       |  |
| Foreign currency translation differences   | 17,274                | –                     | 17,274   |
| Derivatives – change in fair value for the year  | (76)                  | –                     | (76)   |
| Derivatives – reclassification through profit and loss                                   | (6,679)               | 1,336                 | (5,343)  |
| Other movements  | (1)                   | –                     | (1)  |
| <b>Total</b>   | <b>10,518</b>         | <b>1,336</b>          | <b>11,854</b>  |

The Notes on pages 86 to 139 are an integral part of these consolidated financial statements.

## Consolidated statement of financial position prepared in accordance with IFRS as adopted by the European Union As of 31 December 2010

|   | Note | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---|------|--------------------------------|--------------------------------|
| <b>Assets</b>   |      |                                |                                |
| Property, plant and equipment                                 | 13   | 1,280,892                      | 1,158,332                      |
| Mining licences   | 14   | 161,586                        | 161,757                        |
| Long-term receivables   | 15   | 12,872                         | 1,568                          |
| Deferred tax asset  | 30   | 8,601                          | 7,710                          |
| Restricted cash   | 16   | 11,025                         | 13,926                         |
| Derivatives   | 20   | 58                             | 251                            |
| <b>Total non-current assets</b>                               |      | <b>1,475,034</b>               | <b>1,343,544</b>               |
| Inventories   | 17   | 56,013                         | 85,819                         |
| Accounts receivable and prepayments                           | 18   | 197,746                        | 149,656                        |
| Derivatives   | 20   | 34                             | –                              |
| Income tax receivable   | 9,19 | 143                            | 660                            |
| Cash and cash equivalents                                     | 21   | 529,241                        | 547,827                        |
| Restricted cash   | 16   | –                              | 2,771                          |
| <b>Total current assets</b>                                   |      | <b>783,177</b>                 | <b>786,733</b>                 |
| <b>Assets held for sale</b>                                   | 8    | <b>–</b>                       | <b>85,254</b>                  |
| <b>Total assets</b>   |      | <b>2,258,211</b>               | <b>2,215,531</b>               |
| <b>Shareholders equity</b>                                    |      |                                |                                |
| Share capital   | 25   | 105,883                        | 105,736                        |
| Share premium   | 25   | 66,326                         | 60,449                         |
| Foreign exchange translation reserve                          | 25   | 79,343                         | 19,078                         |
| Restricted reserve  | 25   | 133,169                        | 126,066                        |
| Equity-settled share-based payments                           | 25   | 17,157                         | 13,424                         |
| Hedging reserve   | 25   | 23,322                         | 29,947                         |
| Retained earnings   | 25   | 384,195                        | 205,475                        |
| <b>Equity attributable to the shareholders of the company</b> | 25   | <b>809,395</b>                 | <b>560,175</b>                 |
| <b>Liabilities</b>  |      |                                |                                |
| Provisions  | 26   | 106,491                        | 103,133                        |
| Long-term loans   | 23   | 89,377                         | 679,854                        |
| Bonds issued  | 24   | 745,497                        | 260,096                        |
| Employee benefits   | 28   | 95,892                         | 96,588                         |
| Deferred revenue  | 27   | 2,524                          | 2,675                          |
| Deferred tax liability  | 30   | 118,938                        | 101,512                        |
| Other long-term liabilities                                   |      | 576                            | 648                            |
| Derivatives   | 20   | 19,280                         | 18,649                         |
| <b>Total non-current liabilities</b>                          |      | <b>1,178,575</b>               | <b>1,263,155</b>               |
| Provisions  | 26   | 5,820                          | 10,175                         |
| Accounts payable and accruals                                 | 22   | 204,793                        | 236,930                        |
| Accrued interest payable on bonds                             |      | 9,029                          | 2,467                          |
| Derivatives   | 20   | 4,771                          | 2,144                          |
| Income tax payable  | 9    | 29,138                         | 1,840                          |
| Current portion of long-term loans                            | 23   | 15,276                         | 74,842                         |
| Short-term loans  | 23   | 7                              | 18,895                         |
| Cash-settled share-based payments payable                     |      | 1,407                          | 2,371                          |
| <b>Total current liabilities</b>                              |      | <b>270,241</b>                 | <b>349,664</b>                 |
| <b>Liabilities classified as held for sale</b>                | 8    | <b>–</b>                       | <b>42,537</b>                  |
| <b>Total liabilities</b>                                      |      | <b>1,448,816</b>               | <b>1,655,356</b>               |
| <b>Total equity and liabilities</b>                           |      | <b>2,258,211</b>               | <b>2,215,531</b>               |

The Notes on pages 86 to 139 are an integral part of these consolidated financial statements.



## Consolidated statement of changes in equity prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

|  | Share capital<br>EUR'000 | Share premium<br>EUR'000 | Foreign<br>exchange<br>translation<br>reserve<br>EUR'000 | Restricted<br>reserve<br>EUR'000 | Equity-settled<br>share-based<br>payment<br>EUR'000 | Hedging<br>reserve<br>EUR'000 | Retained<br>earnings<br>EUR'000 | Total<br>EUR'000 |
|--|--------------------------|--------------------------|--|----------------------------------|---|-------------------------------|---------------------------------|------------------|
| <b>Balance as at 1 January 2010</b>  | <b>105,736</b>           | <b>60,449</b>            | <b>19,078</b>  | <b>126,066</b>                   | <b>13,424</b>                                       | <b>29,947</b>                 | <b>205,475</b>                  | <b>560,175</b>   |
| Total comprehensive income for the year attributable to shareholder of the Company | –                        | –                        | 60,265   | 7,103                            | –   | (6,625)                       | 234,251                         | 294,994          |
| <b>Transaction with owners recorded directly in equity</b>                         |                          |                          |  |                                  |   |                               |                                 |                  |
| Contribution by and distribution to owners   |                          |                          |  |                                  |   |                               |                                 |                  |
| Shares granted to independent directors  | 41                       | 959                      | –  | –                                | –   | –                             | –                               | 1,000            |
| Shares from share options vested   | 106                      | 4,918                    | –  | –                                | (4,996)   | –                             | –                               | 28               |
| Dividends paid   | –                        | –                        | –  | –                                | –   | –                             | (55,531)                        | (55,531)         |
| Share options  | –                        | –                        | –  | –                                | 8,729   | –                             | –                               | 8,729            |
| Transactions with owners   | 147                      | 5,877                    | –  | –                                | 3,733   | –                             | (55,531)                        | (45,774)         |
| <b>Balance as at 31 December 2010</b>  | <b>105,883</b>           | <b>66,326</b>            | <b>79,343</b>  | <b>133,169</b>                   | <b>17,157</b>                                       | <b>23,322</b>                 | <b>384,195</b>                  | <b>809,395</b>   |
|  |                          |                          |  |                                  |   |                               |                                 |                  |
|  | Share capital<br>EUR'000 | Share premium<br>EUR'000 | Foreign<br>exchange<br>translation<br>reserve<br>EUR'000 | Restricted<br>reserve<br>EUR'000 | Equity-settled<br>share-based<br>payment<br>EUR'000 | Hedging<br>reserve<br>EUR'000 | Retained<br>earnings<br>EUR'000 | Total<br>EUR'000 |
| <b>Balance as at 1 January 2009</b>  | <b>105,524</b>           | <b>54,971</b>            | <b>4,728</b>   | <b>124,180</b>                   | <b>8,037</b>  | <b>34,328</b>                 | <b>314,556</b>                  | <b>646,324</b>   |
| Total comprehensive income for the year attributable to shareholder of the Company | –                        | –                        | 14,350   | 1,886                            | –   | (4,381)                       | (61,597)                        | (49,742)         |
| <b>Transaction with owners recorded directly in equity</b>                         |                          |                          |  |                                  |   |                               |                                 |                  |
| Contribution by and distribution to owners   |                          |                          |  |                                  |   |                               |                                 |                  |
| Shares granted to independent directors  | 107                      | 893                      | –  | –                                | –   | –                             | –                               | 1,000            |
| Shares from share options vested   | 105                      | 4,585                    | –  | –                                | (4,688)   | –                             | –                               | 2                |
| Dividends paid   | –                        | –                        | –  | –                                | –   | –                             | (47,484)                        | (47,484)         |
| Share options  | –                        | –                        | –  | –                                | 10,075  | –                             | –                               | 10,075           |
| Transactions with owners   | 212                      | 5,478                    | –  | –                                | 5,387   | –                             | (47,484)                        | (36,407)         |
| <b>Balance as at 31 December 2009</b>  | <b>105,736</b>           | <b>60,449</b>            | <b>19,078</b>  | <b>126,066</b>                   | <b>13,424</b>                                       | <b>29,947</b>                 | <b>205,475</b>                  | <b>560,175</b>   |

The Notes on pages 86 to 139 are an integral part of these consolidated financial statements.

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## Consolidated statement of cash flows prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

|  |    | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--|----|---|---|
| Note   |    |   |   |
| <b>Cash flows from operating activities</b>  |    |   |   |
|  |    | <b>252,080</b>  | (57,920)  |
|  |    | <b>12,518</b>   | 3,690   |
|  |    | <b>264,598</b>  | (54,230)  |
| <b>Adjustments for:</b>                      |    |   |   |
|  | 13 | <b>161,145</b>  | 164,497   |
|  | 14 | <b>9,203</b>  | 8,352   |
|  |    | <b>(12,603)</b>                                       | 6,633   |
|  |    | <b>(715)</b>  | (4,117)   |
|  | 8  | <b>(81,976)</b>                                       | –   |
|  |    | <b>65,143</b>   | 52,491  |
|  |    | <b>(2,553)</b>  | 7,476   |
|  |    | <b>(964)</b>  | 2,016   |
|  |    | <b>9,757</b>  | 11,078  |
|  |    | <b>–</b>  | 754   |
|  |    | <b>411,035</b>  | 194,950   |
|  |    | <b>29,879</b>   | (19,843)  |
|  |    | <b>(66,252)</b>                                       | 41,258  |
|  |    | <b>(25,185)</b>                                       | 25,548  |
|  |    | <b>(1,195)</b>  | (1,875)   |
|  |    | <b>6,260</b>  | 12,438  |
|  |    | <b>8,407</b>  | (5,035)   |
|  |    | <b>362,949</b>  | 247,441   |
|  |    | <b>(56,811)</b>                                       | (52,852)  |
|  |    | <b>9,029</b>  | (18,364)  |
|  |    | <b>315,167</b>  | 176,225   |
| <b>Cash flows from investing activities</b>  |    |   |   |
|  |    | <b>5,887</b>  | 6,441   |
|  | 13 | <b>(220,871)</b>                                      | (250,201)   |
|  |    | <b>135,312</b>  | –   |
|  |    | <b>(10,681)</b>                                       | –   |
|  |    | <b>1,566</b>  | 4,349   |
|  |    | <b>(88,787)</b>                                       | (239,411)   |
| <b>Cash flows from financing activities:</b> |    |   |   |
|  | 23 | <b>(678,284)</b>                                      | (63,486)  |
|  | 23 | <b>24,238</b>   | 82,335  |
|  |    | <b>–</b>  | (30,165)  |
|  |    | <b>–</b>  | (1,236)   |
|  |    | <b>(36,860)</b>                                       | (15,930)  |
|  |    | <b>8,072</b>  | 17,448  |
|  | 24 | <b>500,000</b>  | –   |
|  | 24 | <b>(16,767)</b>                                       | –   |
|  |    | <b>(55,531)</b>                                       | (47,484)  |
|  |    | <b>(255,161)</b>                                      | (58,518)  |
|  |    | <b>(1,276)</b>  | 2,107   |
|  |    | <b>(30,057)</b>                                       | (119,597)   |
|  |    | <b>11,471</b>   | 678,895   |
|  |    | <b>547,827</b>  | –   |
|  |    |   | 11,471  |
|  |    | <b>529,241</b>  | 547,827   |

The Notes on pages 86 to 139 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

### 1. General information

#### a) Corporate information

New World Resources N.V. (the 'Company') is a public limited liability company incorporated under the laws of the Netherlands on 29 December 2005. The registered office of the Company is at Jachthavenweg 109h, 1081 KM Amsterdam, The Netherlands.

The objectives of the Company are to act as a holding and finance company.

BXR Mining B.V., a European public limited company, is the major shareholder of the Company, holding approximately 64 per cent of the Company's A shares. 100 per cent of the Company's B shares are owned by RPG Property B.V. The financial information of the Company is included in the consolidated financial statements of RPG Partner Limited. A shares of the Company are listed on stock exchanges in London, Warsaw and Prague. New World Resources B.V. was converted to New World Resources N.V. before it issued shares on the stock exchanges. Since 14 April 2010 the ultimate parent of the Company is BXR Group Limited, for the period 1 January 2009–13 April 2010 the ultimate parent was RPG Partners Limited.

These financial statements were approved by the Board of Directors and authorised for issue on 14 March 2010.

#### b) The Group

The consolidated financial statements include New World Resources N.V. and the following subsidiaries (together the 'Group') as of 31 December 2010:

| Consolidated subsidiaries               | Abbreviation | % Equity =<br>voting | Nature of Activity                   |
|---|--------------|----------------------|--------------------------------------|
| Entities directly owned by the Company: |              |                      |                                      |
| OKD, a.s. <sup>1</sup>                  | OKD          | 100 %                | Coal mining                          |
| OKK Koksovny, a.s. <sup>2</sup>         | OKK          | 100 %                | Coke production                      |
| NWR KARBONIA Sp. z o.o. <sup>3</sup>    | NWR KARBONIA | 100 %                | Coal mining                          |
| Entities directly owned by OKD:         |              |                      |                                      |
| OKD, HBZS, a.s.                         | –            | 100 %                | Emergency services, waste processing |

1 In the Notes the abbreviation OKD is used to refer to OKD, a.s.

2 OKD, OKK, a.s. was renamed to OKK Koksovny, a.s. on 1 December 2009. In the Notes, the abbreviation OKK Koksovny is used and refers for the respective periods to OKK Koksovny, a.s. and OKD, OKK, a.s.

3 "KARBONIA PL" Sp. z o.o. was renamed to NWR KARBONIA Sp. z o.o. on 2 July 2009. In the Notes, the abbreviation NWR KARBONIA is used and refers for the respective periods to NWR KARBONIA Sp. z o.o. resp. "KARBONIA PL" Sp. z o.o.

All of the Company's consolidated subsidiaries are incorporated in the Czech Republic, with the exception of NWR KARBONIA, which is incorporated in Poland.

See paragraph e) below for changes in the Group during the presented period.

As of 31 December 2009 the consolidated financial statements included New World Resources N.V. and the following subsidiaries (together the 'Group'):

| Consolidated subsidiaries                                  | Abbreviation      | % Equity =<br>voting | Nature of Activity                   |
|--|-------------------|----------------------|--------------------------------------|
| Entities directly owned by the Company:                    |                   |                      |                                      |
| OKD, a.s.  | OKD               | 100 %                | Coal mining                          |
| OKK Koksovny, a.s.   | OKK               | 100 %                | Coke production                      |
| NWR KARBONIA Sp. z o.o.                                    | NWR KARBONIA      | 100 %                | Coal mining and electricity sales    |
| NWR Energy, a.s. <sup>1</sup>                              | NWR Energy        | 100 %                | Electricity production               |
| Entities directly owned by NWR Energy, a.s. <sup>1</sup> : |                   |                      |                                      |
| CZECH-KARBON s.r.o.  | CZECH-KARBON      | 100 %                | Electricity trading                  |
| NWR ENERGETYKA PL Sp. z o.o. <sup>2</sup>                  | NWR ENERGETYKA PL | 100 %                | Electricity sales                    |
| Entities directly owned by OKD:                            |                   |                      |                                      |
| OKD, HBZS, a.s.  | –                 | 100 %                | Emergency services, waste processing |

1 Since 24 June 2010 renamed to Dalkia Industry CZ, a.s.

2 Since 21 August 2010 renamed to Dalkia Powerline Sp. z o.o. NWR Energetyka PL is incorporated in Poland.

#### c) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

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## 1. General information continued

### d) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for derivative and other 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 (EUR). Functional currency of the Company is EUR. Functional currency of NWR KARBONIA and NWR ENERGETYKA PL is Polish Zloty (PLN). 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 the Group entities.

The preparation of financial statements in conformity with IFRS 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 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.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following Notes:

- > Note 13 – Property, plant and equipment
- > Note 20 – Financial instruments
- > Note 26 – Provisions
- > Note 28 – Employee benefits
- > Note 29 – Share-based payments, and
- > Note 32 – Contingent assets and liabilities.

### e) Changes in the consolidated Group

#### (i) 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 purpose of NWR ENERGETYKA PL was to manage and operate energy assets, which were spun-off from NWR KARBONIA on 1 April 2009. The control at the Company level did not change by the spin-off.

On 13 October 2009, 100 per cent ownership interest in NWR ENERGETYKA PL was transferred from the Company to NWR Energy.

#### (ii) Discontinued operations, classification as held for sale and sale of the energy business

On 24 June 2009 the Board of Directors of the Company (the 'Board') approved its intention to sell the energy business of the Group. The energy business of the Group entailed NWR Energy, NWR ENERGETYKA PL and CZECH-KARBON. Based on the Board's decision to sell the energy business, the assets and liabilities of these entities were classified as held for sale as per 31 December 2009.

On 21 June 2010 the Company closed the sale of NWR Energy (including its subsidiaries NWR ENERGETYKA PL and CZECH-KARBON) to Dalkia Česká Republika, a.s. Net assets of the disposed companies amounted to EUR 52,696 thousand as of 21 June 2010. NWR Energy was sold for CZK 3,370,000 thousand (equivalent EUR 130,823 thousand) plus additional CZK 213,379 thousand (equivalent EUR 8,333 thousand) received in fourth quarter 2010 resulting from net debt adjustment. Total selling price amounted to EUR 139,156 thousand. The realised gain from the sale of EUR 81,976 thousand also reflects secondary transaction costs of EUR 3,846 thousand of the Company and an additional discount in the selling price in the estimated amount of EUR 638 thousand, not paid yet. After a final agreement was reached related to the net debt adjustment, the Company split the gain between continuing and discontinued operations and presents EUR 9,585 thousand as the gain related to the electricity trading sub-segment that is included within the profit from discontinued operations and EUR 72,391 thousand as the gain on disposal of the energy business reported within continuing operations. The sale price is still subject to an adjustment related to the performance of CZECH-KARBON's electricity trading portfolio, which may result in a reduction of the sale price of no more than approximately EUR 2 million. This potential reduction relates to audited results for the years 2010 and 2011. The sale price is also subject to standard representations and warranties resulting from the share purchase agreement. In connection with the sale of NWR Energy, NWR will continue to purchase utilities from NWR Energy and CZECH-KARBON under a long-term agreement, expiring in 2029.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 1. General information continued

The Sale and Purchase Agreement provides for put and call options, as well as a pre-emption right of NWR, in respect of the energy assets and businesses transferred to Dalkia or replacing such energy assets or businesses upon the occurrence of certain events. Before 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. 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 supplies OKK with heat and OKD and NWR were parties to an agreement pursuant to which Dalkia, through NWR, 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.

Part of the energy business, presented as the Electricity trading segment is in the financial statements presented as discontinued operations (until the date of sale i.e. by 21 June 2010). The segment was classified as discontinued operations in 2009. Discontinued operations are described in the Note (iii)10 Discontinued operations.

#### (iii) Sale of the part of the business of OKD

On 1 June 2010 OKD sold part of OKD's enterprise consisting of the Mining Museum Internal Business Unit (movable and immovable assets, rights and obligations of operational character and employees) in the Landek area (Ostrava-Petřkovice) to the third party VÍTKOVICE, a.s. with obligations to procure the operation of the Mining Museum and the Landek Area for a period of 20 years for the purchase price amounting to CZK 1 (EUR 0.04) in compliance with an external expert valuation.

### 2. Summary of significant accounting policies

#### a) New IFRS

##### New standards and interpretations adopted during the financial year

In 2010, the Group adopted the following new or amended International Financial Reporting Standards and IFRIC Interpretations, which were relevant for the Group:

- > IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions
- > IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
- > IFRIC 17 Distributions of Non-cash Assets to Owners (effective 1 July 2009)
- > Improvements to IFRSs (May 2008)
- > Improvements to IFRSs (April 2009)

The principal effects of the changes are as follows:

##### IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

##### IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.



## 2. Summary of significant accounting policies continued

### IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position nor performance of the Group.

### Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments relevant for the Group resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

*Issued in May 2008*

- > IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

*Issued in April 2009*

- > IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Group amended its disclosures.
- > IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 3.
- > IAS 36 Impairment of Assets: clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

*Issued in April 2009*

- > IFRS 2 Share-based Payment
- > IAS 1 Presentation of Financial Statements
- > IAS 17 Leases
- > IAS 34 Interim Financial Reporting
- > IAS 38 Intangible Assets
- > IAS 39 Financial Instruments: Recognition and Measurement
- > IFRIC 9 Reassessment of Embedded Derivatives
- > IFRIC 16 Hedge of a Net Investment in a Foreign Operation

### New IFRS Standards and Interpretations issued but not yet effective

The Group is currently assessing the potential impacts of the new and revised standards that have been issued but are not yet effective as at 31 December 2010. The Group currently does not expect that the new standards and interpretations will have a significant effect on the Group's results and financial position.

The principal effects of these changes are as follows:

### IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

### IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 2. Summary of significant accounting policies continued

#### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address impairment, hedge accounting and derecognition. The completion of this project is expected in 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

#### IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

#### Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- > IFRS 3 Business Combinations
- > IFRS 7 Financial Instruments: Disclosures
- > IAS 1 Presentation of Financial Statements
- > IAS 27 Consolidated and Separate Financial Statements
- > IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

### b) Basis of consolidation

The financial statements include the accounts of New World Resources N.V. and its subsidiaries presented in the Note 1.

#### (i) Subsidiaries

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. The financial statements of subsidiaries are included in the consolidated statements from the date that control commences until the date that control ceases.

#### (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) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognised in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognised.

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## 2. Summary of significant accounting policies continued

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### (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 the previous 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.

### c) Principles for preparation of the cash flow statement

Cash flow is presented using the indirect method. Net cash flows from operating activities are reconciled from profit before tax from continuing and discontinued operations. Interest received is classified as an investing activity as it mainly relates to investments. Interest paid is classified as an operating activity as it significantly affects the net profit.

### 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to functional currency at the foreign exchange rates which approximate rates ruling at the dates the values were determined. 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, including goodwill and fair value adjustments arising on acquisition, 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 the translation are recognised directly 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.

Goodwill and fair value adjustments arising on the acquisition of an operation with functional currency other than EUR are treated as assets and liabilities of the operation and are translated at the closing exchange rate.

### e) Derivative financial instruments

The Group uses derivative financial instruments (such as 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 directly 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:

- > fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- > 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; or
- > hedges of a net investment in a foreign operation.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 2. Summary of significant accounting policies continued

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 hedged 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.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement.

#### Cash flow hedges

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 financial income or financial expense is recognised or when a forecasted sale or expenditure occurs. Where the hedged item is a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecasted transaction or firm commitment is no longer expected to occur, amounts previously recognised in the 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 and 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).
- > Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- > Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent 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 (see below) and impairment losses (see accounting policy m). Cost includes expenditures that are directly attributable to the acquisition 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 recognised as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

Where an item of property, plant and equipment is comprised of major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

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.

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## 2. Summary of significant accounting policies continued

### (ii) Borrowing costs

Borrowing costs 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. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

### (iii) Leased assets

The determination of whether an arrangement is, or contains a lease is 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 the 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).

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

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.

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.

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.

When determining fair value of the coal reserve license in the year 2004, OKD used an income approach, specifically the Multi-period excess earning method (MEEM), taking into account the specific finite horizon of OKD coal-mining operations. Amortisation for the period was calculated as a proportion of the coal amount actually mined in this period to the total economically exploitable coal reserves as estimated by management.



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 2. Summary of significant accounting policies continued

The plan used for valuation comprises the whole projected period of future OKD coal-mining operations.

#### (ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

#### (iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy m). Expenditure on internally generated goodwill and brands are recognised in the income statement as an expense as incurred.

#### (iv) Amortisation

Amortisation 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.

#### (v) 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 ton of carbon dioxide (CO<sub>2</sub>). Based on the National Allocation Plan between 2005 and 2010 certain companies of the Group were granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

As at April 30, of the following year, at the latest, these companies are required to remit a number of certificates representing the number of tonnes of CO<sub>2</sub> actually emitted. If a company does not fulfil this requirement and does not remit necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 100 per 1 ton of CO<sub>2</sub> (EUR 40 per 1 ton of CO<sub>2</sub> for the years before 2008).

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. Purchased emission rights (acquired when the number of rights on hand is insufficient to cover the actual emissions made) are recognised as intangible assets, measured at cost and charged to income when disposed of. Emission rights are not amortised.

The Company recognises a provision equal to the fair value of emission rights that would be needed if the actual emissions made could not be settled by granted emission rights on hand.

#### (vi) Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to expense as incurred.

### h) Investments

Investments in equity securities held by the Group are classified as being available-for-sale.

Available-for-sale investments are recognised/de-recognised by the Group on the date it commits to purchase/sell the investments.

After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in other comprehensive income except in the case of impairment losses. Where the fair value cannot be reliably determined, investments are stated at cost.

When the investment is disposed of, the cumulative gain or loss previously recognised as other comprehensive income is recognised in the income statement. Interest earned on the investments is reported as interest income using the effective interest rate method. Dividends earned on investments are recognised in the income statement as 'Dividends received' when the right of payment has been established.

#### i) 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 m).

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.

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## 2. Summary of significant accounting policies continued

### j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle 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 the 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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and variable selling expenses.

### k) 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).

### l) Restricted cash

Restricted balances of cash, which are shown under non-current financial assets as restricted funds (see Note 16), relate to mining damages and restoration expenses. The non-current classification is based on the expected timing of the release of the funds of the Group.

### m) Impairment

#### (i) Non-financial assets

The carrying amounts of the Group's non-financial assets, excluding inventories (see accounting policy j) and deferred tax assets (see accounting policy u), 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.

For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of a non-financial asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit (CGU) is the smallest identifiable asset group 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 first to reduce the carrying amount of any goodwill allocated to the CGU (groups of CGU) and then to reduce the carrying amount of the other assets in the CGU (groups of CGU) on a pro rata basis.

#### *Calculation of recoverable amount*

The recoverable amount of non-financial asset or CGU is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows 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*

Any impairment loss recognised in respect of goodwill is not reversed under any situation.

In respect of other assets, 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 (including equity securities) 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. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 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 are used historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment 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 amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

#### **n) 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 on results for the year, which is attributable to the non-controlling shareholders.

#### **o) 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 costs 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.

#### **p) Employee benefits**

The Group provides a number of different benefits to its employees – jubilee, loyalty, retirement and special miners' 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 and the fair value of any related assets is deducted. 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.

#### **q) Share-based payment transactions**

Employees (including senior executives) of the Group receive remuneration for their services in the form of share-based payment transactions ('equity-settled transactions').

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. This is then capitalised or expensed as appropriate.

#### **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 as per 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.

## 2. Summary of significant accounting policies continued

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 (further details are given in the Note 25).

### 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.

### r) 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 current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Restoration and mining damages provisions

The Group is liable for all environmental damage caused by mining activities. These future costs can generally be split into two categories – restoration costs and mining damages costs. 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 exploration project.

Provisions for restoration costs are recognised as the net present value of the estimated outflow of economic resources to settle the obligation. Restoration 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 sum of the digits 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 effects of changes in estimates relating to decommissioning liabilities, arising as a result of change of estimated cash flows that would be required to settle these liabilities or as a result of discount rate changes, are added to (or deducted from) the amount recognised as the related asset.

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 exploration project. This assessment is reviewed and approved by the Czech Mining Authority.

### s) 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 stated at amortized cost.

### t) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

#### (i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue is stated net of value added tax and excise duties and comprises the value of sales of own products, goods and services made in the normal course of business.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 2. Summary of significant accounting policies continued

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. In instances where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses incurred that are recoverable.

#### (ii) Revenues from electricity contracts

The Group concludes sale and purchase contracts for physical delivery of specified commodities (defined quantity of electricity) over the counter and through energy exchanges. These transactions are entered into and continue to be held for the ultimate purpose of physical receipt or delivery of the commodity in accordance with the Group's expected sale or purchase requirements, are designated into an own use category at inception and are not within the scope of IAS 39.

Revenues from realised electricity sales are recognised in the income statement based on actual deliveries and when the significant risks and rewards of ownership have been transferred to the buyer in line with the contract conditions, recovery of the consideration is probable, the associated costs can be estimated reliably and there is no continuing management involvement with the delivered commodity. Revenue is stated net of value added tax and excise duties and comprises the value of sales of commodity made in the normal course of business.

Gains and losses arising from changes in fair value on contracts on energy exchanges, which result in cash inflows or outflows to and from an energy exchange, are recognised on statement of financial position and upon settlement in the income statement.

The Group recognises provisions for obligations resulting from the settlement of electricity purchase contracts, for which the customer defaulted or is probable to default to buy the commodity. The expense is recognised in other operating expenses in the income statement.

Revenues from electricity contracts are classified as discontinued operations.

#### (iii) 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 instalments.

The Group receives operating subsidies to cover the social costs related to the closure of mines and incurred before the privatisation of OKD in 1993. The subsidies are recognised in the income statement on the accrual basis with related expenses.

### u) 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 financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy e).

Revenue 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). Dividend income is recognised in the income statement on the date that the dividend is declared.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

#### (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.



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## 2. Summary of significant accounting policies continued

### v) 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. A start-up operation can be treated as an operating segment while it has yet to earn revenues.

### w) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent re-measurement.

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 upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify. When an operation is classified as discontinued operation, the comparative income statement and statement of cash flows are re-presented as if the operation had been discontinued from the start of the comparative period.

### x) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit 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 profit attributable to Ordinary equity holders of the parent (after deducting interest on the convertible preference shares) 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

IFRS requires an entity to report information about operating segments which are separately available and which are regularly evaluated by the so called 'chief operating decision maker' ('CODM').

On 31 December 2007, the Company separated all real estate owned by the Group at that time ('Real Estate Assets') into a new division in order to provide higher transparency to the mining and real estate assets. The Group began operating two segments determined by differences in their assets and products and services produced and provided. The segments were represented by the Mining Division segment ('MD') and the Real Estate Division segment ('RED'), established internally by the Divisional Policy Statements as of 31 December 2007. The Company issued B shares to track the financial performance of the RED. A shares track the financial performance of the MD. The CODM for the two reportable segments is the Board. In order to ensure fair treatment to all shareholders the Company prepared and adopted the Divisional Policy Statements, approved by the B shareholder. The fundamental and overriding principles state that the MD has the right to maintain:

- > the undisturbed continuation of its mining, coking and related operations that are currently, or which are expected by the Board to be in the future, conducted using certain of the Real Estate Assets; and
- > unrestricted access to the Real Estate Assets in connection with such mining, coking and related operations.

Based on these overriding rules the MD is provided with unrestricted access to all Real Estate Assets necessary for its mining, coking and related operations for the time period, until these operations cease to exist. The Real Estate Assets include two groups of assets:

- > buildings, constructions and similar real estate assets ('Buildings') and
- > land.

The segments are managed and operated separately for accounting and reporting purposes according to the nature of the products and services provided to reflect the results and the financial position of each division and to provide relevant information to the holders of the A and B shares. The MD relates to coal extraction, production of coke and related operations and businesses. As a part of MD was also identified Electricity trading business. The RED mainly provides inter-divisional service i.e. provides real estate to MD (see below). In connection to the operated segments MD and RED, no legal entity was established.

Consequently, the MD segment was represented by two sub-segments, one representing the coal & coke business and the other representing the electricity trading business. On 24 June 2009 the Board approved its intention to sell the energy business of the Group. Electricity trading, as part of the energy business, is presented as discontinued operations in these financial statements. Disposal of Electricity trading business took place as of June 21 2010 (Note 8)

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 3. Segment information continued

#### Enhancement of segment reporting

The divisional segment reporting is driven by its listing and is essential for the evaluation of the equity attributable to the listed part of the Group. However to enable users of the Group's financial statements to evaluate the nature, performance and financial effects of its business activities, the Company furthermore presents separate sub-segments for its main operating activities, i.e. coal mining and coking. To provide understandable and useful information, the Company decided to combine the divisional and operational disclosure in one table, with coal, coke and other sub-segments within mining division.

The enhanced segment report reflects the main business activities of the Group, which include coal mining and coking operations, representing part of the formerly presented Coal mining and Coking sub-segment. The Company also held entities active in electricity distribution and trading, however these entities were sold and therefore are not reviewed by the CODM as a separate sub-segment and are allocated to the sub-segment 'Other' together with the operations of the holding entity, which provides mainly holding and financing activities to all entities of the Group.

#### Coal sub-segment

The Coal sub-segment comprises of entities with core activities related to actual or potential extraction, processing and sale of coal and direct supporting activities (safety). Therefore this sub-segment aggregates the following entities (with adjustments to their standalone financial performance as described below):

- > OKD
- > NWR KARBONIA
- > OKD, HBZS, a.s.

#### Coke sub-segment

The Coke sub-segment comprises of OKK Koksovny, a.s. ('OKK Koksovny'), the only entity with coke production as its core business (with adjustments to its standalone financial performance as described below).

#### Other sub-segment

The Other sub-segment aggregates other entities with different types of business activities. New World Resources N.V. is the holding entity providing holding and financing activities to the Group. NWR Energy and its subsidiaries, NWR ENERGETYKA PL and CZECH-KARBON were sold on 21 June 2010. The entities were active in electricity trading and distribution, production of heat and compressed air. The results of their operations are included only till the date of sale. Electricity trading activities are classified as discontinued operations and thus they do not impact the sub-segment result represented by operating income from continuing operations.

#### Segment accounting policies, measurement and disclosure

The Segment and sub-segment financial information is based on standalone financial statements of entities as allocated above, prepared under IFRS, including application of Divisional Policy Stamens.

Intercompany transactions between entities allocated to the same sub-segment are fully eliminated. Intercompany transactions between entities allocated to different sub-segments are eliminated in the MD segment total amounts. Intercompany transactions between MD and RED segments are eliminated in full in the reconciliation of the segment results to the Group's consolidated results.

Sales and transactions between Segments and sub-segments are priced on arm's length basis. However margin on inventory held, not yet consumed by the acquiring segment, is eliminated from the sales of the selling sub-segment in such period. The inventory value of the acquiring sub-segment is adjusted correspondingly. The adjustment is reversed when the inventory is consumed. Thus the margin becomes realised only in the period when the acquiring sub-segment (in a customer's position) consumes the purchased goods.

The Group is selling coal and coke through the sales department at OKD. Thus all coke is first sold from OKK Koksovny to OKD and then from OKD to third parties. Sales from OKK to OKD are eliminated as described above. OKD's coke sales, coke inventory and all related costs, including transportation and charge or reversal of coke inventory price adjustments are included in the financial information of the Coke sub-segment.

Coal purchased by OKD from third parties for the purpose of coking is included in the financial information of the Coke sub-segment. Any inventory on such coal is allocated to the Coke sub-segment as well.

The operating income represents the segments and sub-segment result as reviewed by the CODM. The allocation of other items of the income statement would decisively depend on assumptions made by the management. Therefore such items are not allocated to individual sub-segments and are not reviewed by the CODM. The CODM only reviews results from continuing operations for the sub-segments.

The result of foreign exchange rate hedging operations in the operating income of the Group results from the financing role of the holding entity and is therefore presented in the sub-segment Other.

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### 3. Segment information continued

All assets, except for special items described in this section, are allocated to the sub-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 sub-segment using the assets to be acquired. Investments in other entities of the Group and related intercompany balances (liabilities, receivables and other similar rights) are eliminated from the value of assets for the purpose of sub-segment presentation. All liabilities are allocated to the sub-segments based on the allocation of the entities holding such liabilities.

Other than previously mentioned consolidation adjustments and eliminations are not allocated to individual sub-segments.

The following tables present the financial data reviewed by the CODM for the presented periods. These data include the operational part of the income statement for sub-segments, complete income statements for MD and RED segments, the value of total assets and liabilities per sub-segment and segment and capital expenditure ('CAPEX') per segment defined as purchase of property, plant and equipment. CAPEX is allocated based on the segment using the assets acquired. Interest expense and interest income are presented as additional information for sub-segments based on allocation of the entities. Items of financial income, financial expenses, tax expense and profit after tax are presented for RED and MD segments, as they are not reviewed for sub-segments by CODM.

#### b) Disclosures on Buildings

The RED provides Buildings to the MD based on the overriding rules. The management considers this relation between the divisions as a kind of leasing relationship, where the RED provides property to the MD against remuneration. Following this approach of the Company, for Buildings the following criteria for identifying the relation between the divisions as financial leasing are met:

- > the lease term is for the major part of the economic life of the asset,
- > the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The Buildings are recorded at the carrying amount in the balance sheet of the MD. As of 1 January 2008 MD depreciates the Buildings provided by the RED. 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.

The Company did not revalue the Real Estate Assets for the purpose of presentation in the segment reporting.

The assets are presented in the segment reporting at book values. These values also represent the basis for depreciation. Under IFRS finance lease assets shall be valued at the present value of minimum lease payments, which would also be the basis for depreciation under standard finance lease conditions. The RED does not charge lease payments to the MD for the access to the Real Estate Assets. Therefore the Group decided to apply the book values for the allocation of the Real Estate Assets value between the divisions. The value of Buildings provided to the MD at 31 December 2010 is EUR 261,212 thousand (2009: EUR 290,416 thousand).

When the demand for unrestricted access to certain Real Estate Assets by the MD terminates, the overriding rules do not apply anymore and the Real Estate Assets are transferred back from the MD to the RED. This transfer becomes effective when the assets are not used for mining, coking and related operations anymore. Since the respective Buildings meet the criteria mentioned above, 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.

The Divisional Policy Statements determine the annual fee paid for Real Estate Assets provided by the RED to the MD (the 'CAP') to be EUR 3,600 thousand per year in 2008, adjusted for inflation in subsequent years and reduced by CAP share of the Group entities disposed-off in prior periods. The annual fee paid by MD to RED represents the financing costs on the Buildings provided.

The CAP is accounted for as financial expense in the MD and as financial revenue in the RED. For the year 2010 the CAP fee was determined in line with the Divisional Policy Statement in an amount of EUR 3,830 thousand (2009: EUR 3,807 thousand). However, the CAP for the year 2010 was reduced according to the Divisional Policy Statements to reflect the sale of energy business and amounts to EUR 3,692 thousand.

There is no consideration required from the MD to repay the present value of the Buildings provided in compliance with the Divisional Policy Statement. Therefore the respective amount i.e. the book value of the Buildings provided to the MD as of 31 December 2010 is presented in the equity of the MD.

#### c) Disclosures on land

Land is provided to the MD without any consideration. However the IFRS criteria for financial leasing cannot be met for land. IFRS do not provide a specific guideline for the presentation of such relationship. The Company decided to present this relationship in the segment analysis as a right to use land by the MD granted by RED. The right is depleted over the expected lifetime of mining, coking and related businesses using a linear amortisation method. The management determined the original value of the right being the book value of land at 31 December 2007 i.e. the date when the divisions were established. The residual amount as of 31 December 2010 and 31 December 2009 was EUR 14,685 thousand and EUR 14,730 thousand respectively.

Deferred revenue corresponding to the amount of the right to use land is presented in the balance sheet of the RED. The deferred revenue will be released into revenues over the period correspondingly to the depletion of the right to use the land.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 3. Segment information continued

#### d) Disclosures on assets allocated to the RED and not provided for mining, coking and related operations

Real Estate Assets currently not used for mining, coking and related operations are presented in the Real Estate Division.

#### e) Presentation of business segments

|  | Mining division segment  |  |  |  |   | Mining division segment total  | Real Estate division segment   | Inter-segment Eliminations & adjustments              | Continuing operations total                           |
|--|--|--|--|--|---|--|--|---|---|
|  | Coal sub-segment   | Coke sub-segment   | Other sub-segment  | Electricity trading sub-segment  | Eliminations & adjustment                             |  |  |   |   |
|  | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Discontinued operations<br>1 January<br>2010 –<br>21 June<br>2010<br>EUR'000 | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 |
| <b>Segment revenues</b>                                      |  |  |  |  |   |  |  |   |   |
| <b>Continuing operations</b>                                 |  |  |  |  |   |  |  |   |   |
| Sales to third party   | 1,229,033  | 341,529  | 17,145   | –  | –   | 1,587,707  | 285  | –   | 1,587,992   |
| Sales to continuing sub-segments                             | 127,346  | 113  | 30,176   | –  | (157,635)   | –  | –  | –   | –   |
| Sales to discontinued sub-segment                            | 43   | –  | 1,955  | –  | –   | 1,998  | –  | –   | 1,998   |
| Inter-segment sales  | –  | –  | –  | –  | –   | –  | 950  | (950)   | –   |
| <b>Discontinued operations</b>                               |  |  |  |  |   |  |  |   |   |
| Sales to third party   | –  | –  | –  | 51,224   | (51,224)  | –  | –  | –   | –   |
| Sales to continuing sub-segment                              | –  | –  | –  | 22,828   | (22,828)  | –  | –  | –   | –   |
| <b>Total revenues</b>  | 1,356,422  | 341,642  | 49,276   | 74,052   | (231,687)   | 1,589,705  | 1,235  | (950)   | 1,589,990   |
| <b>Segment operating result</b>                              |  |  |  |  |   |  |  |   |   |
| Change in inventories of finished goods and work-in-progress | (4,505)  | (29,042)   | (31)   | –  | (1,376)   | (34,954)   | –  | –   | (34,954)  |
| Consumption of material and energy                           | (284,807)  | (216,666)  | (29,133)   | (72,502)   | 229,965   | (373,143)  | (10)   | –   | (373,153)   |
| Service expenses   | (288,663)  | (43,139)   | (11,616)   | (148)  | 1,730   | (341,386)  | (7)  | –   | (341,843)   |
| Personnel expenses   | (326,845)  | (20,080)   | (14,089)   | (297)  | 300   | (361,011)  | (106)  | –   | (361,117)   |
| Depreciation   | (150,133)  | (10,779)   | (153)  | –  | –   | (161,065)  | (80)   | –   | (161,145)   |
| Amortisation   | (9,203)  | –  | –  | –  | –   | (9,203)  | –  | –   | (9,203)   |
| Amortisation of rights to use land – divisional adjustment   | (546)  | (322)  | (82)   | –  | –   | (950)  | –  | 950   | –   |
| Reversal of impairment of receivables                        | 80   | (1)  | –  | –  | –   | 79   | –  | –   | 79  |
| Net gain from material sold                                  | 4,988  | 171  | 18   | –  | –   | 5,177  | –  | –   | 5,177   |
| Gain from sale of property, plant and equipment              | (193)  | –  | 727  | (3)  | 3   | 534  | 181  | –   | 715   |
| Other operating income                                       | 4,353  | 359  | 430  | 2,718  | (2,772)   | 5,088  | 5  | (31)  | 5,062   |
| Other operating expenses                                     | (21,508)   | (2,571)  | (1,004)  | (77)   | 94  | (25,066)   | (29)   | 31  | (25,064)  |
| <b>Segment operating income/(loss)</b>                       | 279,440  | 19,572   | (5,657)  | 3,743  | (3,743)   | 293,355  | 1,189  | –   | 294,544   |

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### 3. Segment information continued

|   | Mining division segment  |  |  |  |   | Mining division segment total  | Real Estate division segment   | Inter-segment Eliminations & adjustments              | Continuing operations total                           |
|---|--|--|--|--|---|--|--|---|---|
|   | Coal sub-segment   | Coke sub-segment   | Other sub-segment  | Electricity trading sub-segment  | Eliminations & adjustment                             |  |  |   |   |
|   | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Discontinued operations<br>1 January<br>2010 –<br>21 June<br>2010<br>EUR'000 | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | Continuing operations<br>1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 |
| <b>Segment operating income/ (loss)</b>               | 279,440  | 19,572   | (5,657)  | 3,743  | (3,743)   | 293,355  | 1,189  | –   | 294,544   |
| Financial income                                      |  |  |  |  |   | 35,373   | 3,849  | (3,704)   | 35,518  |
| Financial expenses                                    |  |  |  |  |   | (153,211)  | (866)  | 3,704   | (150,373)   |
| Gain on disposal of energy business                   |  |  |  |  |   | 68,779   | 3,612  | –   | 72,391  |
| <b>Profit before tax</b>                              |  |  |  |  |   | 244,296  | 7,784  | –   | 252,080   |
| Tax expense   |  |  |  |  |   | (30,020)   | (791)  | –   | (30,811)  |
| <b>Profit from continuing operations</b>              |  |  |  |  |   | 214,276  | 6,993  | –   | 221,269   |
| Segment assets and liabilities as of 31 December 2010 |  |  |  |  |   |  |  |   |   |
| <b>Total segment assets</b>                           | 1,917,383  | 222,806  | 954,795  | –  | (884,801)   | 2,210,183  | 63,077   | (15,049)  | 2,258,211   |
| <b>Total segment liabilities</b>                      | 1,055,261  | 145,028  | 1,131,016  | –  | (884,801)   | 1,446,504  | 17,361   | (15,049)  | 1,448,816   |
| <b>Other segment information</b>                      |  |  |  |  |   |  |  |   |   |
| Capital expenditures                                  | 169,699  | 47,925   | 3,247  | –  | –   | 220,871  | –  | –   | 220,871   |
| Interest income                                       | 1,456  | 15   | 22,137   | 9  | (20,272)  | 3,345  | 107  | –   | 3,452   |
| <b>Interest income – divisional CAP</b>               | –  | –  | –  | –  | –   | –  | 3,692  | (3,692)   | –   |
| Interest expense                                      | 20,521   | 4,812  | 60,390   | 13   | (20,272)  | 65,464   | –  | –   | 65,464  |
| <b>Interest expense – divisional CAP</b>              | 3,202  | 351  | 139  | –  | –   | 3,692  | –  | (3,692)   | –   |



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 3. Segment information continued

|  | Mining division segment  |  |  |  |   |  |  |   |   |
|--|--|--|--|--|---|--|--|---|---|
|  | Coal sub-segment   | Coke sub-segment   | Other sub-segment  | Electricity trading sub-segment  | Eliminations & adjustment                             | Mining division segment total  | Real Estate division segment   | Inter-segment Eliminations & adjustments              | Continuing operations total                           |
|  | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Discontinued operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
| <b>Segment revenues</b>                                      |  |  |  |  |   |  |  |   |   |
| <b>Continuing operations</b>                                 |  |  |  |  |   |  |  |   |   |
| Sales to third party   | 954,657  | 130,812  | 27,079   | –  | –   | 1,112,548  | 212  | –   | 1,112,760   |
| Sales to continuing sub-segments                             | 89,437   | 196  | 62,120   | –  | (151,753)   | –  | –  | –   | –   |
| Sales to discontinued sub-segment                            | 75   | –  | 4,003  | –  | –   | 4,078  | –  | –   | 4,078   |
| Inter-segment sales  | –  | –  | –  | –  | –   | –  | 1,785  | (1,785)   | –   |
| <b>Discontinued operations</b>                               |  |  |  |  |   |  |  |   |   |
| Sales to third party   | –  | –  | –  | 117,406  | (117,406)   | –  | –  | –   | –   |
| Sales to continuing sub-segment                              | –  | –  | –  | 70,172   | (70,172)  | –  | –  | –   | –   |
| <b>Total revenues</b>  | <b>1,044,169</b>   | <b>131,008</b>   | <b>93,202</b>  | <b>187,578</b>   | <b>(339,331)</b>                                      | <b>1,116,626</b>   | <b>1,997</b>   | <b>(1,785)</b>  | <b>1,116,838</b>                                      |
| <b>Total revenues</b>  | <b>1,044,169</b>   | <b>131,008</b>   | <b>93,202</b>  | <b>187,578</b>   | <b>(339,331)</b>                                      | <b>1,116,626</b>   | <b>1,997</b>   | <b>(1,785)</b>  | <b>1,116,838</b>                                      |
| <b>Segment operating result</b>                              |  |  |  |  |   |  |  |   |   |
| Change in inventories of finished goods and work-in-progress | 4,661  | 13,918   | –  | –  | 290   | 18,869   | –  | –   | 18,869  |
| Consumption of material and energy                           | (255,923)  | (124,701)  | (60,561)   | (173,513)  | 322,388   | (292,310)  | (3)  | –   | (292,313)   |
| Service expenses   | (246,579)  | (31,304)   | (17,921)   | (300)  | 2,944   | (293,160)  | (411)  | –   | (293,571)   |
| Personnel expenses   | (305,128)  | (27,947)   | (17,806)   | (689)  | 695   | (350,875)  | (197)  | –   | (351,072)   |
| Depreciation   | (140,789)  | (19,867)   | (2,632)  | (5)  | 5   | (163,288)  | (1,209)  | –   | (164,497)   |
| Amortisation   | (8,352)  | –  | –  | –  | –   | (8,352)  | –  | –   | (8,352)   |
| Amortisation of rights to use land – divisional adjustment   | (1,474)  | (307)  | (4)  | –  | –   | (1,785)  | –  | 1,785   | –   |
| Reversal of impairment of receivables                        | 1,187  | (3)  | –  | (445)  | 445   | 1,184  | –  | –   | 1,184   |
| Net gain from material sold                                  | 3,870  | 137  | 41   | –  | –   | 4,048  | –  | –   | 4,048   |
| Gain from sale of property, plant and equipment              | (157)  | 2,809  | 980  | –  | –   | 3,632  | 485  | –   | 4,117   |
| Other operating income                                       | 2,709  | 363  | 548  | 19   | (125)   | 3,514  | –  | –   | 3,514   |
| Other operating expenses                                     | (24,570)   | (3,151)  | (1,135)  | (5,654)  | 5,698   | (28,812)   | –  | –   | (28,812)  |
| <b>Segment operating income/(loss)</b>                       | <b>73,624</b>  | <b>(59,045)</b>  | <b>(5,288)</b>   | <b>6,991</b>   | <b>(6,991)</b>  | <b>9,291</b>   | <b>662</b>   | <b>–</b>  | <b>9,953</b>  |

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### 3. Segment information continued

| Mining division segment  |  |  |  |   |  |  |   |   |           |
|--|--|--|--|---|--|--|---|---|-----------|
| Coal sub-segment   | Coke sub-segment   | Other sub-segment  | Electricity trading sub-segment  | Eliminations & adjustment                             | Mining division segment- total   | Real Estate division segment   | Inter-segment Eliminations & adjustments              | Continuing operations total                           |           |
| Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Discontinued operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | Continuing operations<br>1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |           |
| <b>Segment operating income/(loss)</b>   | 73,624   | (59,045)   | (5,288)  | 6,991   | (6,991)  | 9,291  | 662   | –   | 9,953     |
| Financial income   |  |  |  |   |  | 48,979   | 4,544   | (4,592)   | 48,931    |
| Financial expenses   |  |  |  |   |  | (121,105)  | (291)   | 4,592   | (116,804) |
| <b>Profit/(loss) before tax</b>  |  |  |  |   |  | (62,835)   | 4,915   | –   | (57,920)  |
| Tax expense  |  |  |  |   |  | (4,742)  | (1,069)   | –   | (5,811)   |
| <b>Profit/(loss) from continuing operations</b>                                |  |  |  |   |  | (67,577)   | 3,846   | –   | (63,731)  |
| Segment assets and liabilities as of 31 December 2009                          |  |  |  |   |  |  |   |   |           |
| <b>Total segment assets</b>  | 1,934,096  | 169,878  | 162,629  | 41,290  | (108,698)  | 2,199,195  | 33,356  | (17,020)  | 2,215,531 |
| <b>Total segment liabilities</b>   | 921,866  | 118,372  | 697,973  | 24,437  | (108,698)  | 1,653,950  | 18,426  | (17,020)  | 1,655,356 |
| <b>Other segment information</b>   |  |  |  |   |  |  |   |   |           |
| Capital expenditures   | 222,241  | 23,550   | 4,410  | –   | –  | 250,201  | –   | –   | 250,201   |
| Interest income  | 2,773  | 290  | 4,032  | 90  | (1,429)  | 5,756  | 48  | –   | 5,804     |
| <b>Interest income – divisional CAP</b>  | –  | –  | –  | –   | –  | –  | 3,819   | (3,819)   | –         |
| Interest expense   | 17,959   | 1,475  | 36,640   | 41  | (1,380)  | 54,735   | –   | –   | 54,735    |
| <b>Interest expense – divisional CAP</b>                                       | 3,145  | 396  | 278  | –   | –  | 3,819  | –   | (3,819)   | –         |

RED revenues include revenues from release of deferred revenues (refer to point c of Note 3) in an amount of EUR 950 thousand (2009: EUR 1,785 thousand) and revenues of EUR 285 thousand (2009: EUR 212 thousand) from rental of Real Estate Assets to third parties. Revenues from release of deferred revenues are eliminated in the Group's financial statements presented under Eliminations & Adjustments.

MD amortised rights to use land, which were provided by RED to MD (refer to point c of Note 3), in an amount of EUR 950 thousand (2009: EUR 1,785 thousand). Amortisation charge is as an adjustment presented under Eliminations & Adjustments in the table above.

Financial income of RED comprises mainly of CAP interest income (refer to point b of Note 3) of EUR 3,692 thousand (2009: EUR 3,819 thousand). The final value of CAP is reduced in comparison to the annual CAP value (refer to point b of Note 3) due to disposal of subsidiaries. MD was charged with interest expense of EUR 3,692 (2009: EUR 3,819 thousand). Such amount is included in inter-segment transactions in the total amount of EUR 3,704 thousand (2009: EUR 4,592 thousand) that are eliminated on Group level, as presented under Elimination & Adjustments above.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 3. Segment information continued

#### f) Assets, equity and liabilities of the Mining and the Real Estate Divisions – detailed presentation

As of 31 December 2010 and 2009 assets and liabilities of the divisions and the reconciliation to the consolidated statement of financial position are as follows:

|  | Mining division<br>31 December<br>2010<br>EUR'000 | Real Estate<br>division<br>31 December<br>2010<br>EUR'000 | Eliminations &<br>Adjustments<br>31 December<br>2010<br>EUR'000 | Total<br>31 December<br>2010<br>EUR'000 |
|--|---|---|---|---|
| Land                                       | 6,327   | 19,158  | –   | 25,485                                  |
| Buildings and constructions                | 606,028   | 309   | –   | 606,337                                 |
| Plant and equipment                        | 607,555   | –   | –   | 607,555                                 |
| Other assets                               | 7,601   | –   | –   | 7,601                                   |
| Construction in progress                   | 33,914  | –   | –   | 33,914                                  |
| Rights to use land of Real Estate Division | 14,685  | –   | (14,685)  | –                                       |
| Mining licences                            | 161,586   | –   | –   | 161,586                                 |
| Long-term receivables                      | 12,872  | –   | –   | 12,872                                  |
| Deferred tax asset                         | 8,601   | –   | –   | 8,601                                   |
| Restricted cash                            | 11,025  | –   | –   | 11,025                                  |
| Derivatives                                | 58  | –   | –   | 58                                      |
| <b>Total non-current assets</b>            | <b>1,470,252</b>                                  | <b>19,467</b>   | <b>(14,685)</b>   | <b>1,475,034</b>                        |
| Inventories                                | 56,013  | –   | –   | 56,013                                  |
| Accounts receivable and prepayments        | 197,781   | 17  | (52)  | 197,746                                 |
| Derivatives                                | 34  | –   | –   | 34                                      |
| Income tax receivable                      | 455   | –   | (312)   | 143                                     |
| Cash and cash equivalents                  | 485,648   | 43,593  | –   | 529,241                                 |
| <b>Total current assets</b>                | <b>739,931</b>                                    | <b>43,610</b>   | <b>(364)</b>  | <b>783,177</b>                          |
| <b>Total assets</b>                        | <b>2,210,183</b>                                  | <b>63,077</b>   | <b>(15,049)</b>   | <b>2,258,211</b>                        |
| <b>Total equity</b>                        | <b>763,679</b>                                    | <b>45,716</b>   | <b>–</b>  | <b>809,395</b>                          |
| Provisions                                 | 106,491   | –   | –   | 106,491                                 |
| Long-term loans                            | 89,377  | –   | –   | 89,377                                  |
| Bond issued                                | 745,497   | –   | –   | 745,497                                 |
| Employee benefits                          | 95,892  | –   | –   | 95,892                                  |
| Deferred revenue                           | 2,524   | 13,912  | (13,912)  | 2,524                                   |
| Deferred tax liability                     | 118,938   | –   | –   | 118,938                                 |
| Other long-term liabilities                | 576   | –   | –   | 576                                     |
| Derivatives                                | 19,280  | –   | –   | 19,280                                  |
| <b>Total non-current liabilities</b>       | <b>1,178,575</b>                                  | <b>13,912</b>   | <b>(13,912)</b>   | <b>1,178,575</b>                        |
| Short-term provisions                      | 5,820   | –   | –   | 5,820                                   |
| Accounts payable and accruals              | 204,793   | 825   | (825)   | 204,793                                 |
| Accrued interest payable on bond           | 9,029   | –   | –   | 9,029                                   |
| Derivatives                                | 4,771   | –   | –   | 4,771                                   |
| Income tax payable                         | 26,826  | 2,624   | (312)   | 29,138                                  |
| Current portion of long-term loans         | 15,276  | –   | –   | 15,276                                  |
| Short-term loans                           | 7   | –   | –   | 7                                       |
| Cash-settled share-based payments payable  | 1,407   | –   | –   | 1,407                                   |
| <b>Total current liabilities</b>           | <b>267,929</b>                                    | <b>3,449</b>  | <b>(1,137)</b>  | <b>270,241</b>                          |
| <b>Total liabilities</b>                   | <b>1,446,504</b>                                  | <b>17,361</b>   | <b>(15,049)</b>   | <b>1,448,816</b>                        |
| <b>Total equity and liabilities</b>        | <b>2,210,183</b>                                  | <b>63,077</b>   | <b>(15,049)</b>   | <b>2,258,211</b>                        |

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### 3. Segment information continued

|   | Mining division<br>31 December<br>2009<br>EUR'000 | Real Estate<br>division<br>31 December<br>2009<br>EUR'000 | Eliminations &<br>Adjustments<br>31 December<br>2009<br>EUR'000 | Total<br>31 December<br>2009<br>EUR'000 |
|---|---|---|---|---|
| Land  | 4,750   | 18,258  | –   | 23,008                                  |
| Buildings and constructions                           | 610,150   | 368   | –   | 610,518                                 |
| Plant and equipment                                   | 434,290   | –   | –   | 434,290                                 |
| Other assets  | 6,450   | –   | –   | 6,450                                   |
| Construction in progress                              | 84,066  | –   | –   | 84,066                                  |
| Rights to use land of Real Estate Division            | 14,730  | –   | (14,730)  | –                                       |
| Mining licences                                       | 161,757   | –   | –   | 161,757                                 |
| Long-term receivables                                 | 1,568   | –   | –   | 1,568                                   |
| Deferred tax asset                                    | 7,710   | –   | –   | 7,710                                   |
| Restricted cash                                       | 13,926  | –   | –   | 13,926                                  |
| Derivatives   | 251   | –   | –   | 251                                     |
| <b>Total non-current assets</b>                       | <b>1,339,648</b>                                  | <b>18,626</b>   | <b>(14,730)</b>   | <b>1,343,544</b>                        |
| Inventories   | 85,819  | –   | –   | 85,819                                  |
| Accounts receivable and prepayments                   | 151,423   | 189   | (1,956)   | 149,656                                 |
| Income tax receivable                                 | 821   | –   | (161)   | 660                                     |
| Cash and cash equivalents                             | 533,698   | 14,129  | –   | 547,827                                 |
| Restricted cash                                       | 2,771   | –   | –   | 2,771                                   |
| <b>Total current assets</b>                           | <b>774,532</b>                                    | <b>14,318</b>   | <b>(2,117)</b>  | <b>786,733</b>                          |
| <b>Assets held for sale</b>                           | <b>85,015</b>                                     | <b>412</b>  | <b>(173)</b>  | <b>85,254</b>                           |
| <b>Total assets</b>                                   | <b>2,199,195</b>                                  | <b>33,356</b>   | <b>(17,020)</b>   | <b>2,215,531</b>                        |
| <b>Total equity</b>                                   | <b>545,245</b>                                    | <b>14,930</b>   | <b>–</b>  | <b>560,175</b>                          |
| Provisions  | 103,133   | –   | –   | 103,133                                 |
| Long-term loans                                       | 679,854   | –   | –   | 679,854                                 |
| Bond issued   | 260,096   | –   | –   | 260,096                                 |
| Employee benefits                                     | 96,588  | –   | –   | 96,588                                  |
| Deferred revenue                                      | 2,675   | 13,994  | (13,994)  | 2,675                                   |
| Deferred tax liability                                | 101,512   | –   | –   | 101,512                                 |
| Other long-term liabilities                           | 648   | –   | –   | 648                                     |
| Derivatives   | 18,649  | –   | –   | 18,649                                  |
| <b>Total non-current liabilities</b>                  | <b>1,263,155</b>                                  | <b>13,994</b>   | <b>(13,994)</b>   | <b>1,263,155</b>                        |
| Short-term provisions                                 | 10,175  | –   | –   | 10,175                                  |
| Accounts payable and accruals                         | 237,115   | 2,508   | (2,693)   | 236,930                                 |
| Accrued interest payable on bond                      | 2,467   | –   | –   | 2,467                                   |
| Derivatives   | 2,144   | –   | –   | 2,144                                   |
| Income tax payable                                    | 231   | 1,770   | (161)   | 1,840                                   |
| Current portion of long-term loans                    | 74,842  | –   | –   | 74,842                                  |
| Short-term loans                                      | 18,895  | –   | –   | 18,895                                  |
| Cash-settled share-based payments payable             | 2,371   | –   | –   | 2,371                                   |
| <b>Total current liabilities</b>                      | <b>348,240</b>                                    | <b>4,278</b>  | <b>(2,854)</b>  | <b>349,664</b>                          |
| <b>Liabilities classified as assets held for sale</b> | <b>42,555</b>                                     | <b>154</b>  | <b>(172)</b>  | <b>42,537</b>                           |
| <b>Total liabilities</b>                              | <b>1,653,950</b>                                  | <b>18,426</b>   | <b>(17,020)</b>   | <b>1,655,356</b>                        |
| <b>Total equity and liabilities</b>                   | <b>2,199,195</b>                                  | <b>33,356</b>   | <b>(17,020)</b>   | <b>2,215,531</b>                        |

MD equity amounts to 763,679 (2009: EUR 545,245) thousand, out of which share capital amounts to EUR 105,879 thousand (2009: EUR 105,732 thousand) as of 31 December 2010.

Restricted reserve in an amount of EUR 133,169 thousand (2009: EUR 126,066 thousand) is included in the equity of the MD as of 31 December 2010.

RED equity amounts to EUR 45,716 thousand (2009: EUR 14,930 thousand), out of which share capital amounts to EUR 4 thousand (2009: EUR 4 thousand) as of 31 December 2010.

The increase in RED equity is mainly attributable to the sale of energy business. Some of the disposed energy assets were originally allocated to RED. Due to the sale, buildings previously allocated to the RED and used by MD were returned by the MD back to the RED. The equity increased by the net book value of the returned buildings by EUR 22,829 thousand.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 3. Segment information continued

Thus the disposal of energy net assets resulted in an increase of EUR 26,441 thousand in RED equity. The rest of the increase on RED equity is attributable to profit for the year EUR 3,380 thousand, excluding gain on disposal of energy assets, and movement on foreign exchange translation reserve and other movements in an amount of EUR 965 thousand.

The selling price part attributable to the RED amounted to EUR 27,665 thousand. It included fair value of energy real estates assets and other assets value less existing liabilities related to energy assets owned by RED. The fair value of real estate assets was determined by an independent expert. The total net book value of energy net assets disposed off was EUR 23,275 thousand, including the returned real estate assets mentioned above. There were also allocated to the RED the secondary costs relating to the sale in the amount of EUR 778 thousand. As a result of the sale of the energy assets the profit of RED increased by EUR 3,612 thousand.

### h) Geographical information

The Group provides its products to final customer situated in different geographical areas, therefore it considers as an important information to present break-up of revenue information per country.

|                              | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|------------------------------|---|---|
| <b>Continuing operations</b> |   |   |
| Czech Republic               | 542,136   | 412,946   |
| Austria                      | 289,070   | 251,950   |
| Slovakia                     | 269,515   | 180,402   |
| Poland                       | 248,415   | 103,511   |
| Germany                      | 113,396   | 71,500  |
| Hungary                      | 66,134  | 39,858  |
| Bosnia and Herzegovina       | 14,889  | 17,593  |
| Serbia                       | 7,414   | –   |
| France                       | 6,929   | 3,236   |
| Italy                        | 2,002   | 760   |
| Finland                      | –   | 6,490   |
| Unallocated                  | 30,090  | 28,592  |
| <b>Total</b>                 | <b>1,589,990</b>                                      | <b>1,116,838</b>                                      |

Non-current assets including property, plant, and equipment and mining license allocation per country based on the physical location of non-current assets:

|                                    | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|------------------------------------|---|---|
| <b>Continuing operations</b>       |   |   |
| Czech Republic                     | 1,439,005   | 1,316,392   |
| Poland                             | 3,265   | 3,317   |
| The Netherlands                    | 208   | 339   |
| <b>Total Continuing operations</b> | <b>1,442,478</b>                                      | <b>1,320,048</b>                                      |
| <b>Discontinued operations</b>     |   |   |
| Czech Republic                     | –   | 41  |
| <b>Total</b>                       | <b>1,442,478</b>                                      | <b>1,320,089</b>                                      |

Capital expenditures of the Group allocation per country based on the physical location of acquired non-current assets:

|                                    | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|------------------------------------|---|---|
| <b>Continuing operations</b>       |   |   |
| Czech Republic                     | 220,435   | 248,631   |
| Poland                             | 414   | 1,462   |
| The Netherlands                    | 22  | 105   |
| <b>Total Continuing operations</b> | <b>220,871</b>  | <b>250,198</b>  |
| <b>Discontinued operations</b>     |   |   |
| Czech Republic                     | –   | 3   |
| <b>Total</b>                       | <b>220,871</b>  | <b>250,201</b>  |



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### 3. Segment information continued

#### Significant customers of the Group

External revenue from four significant customers amounted to EUR 785,898 thousand (2009: three significant customers, revenue in total EUR 404,458 thousand), arising from sales of products of the Coal and coke sub-segment.

The split of revenues between sales of own products and merchandise and services rendered is as follows:

|                                       | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---------------------------------------|---|---|
| Sales of own products and merchandise | <b>1,549,593</b>                                      | 1,066,667   |
| Services rendered                     | <b>40,397</b>   | 50,171  |
|                                       | <b>1,589,990</b>                                      | 1,116,838   |

Please refer to Note 10 for the split of revenues from discontinued operations.

### 4. Personnel expenses

|   | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---|---|---|
| Wages and salaries                      | <b>243,470</b>  | 230,483   |
| Social insurance costs                  | <b>81,619</b>   | 73,264  |
| Social security and other payroll costs | <b>17,525</b>   | 15,501  |
| Share-based payments (see Note 29)      | <b>12,486</b>   | 12,440  |
| Net benefit expense (see Note 28)       | <b>3,701</b>  | 17,199  |
| Pensions                                | <b>2,316</b>  | 2,185   |
|   | <b>361,117</b>  | 351,072   |

Average number of employees in the period:

|          | 1 January<br>2010 –<br>31 December<br>2010 | 1 January<br>2009 –<br>31 December<br>2009 |
|----------|--|--|
| Managers | <b>108</b>                                 | 126  |
| Staff    | <b>15,038</b>                              | 15,882                                     |
|          | <b>15,146</b>                              | 16,008                                     |

Total remuneration and variable benefits received by the management were EUR 40,738 thousand (2009: EUR 28,293 thousand), out of which the social and health insurance were EUR 1,670 thousand (2009: EUR 1,144 thousand). The stated amount includes share-based payments to the management in the amount of EUR 12,486 thousand (2009: EUR 12,440 thousand).

Management comprises Executive and Non-Executive Members of Boards of Directors, Supervisory Boards and Senior Management of the Company and its subsidiaries. OKD includes also mine managers, mine operation managers and managers of non-mining internal business units.

The members of the Board of the Company received EUR 7,789 thousand for their services in the year 2010 (2009: EUR 10,692 thousand), of which EUR 6,075 thousand (2009: EUR 8,847 thousand) was received in shares and share options. The amounts correspond to values recorded in the books of the Company for the year 2010, including accruals. The amounts include accrued expenses for share-based payments vesting after 31 December 2010. Please refer to the 'Remuneration Report' in the 2010 Annual Report for further information.

See Note 29 presenting the share-based payment remuneration of the Group.

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### 5. Other operating expenses

Other operating expenses comprise:

|  | 1 January<br>2010 –<br>31 December<br>2010 EUR'000 | 1 January<br>2009 –<br>31 December<br>2009 EUR'000 |
|--|--|--|
| Compensation for mining damages  | 15,266   | 14,525   |
| Property taxes and government fees   | 7,678  | 5,906  |
| Insurance  | 4,053  | 4,261  |
| Loss on sale and write-off of receivables  | 198  | 1,524  |
| Compensation of employees for injuries, loss on wages, employment related illness etc. | 147  | 154  |
| Changes in provisions  | (5,686)  | (6,875)  |
| Other <sup>1</sup>   | 3,408  | 9,317  |
| <b>Total other operating expenses</b>  | <b>25,064</b>                                      | <b>28,812</b>                                      |

1 Includes gifts and donations and variety of sundry expenses.

### 6. Own work capitalised

Own work capitalised in the amount of EUR 22,300 thousand (2009: EUR 20,231 thousand) is not recognised in the revenues. It reduces expenses as follows:

|                                    | 1 January<br>2010 –<br>31 December<br>2010 EUR'000 | 1 January<br>2009 –<br>31 December<br>2009 EUR'000 |
|------------------------------------|--|--|
| Consumption of material and energy | 18,872   | 14,312   |
| Service expenses                   | 25   | 19   |
| Personnel expenses                 | 889  | 2,668  |
| Net gain from material sold        | 2,514  | 3,232  |
| <b>Total</b>                       | <b>22,300</b>                                      | <b>20,231</b>                                      |

### 7. Financial income and expenses

Financial income comprise:

|   | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---|---|---|
| Realised and unrealised foreign exchange gains  | 27,909  | 41,304  |
| Profit on derivative instruments                | 3,682   | 165   |
| Bank interest received                          | 3,405   | 5,646   |
| Investment income                               | 128   | 160   |
| Other interest received                         | 47  | 158   |
| Proceeds on disposal of investment <sup>1</sup> | –   | 35  |
| Other <sup>2</sup>                              | 347   | 1,463   |
| <b>Total financial income</b>                   | <b>35,518</b>   | <b>48,931</b>   |

1 Profit on disposal of interest in energy business is disclosed in separate Income Statement line. See Note 8.

2 2009: out of which EUR 1,333 thousand represents income from bond redemption (difference between principal amount and purchase price of EUR 2,270 thousand minus amortised fees to the redeemed part of EUR 937 thousand).

Financial expenses comprise:

|   | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---|---|---|
| Bonds interest expense                          | 48,621  | 21,563  |
| Realised and unrealised foreign exchange losses | 39,303  | 42,820  |
| Loss on derivative instruments <sup>1</sup>     | 24,570  | 12,772  |
| Bank fees <sup>2</sup>                          | 14,010  | 229   |
| Bank interest expense                           | 13,546  | 29,482  |
| Other interest expense <sup>3</sup>             | 3,297   | 3,690   |
| Other <sup>4</sup>                              | 7,026   | 6,248   |
| <b>Total financial expenses</b>                 | <b>150,373</b>  | <b>116,804</b>  |

1 2010: out of which EUR 6537 thousand represent a loss on closure of interest rate derivatives.

2 2010: out of which EUR 12,510 thousand represent bank charges for loan arrangements related to attempted acquisition of Bogdanka and EUR 620 thousand represent bank charges related to the Senior Secured Facility repayment (2009: out of which EUR 16 thousand represents bank fees of redeemed part of bond).

3 2010: out of which EUR 1,636 thousand represent letter of credit fees related to Bogdanka acquisition project.

4 2010: out of which EUR 5,699 thousand represent one-off amortisation of expenses related to the Senior Secured Facility (2009: out of which EUR 1,220 thousand represents advisory fees of redeemed part of bond For detailed information on bond redemption in 2009 see Note 24.

Please refer to the note Other comprehensive income for the financial income and expenses recognised directly in equity.

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## 8. Energy business disposal continued

On 21 June 2010 Company realised the sale of the energy business of the Group. The energy business of the Group was represented by NWR Energy, a.s., CZECH-KARBON and NWR ENERGETYKA PL. See also Note 1e) (ii) and Note 10.

Profit on disposal of energy business is presented below:

|   | EUR'000       |
|---|---------------|
| Selling price   | 139,156       |
| Additional discount in selling price                                  | (638)         |
| Associated selling costs  | (3,846)       |
| Net assets of energy business sold                                    | (52,696)      |
| <b>Profit on disposal of energy business</b>                          | <b>81,976</b> |
| Out of this profit attributed to continuing operations <sup>1</sup>   | 72,391        |
| Out of this profit attributed to discontinued operations <sup>1</sup> | 9,585         |

1 There was one selling price for all entities sold. The Company allocated the selling price and hence profits based on current EBITDA multiples that market pays for the respective energy businesses disposal.

Effect of disposal on the financial position of the Group:

|                               | 21 June 2010<br>EUR'000 |
|-------------------------------|-------------------------|
| Property, plant and equipment | (38,915)                |
| Trade and other receivables   | (35,737)                |
| Cash and cash equivalents     | (10,681)                |
| Other assets                  | (1,180)                 |
| Employee benefits             | 826                     |
| Deferred tax liability        | 3,749                   |
| Trade and other payables      | 29,242                  |
| <b>Net assets</b>             | <b>(52,696)</b>         |

The assets and liabilities of energy business of the Group that were classified as held for sale include:

|                               | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|-------------------------------|--------------------------------|--------------------------------|
| Property, plant and equipment | –                              | 37,287                         |
| Trade and other receivables   | –                              | 36,143                         |
| Cash and cash equivalents     | –                              | 11,471                         |
| Other assets                  | –                              | 353                            |
| Employee benefits             | –                              | (804)                          |
| Deferred tax liability        | –                              | (3,302)                        |
| Trade and other payables      | –                              | (38,431)                       |
| <b>Net assets</b>             | <b>–</b>                       | <b>42,717</b>                  |

## 9. Income tax expense

The corporate income tax in 2010 and 2009 is calculated in accordance with tax regulations applied in the country of the entity's residence, (i.e. for the Czech entities at the rate of 19 per cent in 2010 and after and 20 per cent in 2009 is reflected in the deferred tax, Dutch entity 25.5 per cent in 2010 and 2009, Polish entities 19 per cent in 2010 and 2009).

Due to the fact that the Dutch entity suffered fiscal losses in this and previous periods, 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 utilize the benefits from the deferred tax assets.

The net expense in the current period is composed of a EUR 54,006 thousand income tax expense offset by a one-off tax reclaim in the amount of EUR 23,195 thousand, that arised from the reversal of the Czech tax authority's position on certain interest expenses which were previously deemed non-tax deductible.

Components of tax expense:

|                           | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---------------------------|---|---|
| Income statement:         |   |   |
| Current tax expense       | 17,593  | 13,857  |
| Deferred tax expense      | 13,218  | (8,046)   |
| <b>Income tax expense</b> | <b>30,811</b>   | <b>5,811</b>  |

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 9. Income tax expense continued

Reconciliation of the statutory and effective tax rates:

|  | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--|---|---|
| Profit before tax from continuing operations   | 252,080   | (57,920)  |
| Profit before tax from discontinued operations   | 12,518  | 3,690   |
| Profit before tax  | 264,598   | (54,230)  |
| Tax at the applicable rate of 19 per cent (2009: 20 per cent)  | 50,274  | (10,846)  |
| Tax effect of:   |   |   |
| – Non-deductible expense   | 5,589   | 8,613   |
| – Other tax allowable credits  | (385)   | (849)   |
| – Tax exempt income on sale of energy business   | (16,731)  | –   |
| – Other tax exempt income  | –   | (26)  |
| – Change in unrecognised deferred tax asset  | 20,274  | 13,800  |
| Effect of the applicable tax rates other than 19 per cent (2009: 20 per cent) in other jurisdictions | (4,542)   | (3,326)   |
| One-off tax reclaim  | (23,195)  | –   |
| Tax expense  | 31,284  | 7,366   |
| Effective tax rate   | 12%   | (14%)   |
| Tax expense reported in the financial statements   | 30,811  | 5,811   |
| Income tax attributable to discontinued operations   | 473   | 1,555   |
| Tax expense  | 31,284  | 7,366   |

The movement in the corporate income tax receivable/(payable) is as follows:

|   | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---|--------------------------------|--------------------------------|
| Net tax receivable/(payable) at the beginning of the period | (1,180)                        | (4,835)                        |
| Current tax movements – reclassified to held for sale       | 2,085                          | 1,983                          |
| Current and supplementary tax charges                       | (17,593)                       | (13,857)                       |
| Tax (received)/paid, net                                    | (11,320)                       | 15,362                         |
| Currency translation  | (987)                          | 167                            |
| Net tax payable at the end of the period                    | (28,995)                       | (1,180)                        |
| Current income tax receivable                               | 143                            | 660                            |
| Current income tax payable                                  | (29,138)                       | (1,840)                        |

### 10. Discontinued operations

Part of the energy business, presented as the Electricity trading segment, is presented as discontinued operations in these financial statements. See also Note 1e) (ii) and Note 8.

In 2010, discontinued operations relate to the period 1 January 2010–21 June 2010 and consist of: CZECH-KARBON and part of NWR ENERGETYKA PL operations directly related to electricity trading.

In 2009 discontinued operations consisted of: CZECH-KARBON (1 January 2009–31 December 2009), part of NWR ENERGETYKA PL operations directly related to electricity trading i.e. after spin-off for the period 1 April 2009–31 December 2009 and part of NWR KARBONIA energy business operations directly related to electricity trading by spin-off i.e. for the period 1 January 2009–31 March 2009 (since spin-off NWR KARBONIA does not operate any energy business).

The results of discontinued operations in 2009 and 2010 are presented below:

|  | 1 January<br>2010 –<br>21 June<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--|---|---|
| Operating revenue  | 74,052  | 187,578   |
| Operating expense  | (70,309)  | (180,587)   |
| Operating profit   | 3,743   | 6,991   |
| Financial expense  | (810)   | (3,301)   |
| Profit on disposal of energy business attributed to discontinued operations <sup>1</sup> | 9,585   | –   |
| Profit before tax from discontinued operations   | 12,518  | (3,690)   |
| Income tax expense   | (473)   | (1,555)   |
| Profit for the period from discontinued operations                                       | 12,045  | (2,135)   |

1 For the details see Note 8.

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## 10. Discontinued operations continued

Operating revenue of discontinued operations consists of sales of goods EUR 74,051 thousand (2009: EUR 187,574 thousand) and sales of services in an amount of EUR 1 thousand (2009: EUR 4 thousand).

The net cash flows of discontinued operations in 2010 and 2009 were as follows:

|                        | 1 January<br>2010 –<br>21 June<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|------------------------|---|---|
| Operating              | 86  | 344   |
| Investing <sup>1</sup> | 28,127  | –   |
| Financing              | 89  | 1   |
| Currency translation   | 126   | 440   |
| <b>Net cash inflow</b> | <b>28,428</b>                                     | <b>785</b>  |

1 2010 includes cash inflow from sale of energy business attributed to discontinued operations of EUR 28,129 thousand.

For the calculation of basic and diluted earnings per share for discontinued operations we refer to the Note 25.

## 11. Dividends

### Dividends in 2010:

On 22 October 2010, the Company paid A share interim dividend for the half-year ended 30 June 2010 in the total amount of EUR 55,531 thousand, EUR 0.21 per share.

### Dividends in 2009:

On 22 May 2009, the Company paid A share dividends in the total amount of EUR 47,484 thousand, EUR 0.18 per share.

## 12. Related party disclosures

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 1e), entities under common control, shareholders and key management personnel of the Group (i.e. those charged with governance, including executives and persons whose responsibility is derived from the Act on Mining of the Czech Republic and their close members of the family), 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.

The sales to RPG Byty s.r.o. relate mainly to heating. The sales to Green Gas DPB, a.s. relate mainly to extracted gas, whereas the purchases from this company relate mainly to mine and safety services. The purchases from Advanced World Transport a.s.<sup>2</sup> and AWT SPEDI-TRANS s.r.o. relate to coal transport services. The purchases from BXR Partners, a.s. relate to consultancy services.

Transactions with related parties included in the statement of financial position are as follows<sup>1</sup>:

| Statement of financial position                              | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|--|--------------------------------|--------------------------------|
| <b>Receivables from related parties under common control</b> |                                |                                |
| Green Gas DPB, a.s.  | 1,156                          | 1,641                          |
| Advanced World Transport a.s. <sup>2</sup>                   | 270                            | 763                            |
| AWT Rekultivace a.s. <sup>3</sup>                            | 166                            | 32                             |
| RPG Byty, s.r.o.   | 104                            | 44                             |
| RPG Služby, s.r.o.   | 14                             | 23                             |
| RPG RE Commercial, s.r.o.                                    | 8                              | 7                              |
| Other related parties  | 43                             | 12                             |
| <b>Receivables from related parties in total</b>             | <b>1,761</b>                   | <b>2,522</b>                   |
| <b>Payables to related parties under common control</b>      |                                |                                |
| Advanced World Transport a.s. <sup>2</sup>                   | 12,655                         | 19,936                         |
| AWT Rekultivace a.s. <sup>3</sup>                            | 4,749                          | 1,666                          |
| AWT SPEDI-TRANS s.r.o.                                       | 2,156                          | –                              |
| Green Gas DPB, a.s.  | 2,141                          | 1,838                          |
| RPG Byty, s.r.o.   | 906                            | 786                            |
| RPG RE Commercial, s.r.o.                                    | 110                            | 266                            |
| Other related parties  | 395                            | 1,189                          |
| <b>Payables to related parties in total</b>                  | <b>23,112</b>                  | <b>25,681</b>                  |

1 The table does not include share-based payment transactions and compensation of key management personnel. Compensation of key management personnel is detailed in Note 4, share-based payments are detailed in Note 29.

2 In 2010 OKD, Doprava, akciová společnost was renamed to Advanced World Transport a.s.

3 In 2010 OKD, Rekultivace, a.s. was renamed to AWT Rekultivace a.s.

Receivables from related parties form part of the balance of accounts receivable and prepayments shown in the statement of financial position. Similarly, payables to related parties form part of the balance of accounts payable and accruals.



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 12. Related party disclosures continued

Transactions with related parties included in the income statement in continuing operations are as follows:

|  | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--|---|---|
| Income statement   |   |   |
| <b>Sales to related parties under common control</b>       |   |   |
| RPG Byty, s.r.o.   | 13,131  | 22,001  |
| Green Gas DPB, a.s.  | 7,990   | 9,529   |
| Advanced World Transport a.s.                              | 2,186   | 2,117   |
| RPG RE Commercial, s.r.o.                                  | 832   | 1,414   |
| AWT Rekultivace a.s.                                       | 234   | 164   |
| RPG Služby, s.r.o.   | 95  | 143   |
| RPG RE Property, a.s.                                      | 20  | 17  |
| Other related parties                                      | 520   | 872   |
| <b>Sales to related parties in total</b>                   | <b>25,008</b>   | <b>36,257</b>   |
| <b>Purchases from related parties under common control</b> |   |   |
| Advanced World Transport a.s.                              | 81,016  | 73,401  |
| AWT SPEDI-TRANS s.r.o.                                     | 39,156  | –   |
| Green Gas DPB, a.s.  | 13,278  | 13,733  |
| AWT Rekultivace a.s.                                       | 11,114  | 4,759   |
| BXR Partners, a.s. <sup>1</sup>                            | 4,102   | 1,528   |
| Advanced Transport B.V. <sup>2</sup>                       | 2,136   | 56  |
| RPG RE Commercial, s.r.o.                                  | 1,218   | 1,065   |
| Depos Horní Suchá, a.s.                                    | 216   | 215   |
| RPG Byty, s.r.o.   | 167   | 298   |
| RPG RE Property, a.s.                                      | 7   | 8,519   |
| Milan Jelinek  | –   | 542   |
| Other related parties                                      | 649   | 485   |
| <b>Purchases from related parties in total</b>             | <b>153,059</b>  | <b>104,601</b>  |

1 In 2010 Bakala Crossroad Partners a.s. was renamed to BXR Partners, a.s.

2 In 2010 New World Resources Transportation B.V was renamed to Advanced Transport B.V.

Transactions with related parties included in the income statement as discontinued operations are made from: sales amounted to EUR 254 thousand (2009: EUR 1,015 thousand) and purchases amounted to EUR 3,125 thousand (2009: EUR 11,897 thousand). Purchases are made mainly from purchase of 'green' electricity (renewable resources) from Green Gas, DPB, a.s.

There were no significant transactions with other related parties.

### 13. Property, plant and equipment

|   | Land and<br>Buildings<br>EUR'000 | Plant and<br>Equipment<br>EUR'000 | Other assets<br>EUR'000 | Construction in<br>Progress<br>EUR'000 | Total<br>EUR'000 |
|---|----------------------------------|-----------------------------------|-------------------------|--|------------------|
| <b>Cost:</b>  |                                  |                                   |                         |  |                  |
| As of 1 January 2010                                  | 1,134,304                        | 823,448                           | 10,473                  | 86,912                                 | 2,055,137        |
| Additions   | 14,116                           | 175,705                           | 2,468                   | 26,444                                 | 218,733          |
| Disposal  | (12,546)                         | (26,528)                          | (118)                   | (718)                                  | (39,910)         |
| Transfers   | 35,023                           | 45,703                            | –                       | (80,726)                               | –                |
| Currency translation                                  | 64,202                           | 48,105                            | 559                     | 4,332                                  | 117,798          |
| As of 31 December 2010                                | 1,235,099                        | 1,066,433                         | 13,382                  | 36,244                                 | 2,351,158        |
| <b>Accumulated depreciation and impairment losses</b> |                                  |                                   |                         |  |                  |
| As of 1 January 2010                                  | 500,778                          | 389,158                           | 4,023                   | 2,846                                  | 896,805          |
| Depreciation charge for the year                      | 85,949                           | 73,658                            | 1,538                   | –                                      | 161,145          |
| Disposals   | (12,296)                         | (25,882)                          | (12)                    | (628)                                  | (38,818)         |
| Currency translation                                  | 28,846                           | 21,944                            | 232                     | 112                                    | 51,134           |
| As of 31 December 2010                                | 603,277                          | 458,878                           | 5,781                   | 2,330                                  | 1,070,266        |
| <b>Net book value as of 1 January 2010</b>            | <b>633,526</b>                   | <b>434,290</b>                    | <b>6,450</b>            | <b>84,066</b>                          | <b>1,158,332</b> |
| <b>Net book value as of 31 December 2010</b>          | <b>631,822</b>                   | <b>607,555</b>                    | <b>7,601</b>            | <b>33,914</b>                          | <b>1,280,892</b> |

The net book value of plant and equipment as of 31 December 2010 includes EUR 0 thousand (31 December 2009: EUR 171 thousand) in respect of assets held under finance leases.

Annual review of restoration provision as of 31 December 2010 resp. 31 December 2009 did not result in any change of the value of the provision or property, plant and equipment.

Research and development expenditure recognised as an expense during the period amounts to EUR 63 thousand (31 December 2009: EUR 59 thousand).

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### 13. Property, plant and equipment continued

As of 24 June 2009 were land and buildings, plant and equipment, other assets and items included in construction in progress of entities NWR Energy, CZECH-KARBON, NWR ENERGETYKA PL classified as assets held for sale (refer to the Note 8). Fixed assets classified as held for sale were not depreciated starting 1 July 2009.

The Group identified assets financed through the ECA loan as qualifying assets for capitalisation of borrowing costs. Borrowing costs in the amount of EUR 280 thousand were capitalised in 2010 (2009: EUR 816 thousand). The borrowing costs were determined using the capitalisation rate of 6,368 per cent (2009: 6,797 per cent).

OKD received first part of a grant in an amount of EUR 355 thousand (2009: EUR 0 thousand) from the resources of structural funds of the European Union through Regional Operational Programme Moravia Silesia. This subsidy is designated as a support for construction of infrastructure under the project Golf Park Darkov. Acquisition cost of buildings was reduced in line with accounting policy t) (iii). There is no legal right to receive the grant and the total amount of the grant will be only known after the cash receipt.

|  | Land and<br>Buildings<br>EUR'000 | Plant and<br>Equipment<br>EUR'000 | Other assets<br>EUR'000 | Construction<br>in Progress<br>EUR'000 | Total<br>EUR'000 |
|--|----------------------------------|-----------------------------------|-------------------------|--|------------------|
| <b>Cost:</b>   |                                  |                                   |                         |  |                  |
| As of 1 January 2009   | 1,112,117                        | 651,017                           | 7,933                   | 80,944                                 | 1,852,011        |
| Additions  | 14,359                           | 139,114                           | 3,546                   | 96,416                                 | 253,435          |
| Disposal   | (2,768)                          | (9,008)                           | (1,518)                 | (175)                                  | (13,469)         |
| Transfers  | 34,553                           | 55,554                            | –                       | (90,107)                               | –                |
| Classified as assets held for sale                                     | (41,667)                         | (23,094)                          | (6)                     | (1,247)                                | (66,014)         |
| Currency translation   | 17,710                           | 9,865                             | 518                     | 1,081                                  | 29,174           |
| As of 31 December 2009   | 1,134,304                        | 823,448                           | 10,473                  | 86,912                                 | 2,055,137        |
| <b>Accumulated depreciation and impairment losses</b>                  |                                  |                                   |                         |  |                  |
| As of 1 January 2009   | 420,850                          | 337,729                           | 3,256                   | 2,123                                  | 763,958          |
| Depreciation charge for the year                                       | 90,141                           | 72,958                            | 711                     | 687                                    | 164,497          |
| Depreciation charge for the year-discontinued operations               | –                                | 5                                 | –                       | –                                      | 5                |
| Disposals  | (1,999)                          | (8,979)                           | –                       | –                                      | (10,978)         |
| Accumulated depreciation related to assets classified as held for sale | (14,868)                         | (16,884)                          | (6)                     | –                                      | (31,758)         |
| Currency translation   | 6,654                            | 4,329                             | 62                      | 36                                     | 11,081           |
| As of 31 December 2009   | 500,778                          | 389,158                           | 4,023                   | 2,846                                  | 896,805          |
| <b>Net book value as of 1 January 2009</b>                             | 691,267                          | 313,288                           | 4,677                   | 78,821                                 | 1,088,053        |
| <b>Net book value as of 31 December 2009</b>                           | 633,526                          | 434,290                           | 6,450                   | 84,066                                 | 1,158,332        |

The Group assessed as of 31 December 2010 and 31 December 2009 whether there is any indication of impairment. Based on the assessment there was no impairment identified except for OKD, HBZS, a.s. impairment already recognised in prior periods.

Accumulated impairment loss amounts to EUR 6,985 thousand (2009: EUR 6,712 thousand) and relates to OKD, HBZS, a.s.

Impairment loss recognised in OKD, HBZS, a.s. was reassessed as of 31 December 2010 and 31 December 2009 and no indication that they may be reversed has been determined. Change of balance is due to currency translation.

#### OKK Koksovny

OKK Koksovny completed the implementation of the Coking Plant Optimisation Programme (COP 2010) (described in the Note 33a). In line with COP 2010 there were put into use buildings and constructions with acquisition costs of EUR 62,259 thousand in year 2010 (2009: EUR 869 thousand). As of 31 December 2010 there is no uncompleted part classified as construction in progress. As of 31 December 2009, significant part of the property, plant and equipment acquired under COP 2010 was still uncompleted and therefore classified as a construction in progress at EUR 29,506 thousand.

During 2010, the Šverma coking plant was closed as a result of the coking optimisation programme COP 2010. Shortened expected useful life of relevant long-term assets resulted in an increase of depreciation of EUR 6,947 thousand in 2009.

#### Construction of mine 'Frenštát'

Assets relating to the construction of the mine 'Frenštát' relate to 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 36,744 thousand, of which EUR 32,526 thousand is the value of assets located in the mine and EUR 4,218 thousand is the value of assets located on the surface.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 14. Mining licences

|                             | Cost<br>EUR'000 | Accumulated<br>amortisation<br>EUR'000 | Net book value<br>EUR'000 |
|-----------------------------|-----------------|--|---------------------------|
| At 1 January 2010           | 211,247         | (49,490)                               | 161,757                   |
| Amortisation for the period | –               | (9,203)                                | (9,203)                   |
| Currency translation        | 11,902          | (2,870)                                | 9,032                     |
| <b>At 31 December 2010</b>  | <b>223,149</b>  | <b>(61,653)</b>                        | <b>161,586</b>            |
|                             | Cost<br>EUR'000 | Accumulated<br>amortisation<br>EUR'000 | Net book value<br>EUR'000 |
| At 1 January 2009           | 208,087         | (40,534)                               | 167,553                   |
| Amortisation for the period | –               | (8,352)                                | (8,352)                   |
| Currency translation        | 3,160           | (604)                                  | 2,556                     |
| <b>At 31 December 2009</b>  | <b>211,247</b>  | <b>(49,490)</b>                        | <b>161,757</b>            |

Amortisation for the period was calculated as a proportion of the coal quantity actually mined in this period to the total economically exploitable coal reserves. Mining licences were acquired by the Group through business combinations in September 2006 via contribution of OKD – the cost is based on the revalued amount as of 31 October 2004 when OKD was bought by RPG Group.

The Group was also granted a mining licence regarding Dębnieśko 1 in Poland in June 2008. The licence was granted for 50 years for mine construction and operations. The mining licence Dębnieśko 1 was granted after the business combination in September 2006 and therefore is not included in the above mining licence figure.

The table below summarises all granted concessions to mining areas.

| Mining area        | Expiry date of permits |
|--------------------|------------------------|
| Darkov             | No expiry date         |
| Karviná – Doly II. | No expiry date         |
| Stonava I.         | No expiry date         |
| Doubrava           | No expiry date         |
| Karviná – Doly I   | No expiry date         |
| Lazy               | No expiry date         |
| Staříč             | No expiry date         |
| Trojanovice        | No expiry date         |
| Louky              | No expiry date         |
| Dolní Suchá        | No expiry date         |
| Petřvald I         | No expiry date         |
| Dębnieśko 1        | Year 2058              |

NWR KARBONIA was granted exploration concession related to mining area of closed mine Morcinek in Poland and exploration concession related to part of mining area Zebrzydowice in Poland.

### 15. Long-term receivables

|                            | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|----------------------------|--------------------------------|--------------------------------|
| Trade receivables          | 105                            | 118                            |
| Long-term advances granted | 24                             | 23                             |
| Other                      | 12,743                         | 1,427                          |
|                            | <b>12,872</b>                  | <b>1,568</b>                   |

The maturity dates of trade receivables and long-term advances do not exceed five years.

Other long-term receivables include amount of EUR 11,700 thousand which represents the security payments made under the bank collateral agreements and secures OKD's interest rate swap derivatives opened at 31 December 2010. Its amount is dependant on derivatives valuation and collateral agreements conditions. The collateral agreements were concluded in connection with the repayment of Senior Secured Facilities with Citibank and Barclays bank and they expire on derivatives maturity, at latest in 2016.

### 16. Restricted cash

As of 31 December 2010 and 31 December 2009, the Company had long-term restricted cash of EUR 11,025 thousand and EUR 13,926 thousand, respectively, kept in relation to mining damages and restoration expenditures. The amount of restricted cash corresponds to the mining and restoration provision created by OKD since 1 January 2004 according to Czech legal requirements and can be used only to settle the mining damages and restoration expenditures.

As of 31 December 2010, the Company had short-term restricted cash of EUR 0 thousand (31 December 2009: EUR 2,771 thousand). The short-term restricted cash recognised as of 31 December 2009 results from guarantee terms related to supplies of POP 2010 mining equipment.

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## 17. Inventories

|  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|--|--------------------------------|--------------------------------|
| Raw materials and spare parts            | 27,202                         | 27,125                         |
| Finished goods                           | 22,473                         | 48,385                         |
| Merchandise                              | 4,150                          | 7,038                          |
| Work-in-progress and semi-finished goods | 2,188                          | 3,271                          |
|  | <b>56,013</b>                  | 85,819                         |

The inventories are disclosed net of write-downs for slow-moving and obsolete inventories of EUR 4,540 thousand (31 December 2009: EUR 10,107 thousand). Write-downs are included in consumption of material and energy and change in inventories of finished goods and work-in-progress.

## 18. Accounts receivable and prepayments

|  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|--|--------------------------------|--------------------------------|
| Trade and other receivables                        |                                |                                |
| Trade accounts and notes receivable                | 174,074                        | 97,691                         |
| Other receivables, estimated accounts receivables  | 6,115                          | 11,068                         |
| VAT and other tax receivables                      | 1,893                          | 4,474                          |
|  | <b>182,082</b>                 | 113,233                        |
| Advance payments                                   |                                |                                |
| Advance payments for property, plant and equipment | 4,653                          | 26,296                         |
| Advance payments for financial investments         | 2,873                          | 1,964                          |
| Other advance payments                             | 4,894                          | 5,566                          |
|  | <b>12,420</b>                  | 33,826                         |
| Prepayments and accrued revenue                    | 3,244                          | 2,597                          |
|  | <b>3,244</b>                   | 2,597                          |
| <b>Total accounts receivable and prepayments</b>   | <b>197,746</b>                 | 149,656                        |

For terms and conditions relating to related party receivables, refer to the Note 12.

Trade receivables are non-interest bearing and are generally on 20–45 days' terms.

Total receivables are stated net of a provision for impairment of trade and other receivables. Movements in the provision for impairment of trade receivables and other receivables were as follows:

|                                 | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---------------------------------|---|---|
| At the beginning of the period  | 754   | 1,940   |
| Charge for the year             | 127   | 114   |
| Amounts written off             | (188)   | (1,293)   |
| Unused amounts reversed         | (18)  | –   |
| Currency translation            | 42  | 41  |
| Other                           | (19)  | (48)  |
| <b>At the end of the period</b> | <b>698</b>  | 754   |

As of 31 December 2010 and 31 December 2009, the analysis of accounts receivable that were either not past due or past due but not impaired is as follows:

| EUR'000                 | Neither past<br>due nor<br>impaired | Past due but not impaired |               |                |                 |              | Total          |
|-------------------------|-------------------------------------|---------------------------|---------------|----------------|-----------------|--------------|----------------|
|                         |                                     | <30<br>days               | 31–90<br>days | 91–180<br>days | 181–360<br>days | >360<br>days |                |
| <b>31 December 2010</b> | <b>172,325</b>                      | <b>9,084</b>              | <b>669</b>    | <b>1</b>       | <b>0</b>        | <b>3</b>     | <b>182,082</b> |
| 31 December 2009        | 109,139                             | 2,744                     | 1,329         | 18             | 1               | 2            | 113,233        |

Based on past experience, the Company believes that no impairment allowance is necessary in respect of accounts receivable due.

As of 31 December 2010 receivables in nominal value of EUR 0 thousand (31 December 2009: EUR 0 thousand) were pledged as security for loans.

In 2010 OKD sold its receivables to HSBC for a price equal to its nominal value of EUR 47,714 thousand.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 19. Income tax receivable

All income tax receivables are not past due. No impairment allowance needs to be created.

### 20. Financial instruments and risk management

#### Risk management

The Group's principal financial instruments, 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 instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash, restricted cash and short-term deposits, which arise directly from its operations.

The most significant risks that the Group is exposed to are foreign exchange rate risks on sales and purchases in foreign currencies, interest rates tied to variable market interest rates, volatility risk and credit risk as an increase in secondary 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 2010 and 2009 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 risks are addressed by top management and related departments through efficient operation of the sales 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. For OKD, representing the main part of the Company's receivables, the Chief Commercial Officer is responsible for the customer management database, systematic monitoring of customers, their ratings and corresponding risks.

To mitigate the potential credit risk the Group entered into a factoring agreement in December 2009. The Group sold trade receivables in the total value of approximately EUR 38,318 thousand and EUR 47,714 thousand respectively, in a non-recourse factoring and received cash in the amount of up to 90 per cent of the nominal value of the receivables. The remaining up to 10 per cent of the nominal value of the receivables was paid to the Group by the factoring company when and if the customer settled the original receivable. The fees paid for the factoring transaction are below 1 per cent of the transaction volume.

With respect to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalents and restricted cash 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 2010 and 31 December 2009.

#### 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.



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## 20. Financial instruments and risk management continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 and 31 December 2009 based on undiscounted payments including accrued interest.

| <b>As of 31 December 2010</b>          | <b>&lt; 1 year<br/>EUR'000</b> | <b>1 to 5 years<br/>EUR'000</b> | <b>&gt; 5 years<br/>EUR'000</b> | <b>Total<br/>EUR'000</b> |
|--|--------------------------------|---------------------------------|---------------------------------|--------------------------|
| Loans                                  | 15,283                         | 55,000                          | 34,377                          | 104,660                  |
| Bonds issued                           | 9,029                          | 261,254                         | 484,243                         | 754,526                  |
| Other long-term liabilities            | –                              | 513                             | 63                              | 576                      |
| Accounts payable and accruals          | 204,793                        | –                               | –                               | 204,793                  |
| Interest rate swaps used for hedging   | 3,565                          | 19,257                          | (291)                           | 22,531                   |
| Interest rate collars used for hedging | –                              | 314                             | –                               | 314                      |
| Forward foreign exchange contracts     | 1,206                          | –                               | –                               | 1,206                    |

| <b>As of 31 December 2009</b>          | <b>&lt; 1 year<br/>EUR'000</b> | <b>1 to 5 years<br/>EUR'000</b> | <b>&gt; 5 years<br/>EUR'000</b> | <b>Total<br/>EUR'000</b> |
|--|--------------------------------|---------------------------------|---------------------------------|--------------------------|
| Loans                                  | 93,737                         | 643,328                         | 36,526                          | 773,591                  |
| Bonds issued                           | 2,467                          | –                               | 260,096                         | 262,563                  |
| Other long-term liabilities            | –                              | 126                             | 522                             | 648                      |
| Accounts payable and accruals          | 236,930                        | –                               | –                               | 236,930                  |
| Interest rate swaps used for hedging   | 1,798                          | 17,182                          | –                               | 18,980                   |
| Interest rate collars used for hedging | –                              | 1,467                           | –                               | 1,467                    |
| Forward foreign exchange contracts     | 346                            | –                               | –                               | 346                      |

The Group had a long-term debt facility not drawn in amount EUR 48,965 thousand as of 31 December 2009. The commitment fee relating to this not drawn facility as of 31 December 2009 amounted to 0.825 per cent. There was no long-term debt facility not drawn as of 31 December 2010.

### 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 (energy business that was sold in 2010 – see Note 8 and Note 10). 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 2010 approximately 41 per cent of the entities' sales from continued operations (2009: 39 per cent from continued operations) are denominated in currencies other (primarily EUR) than the functional currency of the operating unit making the sale (primarily CZK), whilst most of the costs are denominated in the unit's functional currency.

The Group aims to mitigate foreign currency exposure risks resulting from operations in currencies other than EUR by entering into forward exchange rate contracts (par forwards) with financial institutions. In 2009 the Company entered into foreign exchange forward contracts to hedge the CZK denominated outflows of its subsidiaries. Hedging is therefore managed at the Group level to enable to hedge the net position for the Group. The aim is to minimise earnings volatility for the Group resulting from movements in foreign exchange rates. The Group's policy is to cover up to 70 per cent of its currency exposure.

It is the Group's policy to negotiate the terms of the derivatives to match the terms of the item at risk to maximise effectiveness of the derivative. In 2009 and 2010 the Group applied hedge accounting for forward foreign exchange rate contracts used as hedges of its exposure to foreign currency risk in forecasted transactions and commitments. See Note 2. e) for the detailed application of the hedge accounting policies. For the remaining hedging instruments, hedge accounting is not applied.

The Company had the following CZK-denominated balances and the consolidated subsidiaries had the following EUR-denominated balances:

|  | <b>31 December 2010</b>                |  |                          | <b>31 December 2009</b>                |  |                          |
|--|--|--|--------------------------|--|--|--------------------------|
|  | <b>EUR<br/>denominated<br/>EUR'000</b> | <b>CZK<br/>denominated<br/>EUR'000</b> | <b>Total<br/>EUR'000</b> | <b>EUR<br/>denominated<br/>EUR'000</b> | <b>CZK<br/>denominated<br/>EUR'000</b> | <b>Total<br/>EUR'000</b> |
| Cash and bank balances including restricted cash and cash pool | 76,235                                 | (106,220)                              | (29,985)                 | 399,316                                | (2,295)                                | 397,021                  |
| Accounts receivable  | 297,228                                | 6,738                                  | 303,966                  | 71,890                                 | –                                      | 71,890                   |
| Accounts payable   | (18,824)                               | (4,339)                                | (23,163)                 | (42,426)                               | (239)                                  | (42,665)                 |
| Loans  | –                                      | –                                      | –                        | (269,144)                              | (98,014)                               | (367,158)                |
| <b>Gross balance sheet exposure</b>                            | <b>354,639</b>                         | <b>(103,821)</b>                       | <b>250,818</b>           | <b>159,636</b>                         | <b>(100,548)</b>                       | <b>59,088</b>            |

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 20. Financial instruments and risk management continued

The following table demonstrates the sensitivity of strengthening (i.e. appreciation) CZK to EUR exchange rate by 4 per cent, 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). The effect of appreciation or depreciation (i.e. weakening) CZK to EUR is fully included in Group's profit, i.e. there is no amount to be taken directly to equity. Change by 4 per cent is more appropriate with respect to estimated development of CZK to EUR exchange rate, therefore the comparative figures for 2009 were adjusted (originally they were calculated with the depreciation of 1 per cent).

|  | 31 December 2010                                   |  |  | 31 December 2009                                   |  |  |
|--|--|--|--|--|--|--|
|  | Effect on profit after tax EUR denominated EUR'000 | Effect on profit after tax CZK denominated EUR'000 | Total effect on profit after tax EUR'000 | Effect on profit after tax EUR denominated EUR'000 | Effect on profit after tax CZK denominated EUR'000 | Total effect on profit after tax EUR'000 |
| Appreciation of CZK against EUR by 4%                          |  |  |  |  |  |  |
| Cash and bank balances including restricted cash and cash pool | (2,470)  | (4,249)  | (6,719)                                  | (12,938)   | (92)   | (13,030)                                 |
| Accounts receivable  | (9,630)  | 270  | (9,360)                                  | (2,329)  | –  | (2,329)                                  |
| Accounts payable   | 610  | (174)  | 436                                      | 1,375  | (10)   | 1,365                                    |
| Loans  | –  | –  | –  | 8,720  | (3,920)  | 4,800                                    |
| <b>Total</b>   | <b>(11,490)</b>                                    | <b>(4,153)</b>                                     | <b>(15,643)</b>                          | <b>(5,172)</b>                                     | <b>(4,022)</b>                                     | <b>(9,194)</b>                           |

The appreciation of the CZK towards EUR by 4 per cent, with all other variables held unchanged would result in loss after tax EUR 15,643 thousand (2009: loss after tax EUR 9,194 thousand).

The following table demonstrates unadjusted comparatives as presented in the 2009 Group's consolidated notes – the impact sensitivity of depreciation CZK to EUR exchange rate by 1 per cent, 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). The effect of depreciation or appreciation CZK to EUR is fully included in Group's profit, i.e. there is no amount to be taken directly to equity.

|  | 31 December 2009                                   |  |  |
|--|--|--|--|
|  | Effect on profit after tax EUR denominated EUR'000 | Effect on profit after tax CZK denominated EUR'000 | Total effect on profit after tax EUR'000 |
| Depreciation of CZK against EUR by 1%              |  |  |  |
| Cash and bank balances (including restricted cash) | 3,234  | 23   | 3,257                                    |
| Accounts receivable                                | 582  | –  | 582                                      |
| Accounts payable                                   | (344)  | 2  | (342)                                    |
| Loans  | (2,180)  | 980  | (1,200)                                  |
| <b>Total</b>                                       | <b>1,292</b>                                       | <b>1,005</b>                                       | <b>2,297</b>                             |

The depreciation of the CZK towards EUR by 1 per cent, with all other variables held unchanged would result in profit after tax EUR 2,297 thousand in 2009.

#### 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 2010, 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 a forward interest rate swap 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 receives matches the fixed rate that the Group pays on its Senior Secured Notes.

For short-term loans outstanding, which comprise less than 1 per cent of the total outstanding debt, no interest rate hedging is in place, mostly due to the immateriality and 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 profit after tax as if market interest rates had been 0.25 per cent higher respectively lower over the whole period from 1 January 2010 to 31 December 2010 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 profit after tax amounts to EUR 1,376 thousand respectively EUR (1,376) thousand. The effect on profit in 2010 is different compared to 2009 because of the repayment of the Senior Secured Facility and closure of related interest rate swap contracts. Adjusted comparatives for 2009 that exclude effect of Senior Secured Facility and related interest rate swap contracts would amount to EUR 1,579 thousand, respectively EUR (1,579) thousand. Original 2009 comparatives including changes in market interest rates of all cash in banks balances amounted to EUR 58 thousand respectively EUR (58) thousand.

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## 20. Financial instruments and risk management continued

7.375 per cent Senior Notes due 2015 and 7.875 per cent Senior Notes due 2018 (bonds) bear a fixed interest rate and are stated at amortized cost. Therefore the change in the market interest rates and subsequent change in the fair value of the bond does not have any impact on the effective interest rate and carrying value of the bond, as recorded in the financial statements.

The Company has calculated hypothetical effect on change in fair value of its 7.375 per cent Senior Notes due 2015 and 7.875 per cent Senior Notes due 2018 if market interest rates change by 0.25 per cent p.a. (by adding resp. deducting 0.25 per cent p.a. to the bond's IRR) in the table below:

| Change in fair value of:     |         | Interest rate     |                   |
|------------------------------|---------|-------------------|-------------------|
|                              |         | IRR plus<br>0.25% | IRR less<br>0.25% |
| 7.375% Senior Notes due 2015 |         |                   |                   |
| as of 31 December 2010       | EUR'000 | (2,435)           | 2,463             |
| as of 31 December 2009       | EUR'000 | (2,857)           | 2,896             |
| 7.875% Senior Notes due 2018 |         |                   |                   |
| as of 31 December 2010       | EUR'000 | (6,931)           | 7,060             |
| as of 31 December 2009       | EUR'000 | n/a               | n/a               |

The increase in the market fair value of the high-yield bonds attributable to the change in the specific credit risk amounted to EUR 43,242 thousand for the 7.375% Senior Notes due 2015 and EUR 15,743 thousands for the 7.875% Senior Notes due 2018 of the total fair value adjustment of the bond (2009: increase EUR 114,356 thousand for 7.375% Senior Notes due 2015; no comparative information for the 7.875% Senior Notes due 2018 – it was issued in 2010). The change in the fair value attributable to the credit risk is calculated as the change triggered by factors other than changes in bench-mark interest rate, which is the average yield of the five-year German Sovereign Rate (2009: six-year German Sovereign Rate) for 7.375% Senior Notes due 2015 and eight-year German Sovereign Rate for 7.875% Senior Notes due 2018 as stated in the indentures governing the bonds. Change in the fair value of own credit risk as of 31 December 2010 is mainly a result of current financial markets mood.

The following derivative financial instruments were entered into to mitigate the above risks:

|                                      | 31 December 2010  |                        | 31 December 2009  |                        |
|--------------------------------------|-------------------|------------------------|-------------------|------------------------|
|                                      | Assets<br>EUR'000 | Liabilities<br>EUR'000 | Assets<br>EUR'000 | Liabilities<br>EUR'000 |
| Fair value of derivative instruments |                   |                        |                   |                        |
| Forward foreign exchange contracts   | 34                | 1,206                  | –                 | 346                    |
| Interest rates swap contracts        | –                 | 22,531                 | 165               | 18,980                 |
| Interest rates collar contracts      | 58                | 314                    | 86                | 1,467                  |
|                                      | 92                | 24,051                 | 251               | 20,793                 |
| of which short-term part             | 34                | 4,771                  | –                 | 2,144                  |
| of which long-term part              | 58                | 19,280                 | 251               | 18,649                 |

|   | 31 December 2010                                   |   |
|---|--|---|
|   | Czech crown<br>denominated<br>contracts<br>EUR'000 | Euro<br>denominated<br>contracts<br>EUR'000 |
| Nominal value of derivative instruments |  |   |
| Forward foreign exchange contracts      | 129,697  | –   |
| Interest rates swap contracts           | 369,439  | 3,279,369                                   |
| Interest rates collar contracts         | 51,202   | –   |
|   | 550,338  | 3,279,369                                   |

|   | 31 December 2009                                   |   |
|---|--|---|
|   | Czech crown<br>denominated<br>contracts<br>EUR'000 | Euro<br>denominated<br>contracts<br>EUR'000 |
| Nominal value of derivative instruments |  |   |
| Forward foreign exchange contracts      | 47,821   | –   |
| Interest rates swap contracts           | 1,167,426  | 3,130,547                                   |
| Interest rates collar contracts         | 68,919   | 191,250                                     |
|   | 1,284,166  | 3,321,797                                   |

Nominal value of interest rates swap contracts and interest rates collar contracts presented in the above tables is derived from the sum of concluded individual contracts outstanding per 31 December 2010. As of 31 December 2010, the nominal value of contracts outstanding is EUR 3,829,707 thousand (2009: EUR 4,605,963 thousand).

The Company concluded forward exchange contracts in the total nominal value of CZK 1,900,680 thousand (EUR 75,842 thousand translated with the CZK/EUR exchange rate as of 31 December 2010) throughout 2010.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 20. Financial instruments and risk management continued

In 2009 and 2010, changes in the fair value of forward exchange contracts were accounted in the hedging reserve that is part of equity. The reserve amounts to EUR 23,322 thousand as of 31 December 2010 (2009: EUR 29,947) thousand. The hedging reserve is recognised in the income statement when the hedged item (portion of coal and coke sales) is recorded. The amount recognised in equity is then transferred to the income statement. The impact in the income statement during the year 2010 was EUR 6,625 thousand (2009: EUR 4,381 thousand).

Changes in the fair value of interest rate swaps and collars were recorded directly in the income statement as the hedge accounting evidence is not maintained.

For policy on option programme see Note 29.

### 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 maximise shareholder's value.

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. From the acquisition of the Group the majority shareholders performed significant restructuring of the Group and considered the international standards of gearing in the mining industry. The management monitors the gearing.

The Group monitors capital using a gearing ratio defined as net debt divided by EBITDA (calculated on a 12 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 2010.

The Group includes interest bearing short-term and long-term loans and borrowings and issued bonds, less cash and cash equivalents, within net debt. Assets classified as assets held for sale and/or liabilities related to assets held for sale are not included. The Company defines EBITDA as net profit 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.

|   | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---|--------------------------------|--------------------------------|
| Interest bearing loans and borrowings   |                                |                                |
| Bonds issued  | 745,497                        | 260,096                        |
| Long-term loans   | 89,377                         | 679,854                        |
| Current portion of long-term loans  | 15,276                         | 74,842                         |
| Short-term loans  | 7                              | 18,895                         |
|   | 850,157                        | 1,033,687                      |
| Less Cash and cash equivalents  | 529,241                        | 547,827                        |
| <b>Net debt</b>   | <b>320,916</b>                 | <b>485,860</b>                 |
|   |                                |                                |
|   | 1 January<br>2010 –            | 1 January<br>2009 –            |
|   | 31 December<br>2010            | 31 December<br>2009            |
|   | EUR'000                        | EUR'000                        |
| EBITDA:   |                                |                                |
| Profit/(loss) before tax from continuing operations                                 | 252,080                        | (57,920)                       |
| Financial costs/revenues (including profit on disposal of interest in subsidiaries) | 42,464                         | 67,873                         |
| Gain from sale of property, plant and equipment                                     | (715)                          | (4,117)                        |
| Depreciation  | 161,145                        | 164,497                        |
| Amortisation  | 9,203                          | 8,352                          |
| EBITDA  | 464,177                        | 178,685                        |
| <b>Gearing ratio</b>  | <b>0.69</b>                    | <b>2.72</b>                    |

The Group's policy is to target a gearing ratio of 2.0 (net debt/EBITDA) over the cycle (international standards of such gearing in the mining industry state the maximum at 3.5). The gearing ratio for the year ended 31 December 2010 and 31 December 2009 is calculated on annual basis. The Company is required under the ECA Facility agreement to hold a gearing ratio of total indebtedness below 3.25. The gearing ratio of total indebtedness calculated using the results of both continuing operations and discontinuing operations amounts to 0.69 as of 31 December 2010 (2009: 2.55). The company was in compliance with all its covenants for the reported period.

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## 20. Financial instruments and risk management continued

### 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:

### Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

### Receivables and Payables

The carrying amount of short-term receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

### Share-based payments

See Note 29 for valuation of specific share-based payment transactions. Share-based payments are valued by determining whether they are liability or equity instrument. For equity instruments the fair value is assessed at the grant date based on specific valuation methods applicable for each specific instrument. Liability instruments are valued at fair value as at the end of the each reporting period.

### 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 of bonds 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 reprises at a minimum each twelve months.

### 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.

Carrying amounts and the estimated fair values of financial assets and liabilities at 31 December 2010 and 31 December 2009 are as follows:

|  | 31 December 2010          |                       | 31 December 2009          |                       |
|--|---------------------------|-----------------------|---------------------------|-----------------------|
|  | Carrying Value<br>EUR'000 | Fair Value<br>EUR'000 | Carrying Value<br>EUR'000 | Fair Value<br>EUR'000 |
| <b>Financial assets</b>                                    |                           |                       |                           |                       |
| <b>Fair value through profit &amp; loss</b>                |                           |                       |                           |                       |
| Interest rate swaps  | –                         | –                     | 165                       | 165                   |
| Interest rate collars                                      | 58                        | 58                    | 86                        | 86                    |
| <b>Fair value recognised in other comprehensive income</b> |                           |                       |                           |                       |
| Forward exchange contracts                                 | 34                        | 34                    | –                         | –                     |
| <b>Loans and receivables</b>                               |                           |                       |                           |                       |
| Long-term receivables                                      | 12,872                    | 12,786                | 1,568                     | 1,452                 |
| Accounts receivable and prepayments                        | 197,746                   | 197,746               | 149,656                   | 149,656               |
| <b>Available for sale</b>                                  |                           |                       |                           |                       |
| Restricted cash  | 11,025                    | 11,025                | 16,697                    | 16,697                |
| Cash and cash equivalents                                  | 529,241                   | 529,241               | 547,827                   | 547,827               |
| <b>Total</b>   | <b>750,976</b>            | <b>750,890</b>        | <b>715,999</b>            | <b>715,883</b>        |



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 20. Financial instruments and risk management continued

|  | 31 December 2010          |                       | 31 December 2009          |                       |
|--|---------------------------|-----------------------|---------------------------|-----------------------|
|  | Carrying Value<br>EUR'000 | Fair Value<br>EUR'000 | Carrying Value<br>EUR'000 | Fair Value<br>EUR'000 |
| <b>Financial liabilities</b>                               |                           |                       |                           |                       |
| <b>Fair value through profit &amp; loss</b>                |                           |                       |                           |                       |
| Interest rate swaps  | 22,531                    | 22,531                | 18,980                    | 18,980                |
| Interest rate collars                                      | 314                       | 314                   | 1,467                     | 1,467                 |
| <b>Fair value recognised in other comprehensive income</b> |                           |                       |                           |                       |
| Forward exchange contracts                                 | 1,206                     | 1,206                 | 346                       | 346                   |
| <b>Other</b>   |                           |                       |                           |                       |
| Long-term loans  | 89,377                    | 89,377                | 679,854                   | 679,854               |
| Bonds issued (including accrued interest)                  | 754,526                   | 798,855               | 262,563                   | 238,428               |
| Other long-term liabilities                                | 576                       | 576                   | 648                       | 648                   |
| Accounts payable and accruals                              | 204,793                   | 204,793               | 236,930                   | 236,930               |
| Current portion of long-term loans                         | 15,276                    | 15,276                | 74,842                    | 74,842                |
| Short-term bank loans                                      | 7                         | 7                     | 18,895                    | 18,895                |
| Cash-settled share-based payments payable                  | 1,407                     | 1,407                 | 2,371                     | 2,371                 |
| <b>Total</b>   | <b>1,090,013</b>          | <b>1,134,342</b>      | <b>1,296,896</b>          | <b>1,272,761</b>      |

#### 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 used valuation techniques used by Barclays bank and Citibank, in which all significant inputs were based on observable market data.

|  | Assets EUR'000 |         |         | Liabilities EUR'000 |         |         |
|--|----------------|---------|---------|---------------------|---------|---------|
|  | level 1        | level 2 | level 3 | level 1             | level 2 | level 3 |
| <b>Fair value of derivative instruments 31 December 2010</b> |                |         |         |                     |         |         |
| Interest rates swap contracts                                | –              | –       | –       | –                   | 22,531  | –       |
| Interest rates collar contracts                              | –              | 58      | –       | –                   | 314     | –       |
| Forward foreign exchange contracts                           | –              | 34      | –       | –                   | 1,206   | –       |
|  | –              | 92      | –       | –                   | 24,051  | –       |
|  |                |         |         |                     |         |         |
|  | Assets EUR'000 |         |         | Liabilities EUR'000 |         |         |
|  | level 1        | level 2 | level 3 | level 1             | level 2 | level 3 |
| <b>Fair value of derivative instruments 31 December 2009</b> |                |         |         |                     |         |         |
| Interest rates swap contracts                                | –              | 165     | –       | –                   | 18,980  | –       |
| Interest rates collar contracts                              | –              | 86      | –       | –                   | 1,467   | –       |
| Forward foreign exchange contracts                           | –              | –       | –       | –                   | 346     | –       |
|  | –              | 251     | –       | –                   | 20,793  | –       |

### 21. Cash and cash equivalents

Cash and cash equivalents comprise the following statement of financial position amounts:

|                                  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|----------------------------------|--------------------------------|--------------------------------|
| Cash in bank                     | 529,099                        | 547,716                        |
| Cash on hand and cash in transit | 142                            | 111                            |
| <b>Cash and cash equivalents</b> | <b>529,241</b>                 | <b>547,827</b>                 |

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.

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## 22. Accounts payable and accruals

|   | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---|--------------------------------|--------------------------------|
| Trade accounts and notes payable              | 130,979                        | 153,819                        |
| Wages and salaries payable                    | 23,798                         | 23,657                         |
| Social and health insurance payable           | 9,143                          | 11,846                         |
| VAT and other tax payable                     | 7,892                          | 5,500                          |
| Advance payments received                     | 1,570                          | 6,678                          |
| Dividends payable                             | –                              | 1,444                          |
| Other payables and estimated accounts payable | 31,411                         | 33,986                         |
|   | <b>204,793</b>                 | <b>236,930</b>                 |

## 23. Long-term loans

The long-term bank loan include ECA (Export Credit Agency) loan and Senior Secured Facilities.

| Long-term bank loans                  | Currency | Effective interest rate          | Maturity  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---------------------------------------|----------|----------------------------------|-----------|--------------------------------|--------------------------------|
| ECA loan                              | EUR      | EURIBOR + 1.65%                  | 2010–2018 | 104,653                        | 87,898                         |
| Bank loan – facility 1                | CZK      | 6M PRIBOR + 0,85 % <sup>1</sup>  | 2010–2011 | –                              | 25,199                         |
| Bank loan – facility 2                | CZK      | 6M PRIBOR + 1,35 %               | 2012      | –                              | 82,591                         |
| Bank loan – facility 3                | CZK      | 6M PRIBOR + 1,50 %               | 2013      | –                              | 87,318                         |
| Bank loan – facility 1                | EUR      | 6M EURIBOR + 0,85 % <sup>1</sup> | 2010–2011 | –                              | 69,478                         |
| Bank loan – facility 2                | EUR      | 6M EURIBOR + 1,35 %              | 2012      | –                              | 230,840                        |
| Bank loan – facility 3                | EUR      | 6M EURIBOR + 1,50 %              | 2013      | –                              | 171,372                        |
| <b>Total long-term loans</b>          |          |                                  |           | <b>104,653</b>                 | <b>754,696</b>                 |
| of which current portion <sup>2</sup> |          |                                  |           | <b>15,276</b>                  | <b>74,842</b>                  |
| of which long-term portion            |          |                                  |           | <b>89,377</b>                  | <b>679,854</b>                 |

1 2009: The margin rate could vary between 0.65 per cent and 1.35 per cent p.a. with respect to the actual gearing ratio.

2 Includes also interest accrual for the Senior Secured Facilities and ECA loan.

The Group repaid the outstanding amount of Senior Secured Facilities in April 2010. The total principal repaid under Senior Secured Facilities amounts to EUR 678,284 thousand. The repayment was realised partly in regular installment in February 2010 and partly using the net proceeds of the offering of issued 7,875 per cent Senior Secured Notes in total value of EUR 500,000 thousand (see Note 24) and existing cash in April 2010.

In 2009 the Senior Secured Facilities were secured by shares of OKD and OKK and during 2009 following entities became additional guarantors of that loan: NWR Energy, CZECH-KARBON and NWR Energetyka PL. OKD was a guarantor of the part of the Senior Secured Facilities drawn by the Company in 2007.

The Company concluded the ECA loan agreement in August 2009. The facilities available under the ECA loan were used for financing of the POP 2010 capital investment programme. The Company will repay the full facility in semi-annual instalments. The Group is subject to certain covenants under ECA loan agreement. The Group was in compliance with those covenants in the reported period.

6M PRIBOR stands for six-month Prague interbank offered rate and was 1.560 per cent on 31 December 2010 (31 December 2009: 1.820 per cent). 6M EURIBOR stands for Euro interbank offered rate and was 1,227 per cent on 31 December 2010 (31 December 2009: 0.994 per cent).

The total long-term interest-bearing bank loans exclude the current portion of long-term bank loans. These are included in short-term bank loans. All interest-bearing loans and borrowings are repriced at least once a year.

Repayment schedule for long-term bank loans and borrowings:

|                        | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|------------------------|--------------------------------|--------------------------------|
| up to 31 December 2010 | –                              | 74,842                         |
| up to 31 December 2011 | 15,276                         | 40,852                         |
| up to 31 December 2012 | 13,750                         | 323,581                        |
| up to 31 December 2013 | 13,750                         | 268,925                        |
| up to 31 December 2014 | 13,750                         | 9,970                          |
| up to 31 December 2015 | 13,750                         | 10,167                         |
| up to 31 December 2016 | 13,750                         | 10,376                         |
| up to 31 December 2017 | 13,750                         | 10,602                         |
| up to 31 December 2018 | 6,877                          | 5,381                          |
|                        | <b>104,653</b>                 | <b>754,696</b>                 |

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 23. Long-term loans continued

#### Short-term loans and borrowings

|   | Currency | Effective interest rate | Maturity | 31 December 2010<br>EUR'000 |
|---|----------|-------------------------|----------|-----------------------------|
| Short-term bank loans   |          |                         |          |                             |
| Credit cards liability  | CZK      | 0%                      | n/a      | 7                           |
| <b>Total short-term interest-bearing loans and borrowings</b> |          |                         |          | <b>7</b>                    |

As of 31 December 2009:

|   | Currency | Effective interest rate | Maturity  | 31 December 2009<br>EUR'000 |
|---|----------|-------------------------|-----------|-----------------------------|
| Short-term bank loans   |          |                         |           |                             |
| Overdraft   | CZK      | 1M PRIBOR + 0,95        | 31.1.2010 | 18,887                      |
| Credit cards liability  | CZK      | 0%                      | n/a       | 8                           |
| <b>Total short-term interest-bearing loans and borrowings</b> |          |                         |           | <b>18,895</b>               |

In 2009 short-term bank loans included credit lines (maximal amount of CZK 500 million) that would finally mature in 2010 – they were operating loans with withdrawal option in the form of an overdraft or revolving that may be repaid whenever before the maturity date.

OKD has repaid this short-term loan in the amount of CZK 500 million (EUR 18,887 thousand) on 27 January 2010.

As of 31 December 2010, there is no off-balance sheet guarantee bill of exchange for short-term bank loan (2009: guarantee bill of exchange for short-term bank loan of EUR 18,887 thousand).

### 24. Bonds issued

The Company issued EUR 475 million Senior Secured Notes due 2018 on Global Exchange Market of the Irish Stock Exchange on 27 April 2010. The notes were issued with a coupon of 7.875 per cent Effective interest rate is 8.656 per cent. 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, the Company 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 per cent Effective interest rate is 8.656 per cent.

The Senior Secured Notes due 2018 do not include maintenance covenants and are secured by a pledge of the shares of OKD, OKK Koksovny and NWR KARBONIA.

The Company 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 per cent Senior Notes due 2015 was EUR 300,000 thousand, as of 31 December 2010 EUR 267,565 thousand is outstanding (after redemption). Issue costs of the notes were EUR 11,320 thousand. Effective interest rate is 8.184 per cent.

The Company purchased (redempted) EUR 32,435 thousand in aggregate principal amount of its 7.375 per cent Senior Notes due 2015 in October 2009. All purchased Notes were irrevocably and unconditionally cancelled, which reduced the outstanding principal amount of the Notes to EUR 267,565 thousand. The Notes that were purchased were acquired at a purchase price of EUR 930 for each EUR 1,000 in principal amount of Notes. The total purchase price for the Notes was EUR 30,165 thousand, excluding the accrued interest. The net gain on the redemption of the Notes was EUR 97 thousand.

### 25. Share capital and reserves

|                                      | 31 December 2010<br>EUR'000 | 31 December 2009<br>EUR'000 |
|--------------------------------------|-----------------------------|-----------------------------|
| Share capital                        | 105,883                     | 105,736                     |
| Share premium                        | 66,326                      | 60,449                      |
| Restricted reserve                   | 133,169                     | 126,066                     |
| Equity-settled share-based payments  | 17,157                      | 13,424                      |
| Hedging reserve                      | 23,322                      | 29,947                      |
| Retained earnings                    | 384,195                     | 205,475                     |
| Foreign exchange translation reserve | 79,343                      | 19,078                      |
| Total                                | 809,395                     | 560,175                     |
| Non-controlling interests            | –                           | –                           |
| <b>Equity total</b>                  | <b>809,395</b>              | <b>560,175</b>              |

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## 25. Share capital and reserves continued

### Share Capital

Based on the Articles of Association of the Company the authorised share capital amounts to EUR 450,000,000. It is divided into 1,124,989,000 A shares with a nominal value of EUR 0.40 each and 11,000 B shares with a nominal value of EUR 0.40 each. As of 31 December 2010 the issued capital consists of 264,698,715 ordinary A shares with nominal value of EUR 0.40 each and 10,000 ordinary B shares with nominal value of EUR 0.40 each (2009: 264,330,100 ordinary A shares with nominal value EUR 0.40 each and 10,000 ordinary B shares with nominal value of EUR 0.40 each), of which :

- > On 20 May 2009 the Company issued 266,490 new ordinary A shares with nominal value of EUR 0.40 each. These shares were granted to five Independent Directors, members of the Board.
- > On 10 September 2009 the Company issued 264,351 new ordinary A shares with nominal value of EUR 0.40 each. These shares were used to settle the executed share options of Mike Salamon, the Executive Chairman of the Board, which he received as part of his remuneration, as described in the IPO Prospectus and the Annual Report of the Company. These shares have been admitted for trading on the main market of the London Stock Exchange, the Prague Stock Exchange and the Warsaw Stock Exchange.
- > On 21 May 2010 the Company issued 103,465 new ordinary A shares with nominal value of EUR 0.40 each. These shares were granted to five Independent Directors, members of the Board.
- > On 3 December 2010 the Company issued 265,150 new ordinary A shares with nominal value of EUR 0.40 each. These shares were used to settle the executed share options of Mike Salamon, the Executive Chairman of the Board, which he received as part of his remuneration, as described in the IPO Prospectus and the Annual Report of the Company. These shares have been admitted for trading on the main market of the London Stock Exchange, the Prague Stock Exchange and the Warsaw Stock Exchange.

Rights, preferences and restrictions attaching to B shares in the share capital of the Company, restrictions on the distribution of dividends and the repayment of capital.

The Company separated the mining business and the real estate business into separate divisions. Each division is legally indivisible within the Group.

The amendment to the Articles of Association was approved on 21 December 2007, whereby the Company converted 4,000 ordinary (registered) shares into 4,000 B shares of EUR 1.00 each. The amendment states that the divisions are established and separately tracked with effect from 31 December 2007. An amount of EUR 90 million of the general share premium reserve and retained earnings in the amount of EUR 4,411,614 recorded in the standalone financial statements of the Company have been allocated to the Dividend Reserve B (see below) on 31 December 2007.

The Real Estate Division's financial performance and any dividends or other distributions in respect of, or attributable to, the performance or assets of the Real Estate Division will be attributed solely to the holders of the B shares. Upon adoption of the annual accounts and on an after tax basis the amount of equity available for the pay out of dividends to the holders of the B shares ('Dividend Reserve B') shall be credited for an amount equal to the positive result relating to the Real Estate Division and shall be debited for an amount equal to the negative result. The allocation of the result of the divisions and the rules governing the pay out of dividend from the Real Estate Division relate to the period after 31 December 2007, when the Real Estate Division was established.

The Articles of Association include provisions which state, subject to the limitations of applicable law, that the holders of B shares will be entitled to receive distributions from the Dividend Reserve B (whether in cash or in specie) when declared by the Board upon the proposal of the meeting of the holders of the B shares. A payment to the holder(s) of B shares at the expense of a Dividend Reserve B can only be made to the extent that the aggregate balance of the entitlement of all shares of that specific class held by such holder to the share premium reserves and dividend reserves is positive.

The existing distributable reserves (Dividend Reserve B) along with future retained earnings will be used in the future to allow the transfer of the Assets of the Real Estate Division via dividends or distributions (whether in cash or in specie) to the holders of the B shares. It is intended that all of the assets of the Real Estate Division will be paid out in dividends and distributions to the holders of the B shares until no assets remain in the Real Estate Division.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 25. Share capital and reserves continued

In addition to the foregoing, the Articles of Association of the Company provide the following rights to the (meeting of) holders of the B shares:

- > A valid resolution of the General Meeting to issue shares of any class or to designate the Board of Directors for that purpose shall require the prior or simultaneous approval of each group of holders of Shares of the same class whose rights are affected by the issue of Shares.
- > Upon issue of A shares and B shares, each holder of A shares and B shares shall have a pre-emption right in respect of the A shares and B shares to be issued, in proportion to the aggregate amount of his shares.
- > Each resolution to restrict or exclude pre-emptive rights with respect to an issuance of B shares shall require the prior or simultaneous approval of the meeting of holders of class B shares.
- > The meeting of holders of the B shares has the right to nominate one director at the Company's general meeting as part of the binding nomination system set out in the Articles of Association.
- > Each holder of B shares has the right to request an investigation into the affairs of the Company with the Enterprise Chamber of the Court of Appeal in Amsterdam.
- > The prior or simultaneous approval of the meeting of holders of class B shares shall be required for resolutions of the Board:
  - a. to acquire any real estate or other assets for the Real Estate Division or to mortgage, charge, grant a license or otherwise encumber the assets of the Real Estate Division (or any of them); and
  - b. to finance the Real Estate Division from third party funding sources.
- > The prior or simultaneous approval of the General Meeting and the meeting of holders of class B shares shall be required for resolutions of the Board to amend, rescind or suspend the part of the Divisional Policy Statements relating to the fundamental and overriding rights of the Mining Division, the payments for use of and access to Real Estate Assets by the Mining Division, the allocation of costs for overhead and support services and the principles contained in the Divisional Policy Statements, or any additions or exceptions thereto. The Board shall not seek to make any determinations to amend, rescind or suspend any other aspects of the Divisional Policy Statements, or make exceptions to them or adopt additional policies or exceptions unless there shall have been prior consultation between the Board and the meeting of holders of the B shares and the Board shall have given due consideration to any representations made.
- > A proposal to amend the Articles of Association changing the authorised share capital B requires the prior or simultaneous approval of the meeting of holders of class B shares.
- > A proposal to amend the Articles of Association whereby any change would be made in the rights which vest in the holders of B shares shall require the prior approval of the meeting of holders of B shares.
- > Following a liquidation of the Company, the remaining balance of assets of the Company shall be distributed in accordance with the entitlements of each class of shares under the rules agreed upon for the distribution of reserves.

Any restrictions under Dutch corporate law with respect to the reduction of share capital, distribution of dividend and/or reserves and other corporate matters also apply to the (holders of) B shares.

As of 31 December 2010 and 2009 100 per cent of the B shares were owned by RPG Property B.V.

Rights, preferences and restrictions attaching to A shares in the share capital of the Company, restrictions on the distribution of dividends and the repayment of capital.

An amount of EUR 90 million of the general share premium reserve and retained earnings in the amount of EUR 4,411,614 recorded in the standalone financial statements of the Company has been allocated to the Dividend Reserve B on 31 December 2007. The remaining part of the share premium reserve has been allocated to the share premium reserve A. In case statutory reserves recorded in the standalone balance sheet of the Company as at 31 December 2007, if any, are (partially) released, the amounts thereof shall be credited to the dividend reserve A.

The Mining Division's financial performance and any dividends or other distributions in respect of, or attributable to, the performance or assets of the Mining Division will be attributed solely to the holders of the A shares. Upon adoption of the annual accounts and on an after tax basis the amount of equity available for the pay out of dividends to the holders of the A shares ('Dividend Reserve A') shall be credited for an amount equal to the positive result relating to the Mining Division and shall be debited for an amount equal to the negative result. The allocation of the result of the divisions and the rules governing the pay out of dividend from the Mining Division relate to the period after 31 December 2007, when the Mining Division was established.

The Articles of Association include provisions which state, subject to the limitations of applicable law, that the holders of A shares will be entitled to receive distributions from the Dividend Reserve A when declared by the Board. A payment to the holder(s) of A shares at the expense of a Dividend Reserve A can only be made to the extent that the aggregate balance of the entitlement of all shares of that specific class held by such holder to the share premium reserves and dividend reserves is positive.



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## 25. Share capital and reserves continued

In addition to the foregoing, the Articles of Association of the Company provide the following rights to the (meeting of) holders of the A shares:

- > Upon issue of A shares and B shares, each holder of A shares and B shares shall have a pre-emption right in respect of the A shares and B shares to be issued, in proportion to the aggregate amount of his shares.
- > A proposal to amend the Articles of Association whereby any change would be made in the rights which vest in the holders of A shares shall require the prior approval of the meeting of holders of A shares.
- > Following a liquidation of the Company, the remaining balance of assets of the Company shall be distributed in accordance with the entitlements of each class of shares under the rules agreed upon for the distribution of reserves.

Any restrictions under Dutch corporate law with respect to the reduction of share capital, distribution of dividend and/or reserves and other corporate matters also apply to the (holders of) A shares.

The total issued A shares and other issued class shares constitute the General Meeting of shareholders. Under the Articles of Association, the Divisional Policy Statements and Dutch (corporate) law, the General Meeting of shareholders has certain rights with respect to changes to the corporate structure, changes to the Divisional Policy Statements as well as rights relating to changes to the capital structure, repurchase of shares and significant changes in the identity or nature of the Company or its enterprise. As the issued A shares currently form a majority in the entire issued share capital of the Company, any voting in the General Meeting of shareholders can be influenced by the holders of the A shares.

### Share Premium

On 20 May 2009 the Company issued 266,490 new ordinary A shares granted to five Independent Directors, members of the Board. The A share premium attributable to these shares amounted to EUR 893 thousand.

On 10 September 2009 the Company issued 264,351 new ordinary A shares to Mike Salamon, the Executive Chairman of the Board, as part of his remuneration, as described in the IPO Prospectus and the Annual Report 2008. The A share premium attributable to these shares amounted to EUR 4,585 thousand.

On 21 May 2010 the Company issued 103,465 new ordinary A shares granted to five independent Directors, members of the Board. The A share premium attributable to these shares amounted to EUR 959 thousand.

On 3 December 2010 the Company issued 265,150 new ordinary A shares to Mike Salamon, the Executive Chairman of the Board, as part of his remuneration, as described in the IPO Prospectus and the Annual Report 2008. The A share premium attributable to these shares amounted to EUR 4,918 thousand.

### Restricted reserve

In accordance with Czech regulations, 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

Starting 1 January 2008, changes in the fair value of forward exchange rate contracts were accounted via the hedging reserve that is part of equity. For more details see Note 20.

### Earnings per share

The calculation of the average number of outstanding shares, both A and B, reflects the 2.5 for 1 conversion of shares per 5 May 2008. Also the A shares issued at the initial public offering, 13.5 million and 59,260, A shares issued to Independent Directors and A shares issued to settle stock options executed by Mike Salamon are included in the calculation. Finally, the creation and the subsequent cancellation of the C share is reflected as well, to arrive at the average numbers of 264,054,650 and 264,423,937 outstanding shares during 2009 and 2010 respectively. Based on the numbers of average outstanding shares the basic earnings per share are calculated.

In the calculation of the diluted earnings per A share the dilutive potential of the 'NWR IPO Share Option Plan', 'NWR Stock Option Plan for Executive Directors', 'Long-term Incentive Plan' and 'Share issue agreement with independent directors' is taken into account. Additional explanation on the dilutive potential is detailed in Note 29 Share-based payments.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 25. Share capital and reserves continued

|  | 01 January 2010 –<br>31 December 2010<br>EUR'000 | 01 January 2009 –<br>31 December 2009<br>EUR'000 |
|--|--|--|
| Total net profit/(loss) after tax from continuing operations   | 221,269  | (63,731)   |
| Total net profit after tax from discontinued operations  | 12,045   | 2,135  |
| Total net profit/(loss) after tax of that:   | 233,314  | (61,596)   |
| Total net profit/(loss) after tax attributable to A shareholders                                       | 226,321  | (65,442)   |
| Total net profit/(loss) after tax from continuing operations attributable to A shareholders            | 214,276  | (67,577)   |
| Total net profit after tax from discontinued operations attributable to A shareholders                 | 12,045   | 2,135  |
| Total net profit after tax attributable to B shareholders  | 6,993  | 3,846  |
| Total net profit after tax from continuing operations attributable to B shareholders                   | 6,993  | 3,846  |
| Weighted average number of shares outstanding during the year of that:                                 |  |  |
| Weighted average number of A shares outstanding during the year  | 264,423,937.10                                   | 264,054,650.00                                   |
| Weighted average number of B shares outstanding during the year  | 264,413,937.10                                   | 264,044,650.00                                   |
| Weighted average number of shares outstanding during the year adjusted for effect of dilution of that: |  |  |
| Diluted weighted average number of A shares outstanding during the year                                | 266,470,833.90                                   | 264,529,225.92                                   |
| Diluted weighted average number of B shares outstanding during the year                                | 266,460,833.90                                   | 264,519,225.92                                   |
| Basic earnings per A share (EUR/share)   | 0.86   | (0.25)   |
| Diluted earnings per A share (EUR/share)   | 0.85   | (0.25)   |
| Basic earnings per A share from continuing operations (EUR/share)                                      | 0.81   | (0.26)   |
| Diluted earnings per A share from continuing operations (EUR/share)                                    | 0.80   | (0.26)   |
| Basic earnings per A share from discontinued operations (EUR/share)                                    | 0.05   | 0.01   |
| Diluted earnings per A share from discontinued operations (EUR/share)                                  | 0.05   | 0.01   |
| Basic earnings per B share (EUR/share)   | 699.30   | 384.60   |
| Diluted earnings per B share (EUR/share)   | 699.30   | 384.60   |
| Basic earnings per B share from continuing operations (EUR/share)                                      | 699.30   | 384.60   |
| Diluted earnings per B share from continuing operations (EUR/share)                                    | 699.30   | 384.60   |

### 26. Provisions

The provision balances are as follows:

|                                    | At<br>1 January<br>2010<br>EUR'000 | Charged<br>EUR'000 | Utilised<br>EUR'000 | Unwinding of<br>discount<br>EUR'000 | Currency<br>translation<br>EUR'000 | At<br>31 December<br>2010<br>EUR'000 |
|------------------------------------|------------------------------------|--------------------|---------------------|-------------------------------------|------------------------------------|--------------------------------------|
| Restoration provision              | 92,452                             | –                  | (5,848)             | 3,128                               | 5,185                              | 94,917                               |
| Mining damage                      | 9,405                              | 7,381              | (7,093)             | –                                   | 532                                | 10,225                               |
| Other restoration costs            | 1,276                              | –                  | –                   | –                                   | 73                                 | 1,349                                |
| <b>Total long-term provisions</b>  | <b>103,133</b>                     | <b>7,381</b>       | <b>(12,941)</b>     | <b>3,128</b>                        | <b>5,790</b>                       | <b>106,491</b>                       |
| Employee redundancy                | 5,200                              | –                  | (4,741)             | –                                   | 250                                | 709                                  |
| Unpaid vacation                    | 2,706                              | 5,732              | (5,725)             | –                                   | 154                                | 2,867                                |
| Buy-out (family houses)            | 1,473                              | –                  | (305)               | –                                   | 80                                 | 1,248                                |
| Other                              | 796                                | 636                | (483)               | –                                   | 47                                 | 996                                  |
| <b>Total short-term provisions</b> | <b>10,175</b>                      | <b>6,368</b>       | <b>(11,254)</b>     | <b>–</b>                            | <b>531</b>                         | <b>5,820</b>                         |

The provision balances as of 31 December 2009:

|                                    | At<br>1 January<br>2009<br>EUR'000 | Charged<br>EUR'000 | Utilised<br>EUR'000 | Held for sale<br>EUR'000 | Unwinding of<br>discount<br>EUR'000 | Currency<br>translation<br>EUR'000 | At<br>31 December<br>2009<br>EUR'000 |
|------------------------------------|------------------------------------|--------------------|---------------------|--------------------------|-------------------------------------|------------------------------------|--------------------------------------|
| Restoration provision              | 90,338                             | –                  | (2,617)             | –                        | 3,360                               | 1,371                              | 92,452                               |
| Mining damage                      | 12,365                             | 7,549              | (10,703)            | –                        | –                                   | 194                                | 9,405                                |
| Other restoration costs            | 1,259                              | –                  | –                   | –                        | –                                   | 17                                 | 1,276                                |
| <b>Total long-term provisions</b>  | <b>103,962</b>                     | <b>7,549</b>       | <b>(13,320)</b>     | <b>–</b>                 | <b>3,360</b>                        | <b>1,582</b>                       | <b>103,133</b>                       |
| Employee redundancy                | –                                  | 7,263              | (2,056)             | –                        | –                                   | (7)                                | 5,200                                |
| Unpaid vacation                    | 3,053                              | 6,845              | (7,228)             | (11)                     | –                                   | 47                                 | 2,706                                |
| Buy-out (family houses)            | 1,979                              | –                  | (537)               | –                        | –                                   | 31                                 | 1,473                                |
| Other                              | 537                                | 613                | (362)               | –                        | –                                   | 8                                  | 796                                  |
| <b>Total short-term provisions</b> | <b>5,569</b>                       | <b>14,721</b>      | <b>(10,183)</b>     | <b>(11)</b>              | <b>–</b>                            | <b>79</b>                          | <b>10,175</b>                        |

Annual review of restoration provision as of 31 December 2010 and 31 December 2009 did not result in any change of estimates.

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## 26. Provisions continued

Due to the long-term nature of the restoration provision, the biggest uncertainty in estimating the provision is the costs that will be incurred. The Group has assumed that the site will be restored using technology and materials that are available currently. As of 31 December 2010 the provision has been calculated using discount rates in range between 0.14 per cent–3.99 per cent p.a. (31 December 2009: range between 2.8 per cent–3.3 per cent p.a.)

The employment redundancy provision relates to the fully shut down the OKK's Šverma facility as part of the COP 2010 programme.

## 27. Deferred revenue (long-term)

|                            | Government grants<br>EUR'000 | Other<br>EUR'000 | Total<br>EUR'000 |
|----------------------------|------------------------------|------------------|------------------|
| At 1 January 2010          | 2,102                        | 573              | 2,675            |
| Change in the period       | (221)                        | (45)             | (266)            |
| Currency translation       | 116                          | (1)              | 115              |
| <b>At 31 December 2010</b> | <b>1,997</b>                 | <b>527</b>       | <b>2,524</b>     |

|                           | Government grants<br>EUR'000 | Other<br>EUR'000 | Total<br>EUR'000 |
|---------------------------|------------------------------|------------------|------------------|
| At 1 January 2009         | 2,277                        | 3,317            | 5,594            |
| Liabilities held for sale | –                            | (2,297)          | (2,297)          |
| Change in the period      | (211)                        | (479)            | (690)            |
| Currency translation      | 36                           | 32               | 68               |
| At 31 December 2009       | 2,102                        | 573              | 2,675            |

The Group has received government grants to cover environmental improvements. Government grants are being amortised over the expected useful life of the assets acquired with funds from government subsidies.

The change in government grants fully represents the amortisation of existing grants. No new grants were received in the period.

## 28. Employee benefits

The Group provides a number of different 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 12 months 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.

|                                | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|--------------------------------|--------------------------------|--------------------------------|
| Special miners benefits        | 58,914                         | 63,657                         |
| Severance payment              | 24,218                         | 18,521                         |
| Vouchers                       | 10,449                         | 11,614                         |
| Loyalty benefits               | 1,326                          | 1,796                          |
| Employees' jubilee             | 26                             | 34                             |
| Other long-term benefits       | 959                            | 966                            |
| <b>Total employee benefits</b> | <b>95,892</b>                  | <b>96,588</b>                  |

Decrease in employee benefits as of 31 December 2010 compared to 31 December 2009 is a cumulative result of updated assumptions that are disclosed at the end of this Note.

## Changes in benefits in 2009

As of 1 January 2009 OKD amended its collective agreement with its labour union. Major loyalty benefits (anniversary benefits and retirement anniversary benefit) existing as of 31 December 2008 were replaced by new benefit vouchers since 1 January 2009.

## 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 per cent 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.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 28. Employee benefits continued

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 Czech law. Entitled persons are employees whose employment relationship was dissolved owing to having achieved 100 per cent 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 one-time disbursement.

#### Vouchers

This new benefit was recognised at OKD as of 1 January 2009 based on amendment to the collective agreement of OKD and its labour union. All employees are granted vouchers semi-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.

As a consequence of amendment to the collective agreement of OKD and its labour union anniversary benefits and retirement anniversary benefit that were included in loyalty benefits as of 31 December 2008 were derecognised at OKD as of 1 January 2009.

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 one-time payment.

Changes in the present value of the defined benefit obligation:

|  | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--|---|---|
| Defined benefit obligation at the beginning of the period  | 96,588  | 88,188  |
| Classified as held for sale                                | –   | (1,130)   |
| Benefits paid  | (9,800)   | (9,037)   |
| Net benefit expense  | 3,701   | 17,199  |
| Currency translation                                       | 5,403   | 1,368   |
| <b>Defined benefit obligation at the end of the period</b> | <b>95,892</b>   | <b>96,588</b>   |

The following table summarises the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the statement of financial position for the respective plan:

|                                     | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|-------------------------------------|---|---|
| Current service cost                | 5,011   | 5,068   |
| Interest cost on benefit obligation | 3,179   | 3,274   |
| Past service costs                  | –   | 10,295  |
| Curtailments                        | –   | (10,319)  |
| Actuarial loss/(gain)               | (4,489)   | 8,881   |
| <b>Net benefit expense</b>          | <b>3,701</b>  | <b>17,199</b>   |

Anniversary benefits and retirement anniversary benefit that were derecognised as of 1 January 2009 form balance of curtailments in 2009. Past service costs in 2009 are made from benefit vouchers that was recognised in 2009.

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## 28. Employee benefits continued

The principal financial and demographic assumptions used in determining post-employment benefits and other long-term employee benefits are shown below:

**Discount rate** – Discount rates are derived from the linear approximation of the yield curve of the Czech government bonds as of balance sheet date. Average period of payment is considered. Discount rates used for the calculation of employee benefits as of 31 December 2010 range between 3.76 per cent–3.91 per cent p.a. (as of 31 December 2009: 3.9 per cent–4.05 per cent p.a.).

**Wage increase** – This assumption is relevant where the benefit depends on the future wage. In all these cases the Group estimates the steadily average wage increase of 6.25 per cent per annum as of 31 December 2010 (8.1 per cent per annum as of 31 December 2009). Higher steadily average wage increase in 2009 was a consequence of fall in average wages in 2009 as a result of the crisis (in the calculation as of 31 December 2009 the fall of average wages was compensated by higher growth of wages as the employee benefits are of long-term character). In 2010, a significant growth of actual average wage (to the level before crisis) led to the revision and consequently reduction of the average wage increase in 2010.

**Mortality** – Model mortality for the relevant benefit calculation is undertaken from the statistical tables published by the Czech Statistical Office.

**Retirement age** – that variable has changed in 2010 compared to 2009 due to change of applicable Czech legislation.

Retirement age in 2010:

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 six 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 by Czech legislation less five years if an employee started working as a miner before 1 January 1993 and worked 3,300 shifts in underground by 31 December 2008
- > 65 years for all other men not fulfilling above criteria

The retirement age for women is set to 64 years (assuming women to have on average two children).

Retirement age in 2009:

The retirement age was, according to the former Czech legislation, as follows: for retirements before 31 December 1995 the retirement age is 60 for men and 57–53 for women (depending on the number of children). The retirement age after the year 2013 is 63 for men and 63–59 for women (depending on the number of children). The retirement age between those two years mentioned above is determined by the linear approximation.

**Number of employees** – estimated future number of employees per each year is derived from estimated future output (production) in particular year.

## 29. Share-based payments

The Company offers independent members of the Board and certain employees of the Group following share-based remuneration packages:

### a) Shares granted to Independent Directors

The Company granted each of its five Independent Directors A shares in the value of EUR 200 thousand vesting on 9 May 2009 and the same amount on 27 April 2010. The Company settled the first tranche by issuing 266,490 ordinary A shares with nominal value of EUR 0.40 each on 20 May 2009. The second tranche was settled by issuing 103,465 ordinary A shares with nominal value of EUR 0.40 each on 21 May 2010. The corresponding expenses are shown as share-based payments personnel expense. The number of shares granted was determined as the average of opening prices of an A Share on the London Stock Exchange over a period of five business days preceding the date of share issue. The impact on the income statement for 2010 of granting shares to the independent directors equals to EUR 1,000 thousand (2009: EUR 353 thousand). This amount relates fully to accrued expenses for the second tranche of granted shares.

There is no dilutive impact resulting from shares granted to Independent Directors since the fair value of the weighted average number of A shares that would have been issued at average market price would equal the fair value of the services the Company received from the Independent Directors. Resulting from this, the additional cost and income for the Company would be the same resulting in a zero impact on the earning per share figure.



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 29. Share-based payments continued

#### b) Shares and share options granted to Executive Directors

Mr. Mike Salamon was granted options for A share with exercise price of EUR 0.01 in the amount equal to 0.5 per cent of the issued share capital of the Company. This remuneration package classifies as an equity-settled share-based payment transaction and is presented correspondingly, in a separate equity category in the balance sheet of the Company. 263,800, 264,351 and 265,150 options vested on 1 September 2008, 1 September 2009 and 1 September 2010, respectively. On each of the following two subsequent anniversaries an additional 20 per cent of the granted options will vest. The accrued expense for the granted share options has an impact of EUR 4,833 thousand for the year ended 31 December 2010, compared to EUR 8,381 thousand for the same period in 2009.

The calculation of the fair value of the options per grant date was performed by using the Black-Scholes model. The value of the input variables in the model were: share price per grant date 1 September 2008 of GBP 15.63; exercise price of GBP 0.01; time to expiry of eight years; risk-free rate of 4 per cent and a volatility of 15 per cent. The eight-year expiry period consists of a three-year vesting period and a consecutive five-year exercise period. The discount rate is equal to the Czech government bond rates that have maturity dates similar to the terms of the Group's obligations. The used volatility percentage is based on the Group's management professional judgment taking into account stock prices of peer companies.

Mike Salamon's option plan has no dilutive impact since the fair value of the weighted average number of options that would have been issued at average market price would equal the fair value of the services the Company received from Mike Salamon.

Executive Director of the Company and Chief Executive Officer of OKD Mr. Klaus-Dieter Beck is granted a certain amount of A shares according to his employment contract with OKD. This remuneration package classifies as an equity settled 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.

Klaus-Dieter Beck's incentive plan has no dilutive impact since the fair value of the weighted average number of shares that would have been issued at average market price would equal the fair value of the services the Company received from Klaus-Dieter Beck.

#### c) Share options granted to employees of the Group

Several eligible employees and Directors of the Group were granted options for A shares of the Company under the 'NWR IPO Share Option Plan'. This remuneration package classifies as equity settled. The options, which were granted on 9 May 2008, have an exercise price of GBP 13.25. The corresponding vesting period for these share options, numbering 599,590 in total, is 9 May 2008 to 9 May 2011. The second granting of options to certain employees and Directors took place on 24 June 2009. The exercise price of these options is GBP 2.8285. The corresponding vesting period for these share options, numbering 3,110,075 in total, runs from 24 June 2009 to 24 June 2012. The third granting of options to certain employees and Directors took place on 17 March 2010. The exercise price of these options is GBP 7.1280. The corresponding vesting period for these share options, numbering 1,742,631 in total, runs from 17 March 2010 to 17 March 2013.

Similarly to the options granted to Mr. Salamon, the fair value of the options per grant date was calculated by using the Black-Scholes model.

Due to the Company's average share market price for the year 2010, which is currently lower than the exercise price of the options granted on 9 May 2008, these are out-of-the-money and therefore do not have any dilutive potential regarding the calculation of the diluted earnings per share.

The second tranche of granted options is in-the-money. The average share price for the period was GBP 7.4825. The dilutive impact of the second tranche is 1,934,424 shares.

The third tranche of granted options is in the money. The average share price for the period from granting to 31 December 2010 was GBP 7.7582. The dilutive impact of the third tranche is 112,473 shares.

The following table presents the impact of the various share-based remuneration schemes on the profit of the Company.

|                                  | 1 January<br>2010 –<br>31 December<br>2010<br>EUR '000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR '000 |
|----------------------------------|--|--|
| Share-based remuneration schemes |  |  |
| Independent Directors            | 1,000  | 353  |
| Mike Salamon                     | 4,833  | 8,381  |
| Klaus-Dieter Beck                | 2,732  | 2,012  |
| Other                            | 3,921  | 1,694  |
|                                  | <b>12,486</b>  | <b>12,440</b>  |

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### 30. Deferred tax

|  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|--|--------------------------------|--------------------------------|
| <b>Deferred tax asset:</b>   |                                |                                |
| At 1 January   | 30,723                         | 23,455                         |
| Deferred tax charge for the period   | 1,427                          | 7,368                          |
| Impact of changed deferred tax rate  | –                              | (281)                          |
| Deferred tax movement – assets held for sale                                 | –                              | (164)                          |
| Currency translation   | 1,744                          | 345                            |
| <b>At 31 December</b>  | <b>33,894</b>                  | <b>30,723</b>                  |
|  |                                |                                |
|  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
| <b>Deferred liability:</b>   |                                |                                |
| At 1 January   | 124,525                        | 128,686                        |
| Deferred income tax related to items charged or credited directly to equity: |                                |                                |
| – Net gain/(loss) on revaluation of cash flow hedges                         | (1,604)                        | (1,599)                        |
| Deferred tax charge for the period   | 14,255                         | (678)                          |
| Impact of changed deferred tax rate  | –                              | (371)                          |
| Deferred tax liability movement – liabilities related to assets for sale     | –                              | (3,466)                        |
| Currency translation   | 7,055                          | 1,953                          |
| <b>At 31 December</b>  | <b>144,231</b>                 | <b>124,525</b>                 |
| <b>Deferred tax liability net out of which presented in balance sheet</b>    | <b>110,337</b>                 | <b>93,802</b>                  |
| <b>Deferred tax asset</b>  | <b>8,601</b>                   | <b>7,710</b>                   |
| <b>Deferred tax liability</b>  | <b>118,938</b>                 | <b>101,512</b>                 |

Deferred tax presented in the balance sheet is stated net of liability and asset per individual consolidated entities. Deferred tax presented in the above table is stated per individual temporary differences.

|   | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---|--------------------------------|--------------------------------|
| <b>Deferred tax asset relates to the following:</b>     |                                |                                |
| Allowances, adjustments and provisions                  | 5,204                          | 5,630                          |
| Employee benefits                                       | 17,999                         | 18,152                         |
| Tax losses carried forward                              | 10,691                         | 6,898                          |
| Other   | –                              | 43                             |
|   | <b>33,894</b>                  | <b>30,723</b>                  |
|   |                                |                                |
|   | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
| <b>Deferred tax liability relates to the following:</b> |                                |                                |
| Property, plant and equipment                           | 138,485                        | 117,488                        |
| Derivatives   | 5,746                          | 7,037                          |
|   | <b>144,231</b>                 | <b>124,525</b>                 |

Tax losses to be carried forward and offset against future taxable income are available in New World Resources N.V. Due to insufficient taxable revenues of the Company deferred tax asset is not recognised from incurred tax losses.

|   | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---|--------------------------------|--------------------------------|
| Tax losses arising in 2006  | 342                            | 342                            |
| Tax losses arising in 2007  | 40,036                         | 40,036                         |
| Tax losses arising in 2008  | 55,132                         | 55,132                         |
| Tax losses arising in 2009  | 48,306                         | 49,820                         |
| Tax losses arising in 2010  | 78,480                         | –                              |
|   | <b>222,296</b>                 | <b>145,330</b>                 |
| Deferred tax at the applicable rate of 25.5% (The Netherlands)                | 56,686                         | 37,059                         |
| Provision for unrecognised deferred tax asset                                 | (56,686)                       | (37,059)                       |
| <b>Deferred tax asset recognised in respect of tax losses carried forward</b> | <b>–</b>                       | <b>–</b>                       |

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 30. Deferred tax continued

Amendment of Czech Income tax legislation enacted in 2007 lead to the change of the income tax rates as follows:

- > 2009: 20 per cent
- > from 2010 onwards: 19 per cent

Deferred tax was calculated by using above the stated rates based on the expected period of settlement of the deferred tax. This resulted in reduction of deferred tax asset in 2009 by EUR 281 thousand) and reduction of deferred tax liability in 2009 by EUR 371 thousand. No reduction effect arised in 2010.

### 31. Future commitments

The Group has the following commitments in respect of:

|   | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---|--------------------------------|--------------------------------|
| <b>Non-cancellable operating leases</b>             |                                |                                |
| Instalments due within one year                     | 3,239                          | 3,251                          |
| Instalments due between two and five years          | 12,199                         | 13,927                         |
|   | <b>15,438</b>                  | <b>17,178</b>                  |
| <b>Acquisition of property, plant and equipment</b> |                                |                                |
| From third parties <sup>1</sup>                     | 82,596                         | 93,274                         |

1 2010: the amounts include contractual obligations in the amount of EUR 47,907 thousand for mining equipment under the PERSP 2015 programme and EUR 1,884 thousand for refurbishing of coking facilities under the COP 2010 programme as of 31 December 2010 (2009: the amounts include contractual obligations in the amount of EUR 39,290 thousand for mining equipment under the POP 2010 programme and EUR 30,240 thousand for refurbishing of coking facilities under the COP 2010 programme as of 31 December 2009).

The majority of operating lease contracts is concluded as indefinite term and short notice period. Leased items include equipment, land and buildings. There are none with term exceeding five years. Operating lease expense in 2010 was EUR 3,267 thousand (2009: EUR 3,521 thousand).

### 32 Contingent assets and liabilities

The Group has the following significant contingent assets and contingent liabilities as of 31 December 2010:

#### a) Transfer of certain old mines

Until 2000, OKD had concentrated all discontinued mines into a division called Odra Mine. The main purpose of this division was to supervise reclamation works at the closed mines and to administer claims and obligations towards current and former employees of the discontinued mining units. Effective 2002 OKD sold closed mines administration. Effective 2004, OKD sold mine Barbora to DIAMO s.p. At this time DIAMO, s.p. also assumed all of OKD's obligations vis-à-vis all its former employees. Simultaneously, CMD sold its closed mines in the Kladno area to state owned Palivový kombinát Ústí, s.p. ('PKU') in a similar transaction. By operation of law, OKD is the statutory guarantor of the obligations assumed by DIAMO and PKU existing at the time of the transfer.

#### b) Environmental issues

##### (i) OKD:

In accordance with privatisations projects, the National Property Fund of the Czech Republic ('NPF') reimburses acquirers of privatised assets in respect of expenses incurred for the clean-up of environmental damage relating to the pre-privatization period. In 1993, OKD asked NPF to reimburse its expenses for cleaning-up damages in accordance with government decision No. 123 dated 17 March 1993. On 18 April 1996 contract no. 131/96 was concluded between NPF and OKD relating to environmental issues in the area in the entity's ownership. Based on addendum to Environmental Contract No. 131/96 between the NPF (respectively Czech Ministry of Finance), OKD and OKK Koksovny all rights and obligations concerning environmental issues were transferred to OKK Koksovny, as the fixed assets to which environmental issues relate, were concentrated in OKK Koksovny.

##### (ii) OKK Koksovny:

The entity's assets include the grounds of the former ČSA coking plant located in Karviná-Doly. Coking operations were discontinued at 30 June 1997 and the grounds were classified by the Czech Ministry of the Environment as an old source of environmental burden. For this reason, an *Old environmental burden risk analysis* addressing the scope of contamination and restoration work was drawn up for this site in 1997–1998. Restoration works should be financed by the Czech Ministry of Finance ('MF'), which overtook liabilities of NPF (NPF ceased its activities). To date, no addendum to Environmental Contract No. 131/96 between the NPF (respectively Ministry of Finance) and OKD on the updating of this risk analysis and the holding of a tender for an improvement work contractor has been executed.

Entity's assets include the grounds of the former Trojice coking plant in Slezská Ostrava. These grounds were classified as an old source of environmental burden and an *Old environmental burden risk analysis* is being drafted for it. Decontamination of the grounds is contingent on the conclusion of an addendum to Contract No. 131/96 between the NPF and OKD.

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### 32 Contingent assets and liabilities continued

The entity operates the grounds of the Svoboda and Šverma coking plants for which risk analyses are being drafted to address post-operations improvement work. The exact time-frame, percentage share of the state in eradicating past damage and the value and duration of the contingent liabilities accrual are not yet known.

In 2008, all fixed assets with above mentioned environmental issues were concentrated in OKK Koksovny by a merger of OKK Koksovny and NWR Coking, a.s.

#### c) Claims and litigations

- > NWR KARBONIA and Dalkia Powerline Sp. z o.o. (formerly NWR ENERGETYKA PL Sp. z o.o.) have been jointly and severally claimed against for damages by Vattenfall Sales Poland Sp. z o.o. ('VSP') in relation to the negotiations for the purchase of electricity for the calendar year 2009 which were held between NWR KARBONIA and VSP. Due to the failure to satisfy one of the conditions, namely the receipt of a guarantee, NWR KARBONIA refused to conclude the final power purchase agreement. VSP claims it incurred damages and lost profit in a total amount of approximately EUR 3 million. However, VSP is only seeking part of such damages, namely the amount of PLN 1 million (equivalent of EUR 0.25 million). By law, Dalkia Powerline Sp. z o.o. may be claimed against because it overtook energy assets which were spun-off from NWR KARBONIA on 1 April 2009. The managements of both companies disagree with legal title of the claim. On 13 December 2010 the regional court in Bielsko-Biala dismissed VSP's claim in its entirety. VSP filed an appeal against the ruling of 13 December 2010.
- > Claims in connection with purchases of certain minority shares in CMD, a. s., METALIMEX a. s. (former subsidiaries of OKD) and OKD:
  - Petition to review the appropriateness of consideration for shares of CMD, a. s. (court in Ostrava) was rejected by the court in March 2009.
  - Petition to review the appropriateness of consideration for shares of OKD was rejected by the court in February 2009. The petitioner gave an appeal to which in May 2009 OKD gave an explanation.
  - Petition to review the appropriateness of consideration for shares of METALIMEX a.s. was rejected by the court in March 2009. The petitioner gave an appeal in July 2009, to which in September 2009 OKD gave an explanation. The appeal was rejected by the court in October 2010.
  - Petition to review the appropriateness of consideration for shares of CMD, a. s. (court in Prague) – in 2008 entitled entities were defined by court. Court in its decision on 6 June 2008 decided that legal successors of OKD that ceased to exist (ID: IC 26863154) are: OKD (ID: IC 26863154), Green Gas DPB, a.s., OKD Doprava, akciová společnost (in 2010 renamed to Advanced World Transport a.s.), RPG Byty, s.r.o. RPG RE Commercial, s.r.o. RPG RE Land, s.r.o. and RPG Trading, s.r.o. The court appointed a valuation expert in 2009. In 2010, the case is still in progress.
- > Litigation between claimant OKD and defendant Financial Directorate in Ostrava – action against decision issued by administrative body according to the Act No. 150/2002 Coll. Under action OKD enforces cancelation of decision issued by Financial Directorate in the affairs of income tax for tax period 1 July 2006–31 December 2006. OKD won the case in 2010.
- > Mr. and Mrs Macura filed an action for damages caused by mining activity of OKD The value of the claim was EUR 4 thousand. In 2010, the court confirmed the right of Mr and Mrs Macura. OKD is considering an appeal.
- > Mr. and Mrs Macura in June 2009 filed an action for damages caused by mining activity of OKD The value of the claim is EUR 606 thousand.
- > Mr. and Mrs Kolakowski in July 2009 filed an action for damages caused by mining activity of OKD The value of the claim is EUR 32 thousand. OKD sent an explanation to the court in November and December 2009. The proceeding was not yet set.
- > Litigation between claimant, Ing. Vilém Sikora and defendant, OKD from February 2006 concerning action for damages of claimant's properties caused by mining activity in Karviná – Doly. Mr. Sikora claimed EUR 447 thousand as compensation for the damage. In 2010, the case was settled out of the court and closed.
- > Litigation between claimants Mr. and Mrs Gerych and defendant, OKD. After the loss of their son, who died as result of a work injury, EUR 400 thousand is claimed from OKD as a compensation of non-property rights in money. OKD denies its responsibility and believes that all legal claims that arise from union contract and law were covered. On 2 July 2008 the court rejected the petition of the claimants. The claimants appealed in December 2009. The case is still in progress.
- > Litigation between claimants, Prague Investment Holdings (Cyprus), Prague Capital Partners Limited, Blanet-Shop, s.r.o. and defendants, OKD and Prosper Trading, a.s. concerning action for damages in the amount of EUR 256 thousand and EUR 536 thousand. The alleged damage was caused by acting in concert in 1997 when the defendants purchased shares in Moravskoslezské teplárny at a lower price (CZK 800 per share) than the price for which the shares would have been sold when offered publicly to shareholders. In 2008 the court rejected the petition of the claimants. The claimants appealed. The case was closed in 2010 because the claimants did not pay the fees to the court.
- > No provision has been set up as of 31 December 2010 for the litigations. At the financial statements' preparation date, based on advice of counsel, the management of the Group believes that the litigations have no significant impact on the Group's financial position as of 31 December 2010.

#### d) Guarantee bills of exchange

As of 31 December 2010 there were following off-balance sheet liabilities:

- > guarantee bills of exchange for coal delivery System S.A. – Kombinát Koksochemiczny, Zabrze of EUR 2,500 (2009: EUR 2,499 thousand).

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 32 Contingent assets and liabilities continued

#### e) Contingent liability relating to energy business disposal

On 21 June 2010 the Company realized the sale of the energy business of the Group. (See Note 1e) (ii), Note 8 and Note 10.) The sale price of energy business of total amount of EUR 139,156 thousand is still subject to an adjustment related to the performance of CZECH-KARBON's electricity trading portfolio, which may result in a reduction of the sale price of no more than approximately EUR 2 million. This potential reduction relates to audited results for the years 2010 and 2011. The Sale and Purchase Agreement provides for put and call options, as well as a pre-emption right of NWR, in respect of the energy assets and businesses transferred to Dalkia or replacing such energy assets or businesses upon the occurrence of certain events.

### 33. Other material matters

#### a) Programme POP 2010

In 2010, the Group completed the implementation of its Productivity Optimisation Programme POP 2010. All 10 longwall sets have been successfully installed and are now fully operational. The new equipment is delivering expected results, thus improving productivity, efficiency as well as labour safety. In the long-term the equipment should enhance the Group's reserve base, since the new equipment is better suited to the existing coal seams and provides improved strength to allow deeper mining.

#### b) Programme COP 2010

On 1 June 2010 the Company announced the completion of the new coke battery at its subsidiary OKK Koksovny, a.s. This was the last phase of the Programme COP 2010, a EUR 63 million capital investment programme designed to improve the efficiency and productivity of the coke operations. As part of this programme, all coking production is being consolidated at Svoboda Coking Plant, with production at the Jan Sverma facility fully shut down by the end of 2010.

#### c) Programme PERSP 2015

OKD announced the 2015 Perspective Programme, designed to further build on the gains and efficiencies achieved by the POP 2010 investments made over the past couple of years. This new programme further improves employee care, labour productivity and ensures consistent exploitation of coal reserves, occupational safety and customer relations.

#### d) Dębieńsko

Work on the Dębieńsko project in Poland continues to make progress. The Company is investing approximately EUR 25 million on the completion of the Detailed Feasibility Study which includes geological exploration, land purchase, engineering work and some infrastructure projects. During 2010, the first boreholes at the planned future shafts and decline locations were drilled and documented in anticipation of a double vertical opening. The development of mine plans continued, based on the study 3D models showing the geology of the area. In parallel, some plots of land were acquired for necessary surface infrastructure, in addition to an electricity supply line and related substation. It is expected to break ground in Dębieńsko toward the middle of 2011, with first production still five years away.

#### e) Agreement in principle to issue tracking stock over certain real estate assets in the Company

In addition to mining assets, the Company, through OKD and other subsidiaries, is the owner of a significant portfolio of real estate on which its mines have been developed. Under Czech mining laws any real estate necessary for the mining activities of OKD must remain under OKD's ownership for the duration of all mining activities.

In order to provide higher transparency to the mining and real estate assets, the Company decided to separate the real estate of the Group into a new division and to issue a new security – B Class shares – to track the financial performance of the Real Estate Division as of 31 December 2007. Procedures and safeguards were built-in to the provisions of the A and B shares in the Company to ensure that each shareholder class is fairly treated. See also Note 3 and Note 25.

#### f) Restrictions on the Company's ability to pay dividends

The indenture governing the 7.375 per cent Senior Notes due 2015 and 7.875 per cent Senior Notes due 2018 also 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 per cent 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 per cent and the 7.875 per cent Indentures governing the notes amounted to approximately EUR 195,373 thousand as of 31 December 2010.

### 34. Subsequent events

On 7 February 2011, the Company entered into revolving credit facility with 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. It provides for a bank loan facility of EUR 100 million, which will be available for three years after date of signing. The proceeds of the revolving credit facility will be used for general corporate purposes.

NWR KARBONIA changed its legal form from 'limited liability' to the 'joint-stock' company. The change was registered in Commercial register on 28 February 2011.

Consistent with the Company's dividend policy, the Directors have declared a final dividend of EUR 0.22 per A share, which will be paid to A shareholders in the form of an interim dividend on 15 April 2011. Together with the dividend of EUR 0.21 per A share paid in October 2010, this takes the full year dividend payable to A shareholders to EUR 0.43 per share in respect of the year ended 31 December 2010. Next to it, on 22 February 2011, NWR's Board of Directors approved an interim distribution from the dividend reserve B to the sole holder of the B shares, RPG Property B.V., in the amount of EUR 40 million. The dividend is mostly comprised of the proceeds from the sale of NWR Energy attributable to the Real Estate Division.



## Non-consolidated income statement prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

|  | Note | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--|------|---|---|
| Operating revenue                              | 37   | <b>1,098</b>  | 1,286   |
| Operating expenses                             | 38   | <b>(24,408)</b>                                       | (23,708)  |
| Operating result                               |      | <b>(23,310)</b>                                       | (22,422)  |
| Financial result                               | 39   | <b>(64,677)</b>                                       | (38,441)  |
| <b>Loss before taxation</b>                    |      | <b>(87,986)</b>                                       | (60,863)  |
| Dividend income from subsidiaries              | 41   | <b>516,004</b>  | 85,561  |
| Gain on disposal of subsidiary                 | 40   | <b>17,774</b>   | –   |
|  |      | <b>533,778</b>  | 85,561  |
| <b>Net profit before taxation</b>              |      | <b>445,792</b>  | 24,698  |
| Income tax expense                             | 42   | –   | –   |
| <b>Total net profit after tax for the year</b> |      | <b>445,792</b>  | 24,698  |
| Attributable to:                               |      |   |   |
| Shareholders of the Company                    |      | <b>445,792</b>  | 24,698  |
| <b>Earnings per share (EUR/share)</b>          |      |   |   |
| Basic earnings per A share                     | 51   | <b>1.69</b>   | 0.09  |
| Diluted earnings per A share                   | 51   | <b>1.67</b>   | 0.09  |
| Basic earnings per B share                     | 51   | –   | –   |
| Diluted earnings per B share                   | 51   | –   | –   |

## Non-consolidated statement of comprehensive income prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

|  | For the year ended<br>31 December 2010 |                                  |
|--|--|----------------------------------|
|  | Profit<br>for the<br>year              | Total<br>comprehensive<br>income |
| EUR'000  |  |                                  |
| Profit for the year  | 445,792                                | 445,792                          |
| Other comprehensive income   | –                                      | –                                |
| <b>Total comprehensive income for the period attributable to the shareholders of the Company</b> | <b>445,792</b>                         | <b>445,792</b>                   |

|  | For the year ended<br>31 December 2009 |                                  |
|--|--|----------------------------------|
|  | Profit<br>for the<br>year              | Total<br>comprehensive<br>income |
| EUR'000  |  |                                  |
| Profit for the year  | 24,698                                 | 24,698                           |
| Other comprehensive income   | –                                      | –                                |
| <b>Total comprehensive income for the year attributable to the shareholders of the Company</b> | <b>24,698</b>                          | <b>24,698</b>                    |

## Non-consolidated statement of financial position prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

|   | Note | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---|------|--------------------------------|--------------------------------|
| <b>Assets</b>   |      |                                |                                |
| Investments in subsidiaries                                   | 44   | 1,279,995                      | 1,339,662                      |
| Property, plant and equipment                                 | 43   | 209                            | 340                            |
| Long-term derivatives   | 45   | –                              | 165                            |
| <b>Total non-current assets</b>                               |      | <b>1,280,204</b>               | <b>1,340,167</b>               |
| Interest receivable   | 46   | 12,364                         | 234                            |
| Loan provided to the Group                                    | 47   | 569,195                        | 66,937                         |
| Accounts receivable and prepayments                           | 48   | 9,805                          | 12,160                         |
| Short-term derivatives  | 45   | 34                             | –                              |
| Cash and cash equivalents                                     | 49   | 393,082                        | 30,203                         |
| Restricted cash   | 50   | –                              | 2,771                          |
| <b>Total current assets</b>                                   |      | <b>984,480</b>                 | <b>112,305</b>                 |
| <b>Total assets</b>   |      | <b>2,264,684</b>               | <b>1,452,472</b>               |
| <b>Equity and liabilities</b>                                 |      |                                |                                |
| <b>Shareholders' equity</b>                                   |      |                                |                                |
| Share capital   | 51   | 105,883                        | 105,736                        |
| Share premium   | 52   | 457,269                        | 451,392                        |
| Share-based payments  | 53   | 17,157                         | 13,424                         |
| Retained earnings   | 54   | 136,038                        | 166,872                        |
| Result for the period   | 54   | 445,792                        | 24,698                         |
| <b>Equity attributable to the shareholders of the company</b> |      | <b>1,162,139</b>               | <b>762,122</b>                 |
| <b>Liabilities</b>  |      |                                |                                |
| Bond issued   | 55   | 745,497                        | 260,096                        |
| Long-term loans   | 56   | 89,377                         | 379,402                        |
| Long-term derivatives   | 45   | 8,376                          | 1,145                          |
| Deferred revenue  |      | –                              | 616                            |
| <b>Total non-current liabilities</b>                          |      | <b>843,250</b>                 | <b>641,259</b>                 |
| Short-term liabilities from cash pool                         | 57   | 217,493                        | –                              |
| Short-term part of long-term bank loans                       | 56   | 13,750                         | 10,185                         |
| Interest payable  | 58   | 10,799                         | 5,160                          |
| Short-term derivatives  | 45   | 4,771                          | 2,144                          |
| Accounts payable and accruals                                 | 59   | 12,482                         | 31,602                         |
| <b>Total current liabilities</b>                              |      | <b>259,295</b>                 | <b>49,091</b>                  |
| <b>Total liabilities</b>                                      |      | <b>1,102,545</b>               | <b>690,350</b>                 |
| <b>Total equity and liabilities</b>                           |      | <b>2,264,684</b>               | <b>1,452,472</b>               |

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## Non-consolidated statement of changes in equity prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

|  | Note  | Share capital<br>EUR'000 | Share premium<br>EUR'000 | Share-based payments<br>EUR'000 | Retained earnings<br>EUR'000 | Total<br>EUR'000 |
|--|-------|--------------------------|--------------------------|---------------------------------|------------------------------|------------------|
| 1 January 2010                               |       | 105,736                  | 451,392                  | 13,424                          | 191,570                      | 762,122          |
| Dividends paid                               | 54    | –                        | –                        | –                               | (55,531)                     | (55,531)         |
| Issuance 103,465 shares A re indep directors | 51,52 | 41                       | 959                      | –                               | –                            | 1,000            |
| Shares/options granted to employees          | 53    | –                        | –                        | 8,728                           | –                            | 8,728            |
| Issuance 265,150 shares A re employees       | 51,52 | 106                      | 4,918                    | (4,996)                         | –                            | 28               |
| Comprehensive income for the year            | 54    | –                        | –                        | –                               | 445,792                      | 445,792          |
| <b>31 December 2010</b>                      |       | <b>105,883</b>           | <b>457,269</b>           | <b>17,156</b>                   | <b>581,831</b>               | <b>1,162,139</b> |

|  | Share capital<br>EUR'000 | Share premium<br>EUR'000 | Share-based payments<br>EUR'000 | Retained earnings<br>EUR'000 | Total<br>EUR'000 |
|--|--------------------------|--------------------------|---------------------------------|------------------------------|------------------|
| 1 January 2009                               | 105,736                  | 451,392                  | 13,424                          | 191,570                      | 762,122          |
| Dividends paid                               | –                        | (47,484)                 | –                               | –                            | (47,484)         |
| Issuance 266,490 shares A re indep directors | 107                      | 893                      | –                               | –                            | 1,000            |
| Shares/options granted to employees          | –                        | –                        | 10,075                          | –                            | 10,075           |
| Issuance 264,351 shares A re employees       | 105                      | 4,585                    | (4,688)                         | –                            | 2                |
| Comprehensive income for the year            | –                        | –                        | –                               | 24,698                       | 24,698           |
| <b>31 December 2009</b>                      | <b>105,736</b>           | <b>451,392</b>           | <b>13,424</b>                   | <b>191,570</b>               | <b>762,122</b>   |

## Notes to the non-consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010

### Non-consolidated cash flow statement

|  |      | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--|------|---|---|
|  | Note |   |   |
| <b>Cash flows from operating activities</b>                          |      |   |   |
| Net profit before taxation   |      | 445,792   | 24,698  |
| Adjustments for:   |      |   |   |
| Depreciation   | 38   | 475   | 429   |
| Amortisation costs on long-term loans and bonds                      | 39   | 5,441   | 1,495   |
| Gain on partly redemption bond                                       |      | –   | (1,333)   |
| Gain on disposal of subsidiary                                       | 40   | (17,774)  | –   |
| Dividend income  | 41   | (516,004)   | (85,561)  |
| Interest expense/(revenue), net                                      | 39   | 34,184  | 33,631  |
| Change in fair value of derivatives                                  | 45   | 9,990   | 3,124   |
| Share-based payments   | 53   | 9,754   | 10,429  |
| Unrealised foreign exchange gains on long-term borrowings            |      | –   | 1,472   |
| Unrealised foreign exchange loss on loans received from subsidiaries | 57   | 40  | –   |
| Unrealised foreign exchange loss on loans provided to subsidiaries   | 47   | (5,523)   | 425   |
| Cash flow before working capital changes                             |      | (33,625)  | (11,192)  |
| (Decrease)/Increase accounts payable and accruals                    | 59   | 34,669  | (17,329)  |
| (Increase)/Decrease accounts receivable and prepayments              | 48   | 303   | (25,658)  |
| (Increase)/Decrease in restricted cash                               | 50   | 2,771   | (2,771)   |
| Other non-cash movements   |      | 375   | (45)  |
| Cash generated from operating activities                             |      | 38,118  | (45,802)  |
| <b>Net cash flows from operating activities</b>                      |      | 4,492   | (56,995)  |
| <b>Cash flows from investing activities</b>                          |      |   |   |
| Loan provided to the Group   | 47   | 6,153   | (67,362)  |
| Purchase of tangible fixed assets                                    | 43   | (4,997)   | (448)   |
| Share capital increase in subsidiaries                               | 44   | (104,635)   | (86,679)  |
| Proceeds from sale of subsidiary                                     | 40   | 135,312   | –   |
| Prepayment for long-term investments                                 | 48   | (792)   | –   |
| Interest received  | 46   | 10,018  | 3,897   |
| Dividends received   | 41   | 17,678  | 85,561  |
| <b>Net cash flow from investing activities</b>                       |      | 58,737  | (65,031)  |
| <b>Cash flows from financing activities:</b>                         |      |   |   |
| Proceeds from issued shares  | 51   | 3   | 3   |
| Dividends paid   | 52   | (55,531)  | (47,484)  |
| Interest paid  | 58   | (50,722)  | (37,629)  |
| Proceeds from bonds issue  | 55   | 500,000   | –   |
| Transaction costs related to issued bonds                            | 55   | (16,797)  | –   |
| Bond redemption  |      | –   | (30,165)  |
| Proceeds from long-term borrowings                                   | 56   | 27,966  | 92,521  |
| Repayments of ECA loan   | 56   | (13,639)  | –   |
| Repayments of syndicated loan  | 55   | (304,031)   | –   |
| Increase of cash pool liabilities                                    | 57   | 217,453   | –   |
| <b>Net cash flow from financing activities</b>                       |      | 304,702   | (22,753)  |
| Net increase in cash and cash equivalents                            |      | 367,932   | (144,779)   |
| Effect of exchange rate fluctuations on cash held                    |      | (5,053)   | (38)  |
| Cash and Cash Equivalents at the beginning of year                   |      | 30,203  | 175,020   |
| <b>Cash and Cash Equivalents at the end of year</b>                  | 49   | 393,082   | 30,203  |

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### 35. General information

#### a) Corporate information

New World Resources N.V. (the 'Company', 'NWR') is a public limited liability company with its registered seat at Jachthavenweg 109h, 1081 KM Amsterdam.

#### b) Statement of compliance

The non-consolidated financial statements have been prepared in accordance with IAS 27 Consolidated and Separate Financial Statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The non-consolidated financial statements also comply with the requirements of Book 2 Title 9 of the Netherlands' Civil Code.

#### c) Basis of preparation

The non-consolidated 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 preparation of financial statements in conformity with IFRS 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.

These non-consolidated financial statements were approved by the Board of Directors and authorised for issue effective on 14 March 2011.

### 36. Summary of significant accounting policies

The financial statements include the accounts of New World Resources N.V.

The investments in subsidiaries are stated at historic cost.

The carrying amounts of the Company's assets, excluding inventories (see Note 2 of the consolidated report, accounting policy j) and deferred tax assets (see Note 2 of the consolidated report, accounting policy u), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Please see Note 2 Summary of significant accounting policies of the consolidated report for the summary of other significant accounting policies and for the effect of new standards and interpretations on the financial statements of the Company.

### 37. Operating revenue

|                                       | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---------------------------------------|---|---|
| Service fee OKD                       | 600   | 600   |
| Service fee AWT                       | –   | 68  |
| Service fee BXR REI                   | 29  | 22  |
| Operational lease of equipment to OKD | 335   | 75  |
| Office rent (sub-lease)               | 106   | 23  |
| Other operating revenue               | 28  | 498   |
|                                       | <b>1,098</b>  | <b>1,286</b>  |

The Company has entered into agreements with related parties OKD, a.s. ('OKD') and BXR Real Estate Investments B.V. ('BXR REI') for the providing of advisory and holding services. A similar agreement with Advanced World Transport B.V. ('AWT') had been discontinued per the end of 2009.

Operational lease of equipment refers to revenues from the lease of mining equipment by the Company to OKD. The lessee OKD uses the equipment in regular mining operations.

Office rent relates to revenues from sub-leasing part of the Company's office space to third parties.

Other operating revenue in 2009 concerns the re-invoicing of technical services provided by a third party to OKD.



## Notes to the non-consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 38. Operating expenses

|                                    | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|------------------------------------|---|---|
| Personnel expenses                 | 3,969   | 4,115   |
| Share-based payments               | 9,754   | 10,429  |
| Legal fees                         | 4,056   | 2,210   |
| Audit fees                         | 853   | 1,121   |
| Advisory fees                      | 4,036   | 3,829   |
| Service expenses other             | 798   | 939   |
| Consumption of material and energy | 67  | 95  |
| Depreciation                       | 475   | 429   |
| Donation                           | 283   | 428   |
| Other operating expenses           | 117   | 113   |
|                                    | <b>24,408</b>   | <b>23,708</b>   |

Share based payments refer to shares granted to independent directors and options granted to certain employees. The granting procedure includes a vesting period in which certain operational and/or financial targets need to be achieved for shares or options actually to be provided to independent directors and employees. In 2009 one tranche of granted and vested options has been exercised. Total costs for this tranche were EUR 4,688 thousand, of which EUR 3,102 thousand was recognised in 2009. Additionally accrued expenses during 2009 for share-based payments were EUR 6,974 thousand. Share-based payments include also EUR 353 thousand relating to shares granted to the Independent Directors.

In 2010 one additional tranche of granted and vested options was exercised. Total costs for this tranche were EUR 5,022 thousand, of which EUR 1,663 thousand was recognised in 2010. Additionally accrued expenses during 2010 for share-based payments were EUR 7,091 thousand. Share-based payments include also EUR 1,000 thousand relating to shares granted to the Independent Directors. See Note 29 for additional information on share based payments.

In 2009 the Company employed an average of 21 employees. During the year 2010 the Company also employed an average of 21 employees.

### 39. Financial result

|                                    | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|------------------------------------|---|---|
| Interest income                    | 22,055  | 3,815   |
| Interest expense                   | (56,239)  | (37,447)  |
| Unrealised derivatives income      | 1,108   | 165   |
| Unrealised derivatives expense     | (11,097)  | (3,289)   |
| Realised derivatives income        | 5,622   | 4,096   |
| Realised derivatives expense       | (4,124)   | (2)   |
| Guarantee fee income               | 281   | 858   |
| Guarantee fee expense              | (2,645)   | (2,899)   |
| Amortisation costs bond issue      | (2,198)   | (1,168)   |
| Bond redemption gain               | –   | 1,333   |
| Amortisation costs ECA loan        | (2,223)   | –   |
| Amortisation costs syndicated loan | (1,020)   | (327)   |
| Bank charges                       | (13,170)  | (1,311)   |
| Currency exchange result           | (1,027)   | (2,265)   |
|                                    | <b>(64,677)</b>                                       | <b>(38,441)</b>                                       |

### 40. Disposal of subsidiary

On 21 June 2010 the Company sold its subsidiary NWR Energy a.s., together with its two subsidiaries, CZECH-KARBON s.r.o. and NWR ENERGETYKA PL Sp. z o.o. Please refer to the Note 1e) on notes to consolidated financial statements. On standalone basis the Company realised a gain of EUR 17,774 thousands.

|                          | EUR'000       |
|--------------------------|---------------|
| Selling price            | 138,518       |
| Associated selling costs | (3,845)       |
| Cost of investment       | (116,899)     |
| <b>Gain on disposal</b>  | <b>17,774</b> |

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#### 41. Dividend income from subsidiaries

|                    | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|--------------------|---|---|
| OKD, a.s.          | 502,887   | 38,226  |
| OKK Koksovny, a.s. | –   | 28,180  |
| NWR Energy, a.s.   | 13,117  | 19,155  |
|                    | <b>516,004</b>  | <b>85,561</b>   |

On 12 July 2010 the Company as the sole shareholder of OKD decided to convert the dividend receivable from OKD into an intercompany loan.

#### 42. Non-consolidated income tax expense

Due to the fact that the Company suffered a taxable loss during the period 1 January 2010 until 31 December 2010, no corporate income tax is due.

|                            | EUR'000        |
|----------------------------|----------------|
| <b>Tax loss from years</b> |                |
| 2005                       | 145            |
| 2006                       | 196            |
| 2007                       | 40,036         |
| 2008                       | 55,133         |
| 2009                       | 48,306         |
| 2010                       | 78,480         |
| <b>Taxable loss 2010</b>   | <b>222,296</b> |

The reconciliation between net profit before taxation as at 31 December 2010 and tax loss as at 31 December 2010 can be detailed as follows:

|  | EUR'000         |
|--|-----------------|
| <b>Net profit before taxation 2010</b>   | 445,792         |
| Non-taxable dividend income subsidiaries                                       | (533,778)       |
| Non-deductible costs related to stock options and charges granted to employees | 9,754           |
| Non-deductible donations   | 283             |
| Linear amortisation bond issue costs   | (586)           |
| Non-deductible mixed costs   | 55              |
| <b>Taxable loss 2010</b>   | <b>(78,480)</b> |

#### 43. Property, plant and equipment

|  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|--|--------------------------------|--------------------------------|
| As of 1 January                        | 340                            | 12,825                         |
| Additions                              | 6,138                          | 238                            |
| Additions of assets under construction | –                              | (3,265)                        |
| Contributed POP 2010 equipment         | (5,794)                        | (9,912)                        |
| Depreciation charge for the year       | (475)                          | 454                            |
| <b>As of 31 December</b>               | <b>209</b>                     | <b>340</b>                     |

The amounts presented for 2010 relate primarily to mining equipment which the Company owned and had leased through an operational lease to OKD. The mentioned equipment is delivered by the manufacturers Sandvik. Per 11 November 2010 the mining equipment referred to was contributed to OKD.

Per 31 December 2010 tangible fixed assets consist of various electronic office equipment and office furniture.

## Notes to the non-consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 44. Investments in subsidiaries

The investments in subsidiaries can be detailed as follows:

|  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|--|--------------------------------|--------------------------------|
| OKD, a.s. (100 per cent)               | 1,182,419                      | 1,125,187                      |
| OKK Koksovny, a.s. (100 per cent)      | 71,916                         | 71,916                         |
| KARBONIA, PL Sp. z o.o. (100 per cent) | 25,660                         | 25,660                         |
| NWR Energy, a.s. (100 per cent)        | –                              | 116,899                        |
|  | 1,279,995                      | 1,339,662                      |

As of 31 December 2010, the shares of OKD, OKK Koksovny and NWR KARBONIA are pledged in favour of Citibank Europe plc, organizační složka, Czech Republic.

The movements in the investment in OKD can be detailed as follows:

|   | EUR'000          |
|---|------------------|
| As of 1 January 2010                                      | 1,125,187        |
| Contribution of equipment contracts as of 29 March 2010   | 15,642           |
| Contribution of equipment contracts as of 24 May 2010     | 35,797           |
| Contribution of equipment contracts as of 1 November 2010 | 5,793            |
| <b>As of 31 December 2010</b>                             | <b>1,182,419</b> |

During the first half of 2010 the investment in OKD increased in two steps. The first step was completed on 29 March 2010 through the contribution of the POP 2010 Phase IV purchase contracts between the Company and Sandvik and the POP 2010 Phase III purchase contract between the Company and Deilmann-Haniel Mining Systems. Additionally, a testing contract between the Company and Eickhoff was contributed.

The second step was carried out on 24 May 2010 by the contribution of the amended and added part of the POP 2010 Phase II purchase contract between the Company and Bucyrus. The Company contributed all rights and obligations under the contracts other than the obligation to pay all the components of the purchase price and the obligations directly related to such obligation to pay the purchase price. The value of the contributions was determined by an independent expert's valuation. The Company contributed also a testing contract signed with RAG.

In the second half of 2010 a third contribution was executed. On 1 November 2010 the Company increased its investment in OKD furthermore by contributing the POP 2010 Phase III purchase contract with Sandvik to its subsidiary OKD.

The movements in the investment in NWR Energy, a.s. can be detailed as follows:

|                               | EUR'000   |
|-------------------------------|-----------|
| As of 1 January 2010          | 116,899   |
| Disposal of NWR Energy a.s.   | (116,899) |
| <b>As of 31 December 2010</b> | <b>–</b>  |

Please see Note 40 for more detail.

#### 45. Financial instruments

The following derivative financial instruments were entered into to mitigate the risk associated with foreign currency exchange rate exposure and interest rate risk:

|  | 31 December 2010  |                        | 31 December 2009  |                        |
|--|-------------------|------------------------|-------------------|------------------------|
|  | Assets<br>EUR'000 | Liabilities<br>EUR'000 | Assets<br>EUR'000 | Liabilities<br>EUR'000 |
| Fair value of derivative instruments       |                   |                        |                   |                        |
| Forward foreign exchange contracts CZK–EUR | 34                | 1,206                  | –                 | 346                    |
| Interest rates swap contracts              | –                 | 11,940                 | 165               | 2,943                  |
|  | 34                | 13,146                 | 165               | 3,289                  |

|   | Short-term        |                        | Long-term         |                        |
|---|-------------------|------------------------|-------------------|------------------------|
|   | Assets<br>EUR'000 | Liabilities<br>EUR'000 | Assets<br>EUR'000 | Liabilities<br>EUR'000 |
| Short-term and long-term part fair value of derivative instruments per 31 December 2010 |                   |                        |                   |                        |
| Forward foreign exchange contracts CZK–EUR  | 34                | 1,206                  | –                 | –                      |
| Interest rates swap contracts   | –                 | 3,564                  | –                 | 8,376                  |
|   | 34                | 4,770                  | –                 | 8,376                  |

|   | Short-term        |                        | Long-term         |                        |
|---|-------------------|------------------------|-------------------|------------------------|
|   | Assets<br>EUR'000 | Liabilities<br>EUR'000 | Assets<br>EUR'000 | Liabilities<br>EUR'000 |
| Short-term and long-term part fair value of derivative instruments per 31 December 2009 |                   |                        |                   |                        |
| Forward foreign exchange contracts CZK–EUR  | –                 | 346                    | 165               | –                      |
| Interest rates swap contracts   | –                 | 1,798                  | –                 | 1,145                  |
|   | –                 | 2,144                  | 165               | 1,145                  |

#### 46. Interest receivable

The shown amount for interest receivable of EUR 12,364 thousand relates primarily to the intercompany loan provided to OKD. Per 31 December 2010 the Company recognised EUR 11,794 of interest receivable from OKD.

Additionally, the interest receivable relates to cash pool accounts and short-term deposits held with Citibank, Van Lanschot Bankiers, Fortis BNP Paribas, HSBC and Commerzbank as at 31 December 2010.

#### 47. Loan provided to the Group

Per 7 January 2010 the Company amended the Intercompany Revolving Credit Agreement and agreed to lend and advance to its subsidiary OKK Koksovny a principal amount of approximately EUR 143,649 thousand<sup>1</sup> (CZK 3,600,000 thousand) and EUR 8,000 thousand. Per 31 December 2010 the drawn amount by OKK Koksovny was approximately EUR 98,160 thousand<sup>1</sup> (CZK 2,460,000 thousand).

|                                       | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---------------------------------------|--------------------------------|--------------------------------|
| OKK Koksovny                          |                                |                                |
| <b>Balance at the end of the year</b> | <b>98,160</b>                  | 66,938                         |

The Company and its subsidiary OKK Koksovny agreed that approximately EUR 29,847 thousand<sup>1</sup> (CZK 748,000 thousand) of funds provided to OKK through the Intercompany Revolving Credit Agreement will be contributed to OKK Koksovny in exchange for shares. This agreement will take effect per 1 January 2011.

On 12 July 2010 the Company entered into a loan agreement with OKD whereby the Company provided a loan of approximately EUR 505,528 thousand (CZK 12,802,500 thousand). With the signing of the loan agreement the Company agreed to offset the dividend receivable from OKD with a loan receivable from OKD. See also Note 41.

|                                       | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---------------------------------------|--------------------------------|--------------------------------|
| OKD                                   |                                |                                |
| <b>Balance at the end of the year</b> | <b>469,291</b>                 | –                              |

1 Calculated with exchange rate as per 31 December 2010.

Next to the intercompany loans provided by the Company to OKD and OKK Koksovny, per 31 December there is also EUR 1,743 thousand of cash pool receivables outstanding from funds provided to OKD HBZS. See also Note 57 for more information about the cash pool.

|                              | 31 December<br>2010<br>EUR'000 |
|------------------------------|--------------------------------|
| OKD, HBZS                    |                                |
| <b>Cash pool receivables</b> |                                |
| OKD, HBZS                    | 1,743                          |
|                              | 1,743                          |

## Notes to the non-consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 48. Accounts receivable and prepayments

The accounts receivable and prepayments can be detailed as follows:

|                                       | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---------------------------------------|--------------------------------|--------------------------------|
| Prepayments for tangible fixed assets | 4,653                          | 7,520                          |
| Prepayments for long-term investments | 2,873                          | 1,964                          |
| Guarantee fee and rent prepaid        | 1,338                          | 671                            |
| Advisory fee receivable               | 180                            | 310                            |
| Other receivables                     | 305                            | 853                            |
| Other prepaid expenses                | 456                            | 842                            |
|                                       | <b>9,805</b>                   | <b>12,160</b>                  |

Prepayments for tangible fixed assets refer to amounts paid to Bucyrus for mining equipment which was not delivered per 31 December 2010. Prepayments for long-term investments refer to payments to Provide, s.r.o. in anticipation of a future increase on the ownership in this entity.

The amount stated as guarantee fee prepaid relates to payments made by the Company to OKD, OKK Koksovný and KARBONIA, PL Sp. z o.o. for being loan guarantors, and guarantee payments made to office and apartment rental agencies.

Other prepaid expenses relate to prepayments for Company Directors' and officers' legal liability insurances.

### 49. Cash and cash equivalents

Cash and cash equivalents relate to several bank accounts with Bank Mendes Gans in the Netherlands (EUR, CZK, PLN and GBP account), Deutsche Bank in the Netherlands (EUR, CZK and GBP account) and cash in hand. Besides the current accounts at the mentioned banks the Company had three outstanding deposits per 31 December 2010. These were held at Citibank in the Czech Republic, Fortis BNP Paribas in the Czech Republic, HSBC in the Czech Republic, Commerzbank in the Czech Republic and Van Lanschot Bankiers in the Netherlands. The fair value of cash and cash equivalents is equal to the carrying value.

### 50. Restricted cash

Short-term restricted cash recognised by the Company as of 31 December 2009 results from guarantee terms related to POP 2010 supplies. In February 2010 the Company had transferred restricted funds to the Deilmann-Haniel Mining Systems resulting in the expiration of the guarantee.

### 51. Share capital

The following movements in issued share capital occurred during 2010:

- > On 21 May 2010, the Company issued 103,465 A shares to be granted to its Independent Directors. This issue of shares resulted in a share capital increase of EUR 41 thousand.
- > On 3 December 2010, the Company issued 265,150 A shares to be granted to one of its Executive Directors. This resulted in a share capital increase of EUR 106 thousand.

As of 31 December 2010 the issued capital consists of 264,698,715 ordinary A shares of EUR 0.40 each, and 10,000 B shares of EUR 0.40 each.

For further disclosure on the dividend reserves A and B, reference is made to Note 25 to the consolidated financial statements.

In the following table the calculation of the earnings per share is shown:

|   | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---|---|---|
| Total net profit after tax from continuing operations                 | 445,792   | 24,698  |
| Total net profit after tax from discontinued operations               | –   | –   |
| Total net profit after tax  | 445,792   | 24,698  |
| Weighted average number of shares outstanding during the year         | 264,413,937   | 264,044,650   |
| Basic earnings per A share (EUR/share)                                | 1.69  | 0.09  |
| Diluted earnings per A share (EUR/share)                              | 1.67  | 0.09  |
| Basic earnings per A share from continuing operations (EUR/share)     | 1.69  | 0.09  |
| Diluted earnings per A share from continuing operations (EUR/share)   | 1.67  | 0.09  |
| Basic earnings per A share from discontinued operations (EUR/share)   | –   | –   |
| Diluted earnings per A share from discontinued operations (EUR/share) | –   | –   |
| Basic earnings per B share (EUR/share)                                | –   | –   |
| Diluted earnings per B share (EUR/share)                              | –   | –   |

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## 52. Share premium

The movements in the share premium can be detailed as follows:

|   | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---|---|---|
| <b>Balance at the beginning of the year</b> | <b>451,392</b>  | 493,398   |
| Dividend paid                               | –   | (47,484)  |
| Share premium of newly issued shares        | <b>5,877</b>  | 5,478   |
| <b>Balance at the end of the year</b>       | <b>457,269</b>  | 451,392   |

On 21 May 2010 and on 3 December 2010 new shares were issued for certain Directors' remuneration plans resulting in an increase of the share premium.

## 53. Share-based payments

The share-based payments are presented in the balance sheet of the Company as follows:

|   | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---|---|---|
| <b>Equity-settled</b>                         |   |   |
| Opening balance                               | <b>13,424</b>   | 8,037   |
| Stock options – general                       | <b>3,921</b>  | 1,694   |
| Stock options – Executive Directors           | <b>(188)</b>  | 3,693   |
| <b>Closing balance</b>                        | <b>17,157</b>   | 13,424  |
| <b>Cash-settled</b>                           |   |   |
| Opening balance                               | –   | 647   |
| Accrued expenses shares independent directors | <b>1,000</b>  | 353   |
| Shares granted Independent Directors          | <b>(1,000)</b>  | (1,000)   |
| <b>Closing balance</b>                        | –   | –   |

On 9 May 2008, five Independent Directors of the Company were granted with shares in the value of EUR 200 thousand for each Director with execution date 10 May 2010. The expense for this remuneration, EUR 1,000 thousand in 2010 is reflected in personnel expenses from share-based payments and in the equity split between share capital and share premium per the issue date of the shares of 21 May 2010.

Under the NWR Stock Option Plan for Executive Directors a number of options equal to 0.5 per cent of the issued shares of the Company was granted to Mr. Mike Salamon. According to the employment agreement, Mr. Mike Salamon shall be vested with 0.1 per cent of the issued A shares at each anniversary of his employment for the period of five years. On 1 September 2010, the third tranche amounting to 265,150 options vested.

These options were exercised on 3 December 2010. The total cost (based on the Black & Scholes calculation) incurred by the Company for the third tranche of options was EUR 4,996 thousand, of which EUR 1,663 thousand was recognised in 2010. During 2010 an additional amount of EUR 2,907 thousand was accrued for the future tranches of granted options. The vesting and exercise of the third tranche resulted in a decrease of the share-based payments equity account balance of EUR 3,095 thousand. Since this amount exceeded the increase due to accrued expenses of future tranches of EUR 2,907 thousand, the share-based payments equity balance decreased with EUR 188 thousand in 2010.

In March 2010, the Company granted under the NWR IPO Share Option Plan certain stock options to its employees and to the employees of other entities controlled by the Company. These granted stock options have characteristics similar to the stock options granted in May 2008 and June 2009. The options have a vesting period of three years from the grant date. The vesting conditions include a service condition of three years and performance conditions, including production volume, costs and EBITDA. No market conditions are applicable. In accordance with IFRS2 the Company determined the fair value of the stock option at the grant date (17 March 2010). At each subsequent date IFRS requires to determine the costs for a stock option plan as the product of the grant date fair value of an option, the current best estimate of the number of awards that will vest and the expired portion of the vesting period. The personnel expense impact and the appropriate impact on equity are calculated accordingly. As of 31 December 2010 the related amount is EUR 3,921 thousand, consisting out of EUR 1,014 thousand for the options granted in 2008, EUR 1,336 thousand for the options granted in 2009 and EUR 1,571 thousand for the options granted in 2010.



## Notes to the non-consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 54. Retained earnings

|                               | EUR'000        |
|-------------------------------|----------------|
| As of 1 January 2010          | 191,570        |
| Dividends paid                | (55,531)       |
| Profit for the year           | 445,792        |
| <b>As of 31 December 2010</b> | <b>581,381</b> |

### Reconciliation of non-consolidated shareholders' equity to Consolidated shareholders' equity as of 31 December 2010

|  | EUR'000   |
|--|-----------|
| Shareholder's equity on the non-consolidated balance sheet as of 31 December 2010  | 1,162,139 |
| Shareholder's equity on the consolidated balance sheet as of 31 December 2010      | 809,395   |
| Difference due to valuation of investments in subsidiaries using the equity method | 352,744   |

### Reconciliation of non-consolidated shareholders' profit to Consolidated shareholders' profit for the year ended 31 December 2010

|   | EUR'000   |
|---|-----------|
| Shareholder's profit on the non-consolidated income statement for the year ended 31 December 2010             | 445,792   |
| Net profit of subsidiaries after adjustments for transactions between subsidiaries                            | 248,639   |
| Dividends received by the Company from subsidiaries   | (516,004) |
| Capitalization of interest for consolidation  | 216       |
| Reclassification of revaluation of foreign exchange rate derivatives to hedging reserve on consolidated level | 827       |
| Elimination of foreign exchange gains and losses between the Company and its subsidiaries                     | (12,818)  |
| Gain on disposal of subsidiary  | 54,617    |
| Profit from discontinued operations   | 12,045    |
| Shareholder's profit on the consolidated income statement for the year ended 31 December 2010                 | 233,314   |

### 55. Bonds issued

The movements in the issued high-yield bonds can be detailed as follows:

|                             | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|-----------------------------|---|---|
| <b>Opening Balance</b>      | <b>260,096</b>  | 290,425   |
| Bond issued (nominal value) | 500,000   | –   |
| Issue costs (book value)    | (16,797)  | –   |
| Value redeemed part of bond | –   | (32,435)  |
| Amortisation issue costs    | 2,198   | 2,106   |
| <b>Closing Balance</b>      | <b>745,497</b>  | 260,096   |

On 27 April 2010 the Company issued a new EUR 475 million Senior Secured Notes due 2018 on Global Exchange Market of the Irish Stock Exchange. During the bond issue the Company incurred issue related expenses for the amount of EUR 16,797 thousand.

On 18 May 2010, the Company 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.

During 2010 an amount of EUR 2,198 thousand of bond issue costs was amortised.

### 56. Long-term loans

At the beginning of 2010 the long-term bank loans included the syndicated loan and the ECA loan.

The syndicated loan was repaid in full on 27 April 2010, together with the proceeds of the bond issued on the same date and own cash.

|  | Currency | Effective interest rate | Maturity  | 31 December<br>2010<br>EUR'000 |
|--|----------|-------------------------|-----------|--------------------------------|
| ECA loan   | EUR      | EURIBOR+1.65%           | 2010–2018 | 103,127                        |
| Of which current portion                                 |          |                         |           | 13,750                         |
| <b>Total long-term portion of interest-bearing loans</b> |          |                         |           | <b>89,377</b>                  |

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## 56. Long-term loans continued

The ECA loan is an EUR 141 million nine year loan facility guaranteed by Euler Hermes, the export credit agency ('ECA') of the Federal Republic of Germany. The facility serves to finance the acquisition of five new longwall sets under the second stage of POP 2010. The EUR 141 million loan is being provided by mandated lead arrangers: Ceska sporitelna (Erste Bank Group), Ceskoslovenska obchodni banka (KBC Group), KBC Bank Deutschland AG and Natixis. KBC Bank Deutschland AG acts as the Hermes Agent, Natixis is the Facility Agent and Documentation Agent. The loan finances 85 per cent of the net purchase price of the longwall sets and the related ECA premium. The facility's availability period ended in June 2010 until which date NWR drew a total amount of EUR 120,488 thousand. NWR will repay the full facility in 17 semi-annual linear instalments. Per 31 December 2010 the Company repaid EUR 13,639 thousands of the drawn funds. Including the amortisation of related costs (based on the effective interest rate method) the balance per 31 December 2010 equals EUR 103,127 thousands.

The Company is required under the ECA loan agreement to hold a gearing ratio of total net debt to EBITDA below or equal to 3.25. The Company is also required under the ECA loan agreement to hold a fixed cover ratio (EBITDA to net interest expense) equal to or above 3.5. The Group is in compliance with these covenants.

## 57. Short-term liabilities from cash pool

The Company operates with its subsidiaries a zero-balance group cash pool arrangement at Bank Mendes Gans. The funds are denominated in the following currencies: EUR, CZK and PLN. Per 31 December 2010 the Company had a cash pool liability balance of EUR 217,493 thousand.

|                              | 31 December<br>2010<br>EUR'000 |
|------------------------------|--------------------------------|
| <b>Cash pool liabilities</b> |                                |
| OKD                          | 195,887                        |
| OKK                          | 38                             |
| KARBONIA PL Sp. z o.o.       | 21,568                         |
|                              | <b>217,493</b>                 |

## 58. Interest payable

The interest payable can be detailed as follows:

|                                       | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---------------------------------------|--------------------------------|--------------------------------|
| Interest payable on bonds issued      | 9,029                          | 2,467                          |
| Interest payable on syndicated loan   | –                              | 1,095                          |
| Interest payable on ECA loan          | 1,526                          | 1,321                          |
| Interest payable on bank overdraft    | 139                            | 277                            |
| Interest payable on letters of credit | 105                            | –                              |
|                                       | <b>10,799</b>                  | <b>5,160</b>                   |

## 59. Accounts payable and accruals

The accrued expenses and accounts payable can be detailed as follows:

|  | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|--|--------------------------------|--------------------------------|
| Creditors  | 6,032                          | 15,120                         |
| Liabilities from subscribed unpaid stock                       | 30                             | 14,560                         |
| Accrual for advisory fees                                      | 2,982                          | 643                            |
| Accrual for discount in selling price (disposal of subsidiary) | 638                            | –                              |
| Personnel expenses payable                                     | 368                            | 282                            |
| Guarantee fee received prepayment                              | –                              | 98                             |
| Guarantee fee expenses not yet invoiced                        | 187                            | 164                            |
| Wage tax payable   | 907                            | 552                            |
| Dutch VAT payable  | –                              | 156                            |
| Czech VAT payable  | 1,159                          | –                              |
| Deffered revenue   | 67                             | –                              |
| Other accounts payable   | 112                            | 25                             |
|  | <b>12,482</b>                  | <b>31,600</b>                  |

Per 31 December 2010 the Company had a tax payable to the Czech Tax Authorities resulting from a contributed mining equipment contract to its subsidiary OKD.

## Notes to the non-consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 60. Related party transactions

Related parties of the Company are, next to consolidated subsidiaries and key management personnel, for example the following companies:

- > BXR Real Estate Investments B.V.
- > BXR Mining B.V.
- > Advanced World Transport B.V.
- > BXR Partners, a.s.
- > BXL Consulting

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. Transactions with related parties in the balance sheet and income statement are as follows (in thousand EUR):

|                                       | 31 December<br>2010<br>EUR'000 | 31 December<br>2009<br>EUR'000 |
|---------------------------------------|--------------------------------|--------------------------------|
| Balance sheet                         |                                |                                |
| <b>Investments in related parties</b> |                                |                                |
| OKD, a.s.                             | 1,182,419                      | 1,125,187                      |
| OKK Koksovny, a.s.                    | 71,916                         | 71,916                         |
| KARBONIA PL Sp. z o.o.                | 25,660                         | 25,660                         |
| NWR Energy, a.s. <sup>1</sup>         | –                              | 116,899                        |
|                                       | <b>1,279,995</b>               | <b>1,339,662</b>               |

1 After disposal of NWR Energy this company is no longer a related party.

#### Receivables from related parties

|                                  |            |            |
|----------------------------------|------------|------------|
| OKD, a.s.                        | 150        | 100        |
| BXR Real Estate Investments B.V. | 7          | 2          |
| Advanced World Transport B.V.    | 14         | –          |
|                                  | <b>171</b> | <b>102</b> |

#### Payables to related parties

|                                     |                |           |
|-------------------------------------|----------------|-----------|
| OKD, a.s. <sup>1</sup>              | 195,888        | 1         |
| OKK Kokosovny, a.s. <sup>1</sup>    | 1,206          | –         |
| KARBONIA PL Sp. z o.o. <sup>1</sup> | 21,568         | –         |
| Economia, a.s.                      | 7              | –         |
| Respekt Publishing a.s.             | 4              | –         |
| BXL Consulting                      | 50             | 25        |
|                                     | <b>218,723</b> | <b>26</b> |

1 Including cash pooling.

#### Loans to related parties

|                              |                |               |
|------------------------------|----------------|---------------|
| OKD, a.s.                    | 469,291        | –             |
| OKK Koksovny, a.s.           | 98,160         | 66,938        |
| OKD, HBZS, a.s. <sup>1</sup> | 1,743          | –             |
|                              | <b>569,194</b> | <b>66,938</b> |

1 Including cash pooling.

For an explanatory note of the investments in related parties please see Note 44.

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## 60. Related party transactions continued

| Income statement                                | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---|---|---|
| <b>Operating income from related parties</b>    |   |   |
| OKD, a.s.                                       | 935   | 1,174   |
| BXR Real Estate Investments B.V.                | 37  | 22  |
| Advanced World Transport B.V.                   | 10  | 68  |
| Green Gas International B.V.                    | 13  | –   |
|   | <b>995</b>  | <b>1,264</b>  |
| <b>Operating expenses to related parties</b>    |   |   |
| OKD, a.s.                                       | (10)  | (2,104)   |
| BXR Partners, a.s.                              | (3,824)   | (453)   |
| Economia, a.s.                                  | (37)  | –   |
| Respekt Publishing, a.s.                        | (19)  | –   |
| Milan Jelinek                                   | –   | (457)   |
| BXL Consulting                                  | (300)   | (300)   |
| American Metals & Coal International, Inc.      | –   | (249)   |
|   | <b>(4,190)</b>  | <b>(3,563)</b>  |
| <b>Financial revenues from related parties</b>  |   |   |
| Guarantee fee from OKD, a.s.                    | 281   | 915   |
| Interest from loan to OKD, a.s.                 | 14,662  | –   |
| Interest from loan to OKK Koksovny, a.s.        | 4,804   | 1,339   |
| Interest from cash pool loan to OKD, HBZS, a.s. | 21  | –   |
|   | <b>19,768</b>   | <b>2,254</b>  |
| <b>Financial expenses to related parties</b>    |   |   |
| Guarantee fee to OKD, a.s.                      | (2,214)   | (2,054)   |
| Guarantee fee to OKK Koksovny, a.s.             | (64)  | –   |
| Guarantee fee to KARBONIA PL Sp. z o.o.         | (32)  | –   |
| Guarantee fee to NWR Energy, a.s.               | (283)   | (767)   |
| Guarantee fee to CZECH-KARBON s.r.o.            | (35)  | –   |
| Guarantee fee to NWR ENERGETYKA PL Sp. z o.o.   | (12)  | (24)  |
|   | <b>(2,640)</b>  | <b>(2,845)</b>  |
| <b>Dividend income subsidiaries</b>             |   |   |
| OKD, a.s.                                       | 502,887   | 38,226  |
| OKK Koksovny, a.s.                              | –   | 28,180  |
| NWR Energy, a.s.                                | 13,117  | 19,155  |
|   | <b>516,004</b>  | <b>85,561</b>   |

There were no other significant transactions with related parties.

## 61. Directors' remuneration

The emoluments as intended in Section 2:383(1) of the Netherlands Civil Code, which were charged in the financial year to the Company, amounted to EUR 7,789 thousand (full year 2009: EUR 10,692 thousand) for Directors and former Directors of the Company.

The Company granted to Mr. Mike Salamon 265,150 options on shares of the Company at the third anniversary (in 2010) of his employment with the Company. The total cost for these options regarding the third anniversary equals EUR 5,022 thousand. The Company also committed to grant this Executive Director a similar amount of options for each full year of employment in subsequent years, with a maximum of two subsequent years. This agreement will enable the Executive Director to acquire up to a maximum of 0.5 per cent of the Company's outstanding share capital. Per the end of 2010 the cost related to the options granted for the subsequent two years of employment with the Company were EUR 6,517 thousand.

The Company granted also options to other Directors and management personnel. Per the end of 2010 these granted options, consisting out of three tranches, had a total cost of EUR 3,921 thousand.

On 21 May 2010, five Independent Directors of the Company were granted shares. The 103,465 shares vested in 2009 have a value of EUR 1,000 thousand.

Please see Note 53 'Share-based payments' and the Remuneration Report of the 2010 Annual Report for additional information about the Directors' remuneration.

## Notes to the non-consolidated financial statements prepared in accordance with IFRS as adopted by the European Union For the year ended 31 December 2010 continued

### 62. Risk analysis

#### Foreign exchange rate risk

The Company is exposed to currency exchange rate risks. As at 31 December 2010 the Company had cash balances, long-term and short-term receivables and liabilities in non-EUR currencies, as shown in table below. Outstanding non-EUR invoices, short-term receivables and payables per 31 December 2010, combined, resulted in a net receivable of EUR 1,565 thousand.

|   |     | Non-EUR<br>balance<br>31 December<br>2010<br>Non-EUR'000 | EUR balance<br>31 December<br>2010<br>EUR'000 | Impact on<br>balances as of<br>31 December<br>2010<br>EUR'000 | Non-EUR<br>balance<br>31 December<br>2009<br>Non-EUR'000 | EUR balance<br>31 December<br>2009<br>EUR'000 | Impact on<br>balances<br>as of<br>31 December<br>2009<br>EUR'000 |
|---|-----|--|---|---|--|---|--|
| Cash  | CZK | (2,661,979)  | (106,220)                                     | (5,665)   | (60,754)   | (2,295)                                       | (34)   |
|   | PLN | 85,445   | 21,495  | 678   | (178)  | (43)  | (1)  |
|   | GBP | 303  | 352   | 11  | (41)   | (46)  | (3)  |
|   |     |  | (84,373)                                      | (4,976)   |  | (2,385)                                       | (38)   |
| Long-term receivables                         | CZK | 1,299,150  | 51,840  | 2,765   |  | –   | –  |
|   | PLN | –  | –   | –   |  | –   | –  |
|   | GBP | –  | –   | –   |  | –   | –  |
|   |     |  | 51,840  | –   |  | –   | –  |
| Long-term liabilities                         | CZK | –  | –   | –   | (2,604,431)  | (98,381)                                      | (1,472)  |
|   | PLN | –  | –   | –   | –  | –   | –  |
|   | GBP | –  | –   | –   | –  | –   | –  |
|   |     |  | –   | –   |  | (98,381)                                      | (1,472)  |
| Invoices, short-term receivables and payables | CZK | 580,735  | 23,173  | 1,236   | (500,932)  | (18,922)                                      | (283)  |
|   | PLN | (85,560)   | (21,525)                                      | (679)   | 28   | 7   | –  |
|   | GBP | (72)   | (83)  | (3)   | (1)  | (1)   | –  |
|   |     |  | 1,565   | 554   |  | (18,916)                                      | (283)  |
| <b>Total</b>                                  |     |  | (30,968)                                      | (1,657)   |  | (119,682)                                     | (1,793)  |

The foreign exchange rate fluctuation during 2010 based on the total net currency exposure per 31 December 2010 of CZK 782,093 thousand (EUR 31,208 thousand), PLN 116 thousand (EUR 29 thousand) and GBP 231 thousand (EUR 267 thousand) would have had a negative total impact of EUR 1,657 thousand (using FX rates per the end of 2009).

#### Interest rate risk

Exposure to the interest rate risk is presented by way of sensitivity analysis. This sensitivity analysis shows the effect of changes in market interest rates on the Company's profit before tax as if market interest rates had been 1 per cent higher, respectively lower, over the whole period from 1 January 2010 to 31 December 2010. The interest rate sensitivity analysis is calculated from all bank loan facilities relating to the syndicated loan and ECA loan, drawn by the Company. The hypothetical effect on unconsolidated profit before tax amounts to EUR –2,106 thousand respectively EUR 2,106 thousand per year. During 2010 the Company did not make use of financial instruments to hedge against unfavorable interest rate movements.

### 63. Future commitments

The Company has the following commitments in respect of:

|   | 1 January<br>2010 –<br>31 December<br>2010<br>EUR'000 | 1 January<br>2009 –<br>31 December<br>2009<br>EUR'000 |
|---|---|---|
| <b>Non-cancellable operating leases</b>   |   |   |
| Instalments due within one year           | 419   | 257   |
| Instalments due within two and five years | 1,678   | 2,989   |
|   | <b>2,097</b>  | <b>3,246</b>  |

The majority of the operating lease contracts are concluded as indefinite term and short notice period. Leased items include office space, office equipment, apartments for the use by certain employees and one company car. There are no items with terms exceeding five years.

Refer to the Note 56 for maturity of the Company's loans.

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#### 64. Contingent assets and liabilities

The three Company's subsidiaries provided a guarantee for the bond issued by the Company on 27 April 2010. The guarantee fee expense for 2010 for the bond equals EUR 1,362 thousand. Total guarantee fee expense amount is split as follows: EUR 1,266 thousand for OKD, EUR 64 thousand for OKK and EUR 32 thousand for Karbonia.

OKD provided also a guarantee for the amount drawn down under the ECA Loan Agreement by the Company. The guarantee fee expense for the total period of the ECA loan is denominated in Euros and equals EUR 1,500 thousand. Since the first amount was drawn in September 2009, the guarantee fee expense in 2009 for the Company was EUR 107 thousand. The ECA guarantee fee expense for full year 2010 was EUR 317 thousand. The ECA loan is to be repaid in 17 equal installments of which the last one is expected to be paid in June 2018.

The Company has contractual obligations to acquire property, plant and equipment in the total amount of EUR 29 million resulting from the Perspective 2015 programme (purchase of mining equipment for OKD).

#### 65. Fees of the auditor

The costs for the Group and statutory audit, other assurance, tax advisory and other non-audit services are shown in below table for 2010 and 2009.

|   | KPMG<br>Accountants<br>N.V.<br>2010<br>EUR'000 | Other KPMG<br>member firms<br>and affiliates<br>2010<br>EUR'000 | Total<br>KPMG<br>2010<br>EUR'000 |
|---|--|---|----------------------------------|
| Statutory audit of financial statements | 140  | 520   | 660                              |
| Other assurance services                | 156  | 186   | 342                              |
| Tax advisory services                   | 0  | 0   | 0                                |
| Other non-audit services                | 631  | 372   | 1,003                            |
| <b>Total</b>                            | <b>927</b>                                     | <b>1,078</b>  | <b>2,005</b>                     |

|   | 2009<br>EUR'000 | 2009<br>EUR'000 | 2009<br>EUR'000 |
|---|-----------------|-----------------|-----------------|
| Statutory audit of financial statements | 135             | 562             | 697             |
| Other assurance services                | 122             | 209             | 331             |
| Tax advisory services                   | 0               | 0               | 0               |
| Other non-audit services                | 0               | 35              | 35              |
| <b>Total</b>                            | <b>257</b>      | <b>806</b>      | <b>1,063</b>    |

Approved by the Board of Directors of New World Resources N.V.

Amsterdam, 14 March 2011

#### Members of the Board of Directors:

Mike Salamon  
Klaus-Dieter Beck  
Marek Jelínek  
Zdeněk Bakala  
Peter Kadas  
Kostyantín Zhevago  
Bessel Kok  
Hans-Jörg Rudloff  
Hans-Jürgen Mende  
Steven Schuit  
Paul M. Everard  
Barry J. Rourke  
Pavel Telička



## Other information

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### **a) Appropriation of result**

#### **i. Statutory provisions**

In accordance with Articles 29 and 30 of the Articles of Association, the result for the year shall be allocated to the dividend reserve A and dividend reserve B respectively.

#### **ii. Proposed appropriation**

The entire profit is added to the retained earnings. This is incorporated in the financial statements. Please see Note 25 of the notes to consolidated financial statements.

### **b) See notes to consolidated financial statements for subsequent events.**

### **c) The auditor's report is set out on the next page.**

## Independent Auditor's Report

### a) Report on the financial statements

We have audited the accompanying financial statements for the year ended 31 December 2010 of New World Resources N.V., Amsterdam, The Netherlands, set out on pages 81 to 158, which comprise the consolidated and company statement of financial position as at 31 December 2010, the consolidated and company statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of the significant accounting policies and other explanatory information.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of New World Resources N.V., Amsterdam, The Netherlands, as at 31 December 2010 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

### b) Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b–h has been annexed. Further, we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

### J. Humme RA

### KPMG ACCOUNTANTS N.V.

Amstelveen, 14 March 2011

## Shareholder Information

### Markets

As at 31 December 2010, A shares of NWR were listed on the London Stock Exchange (the 'LSE'), the Prague Stock Exchange (the 'PSE') and the Warsaw Stock Exchange (the 'WSE').

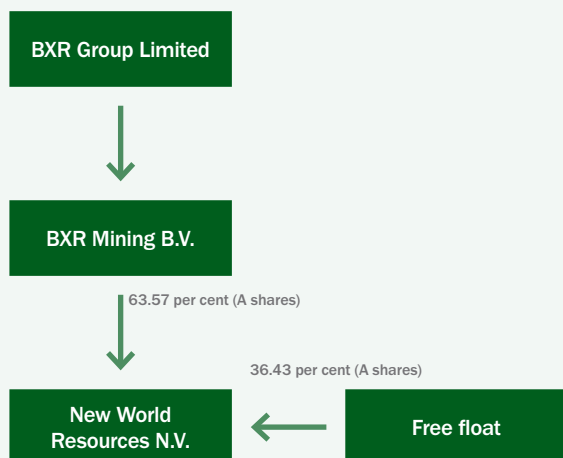
The trustees, share registrars and transfer offices are shown on page 163 of this Annual Report.

### Share ownership

#### Share capital

Details about NWR's share capital are presented in Note 25 of the Consolidated Financial Statements on page 126.

### Shareholder structure



Note: BXR Group Limited owns the shares in BXR Mining B.V. indirectly.

### Majority shareholder

As of the date of this Annual Report, the controlling shareholder of NWR, BXR Mining B.V. ('BXR'), owns approximately 63.57 per cent of the A shares and as a result, has effective control of NWR.

BXR is indirectly owned by BXR Group Limited ('BXR'). BXR also owns indirectly, through RPG Property B.V. ('RPG Property'), 100 per cent of the B shares. Accordingly, BXR has a 63.57 per cent indirect interest in the A shares and a 100 per cent indirect interest in the B shares.

BXR is an international private investment group. To date its principal investments have been in the Central and Eastern European region. It also has investments outside of this region. BXR typically takes large or controlling stakes in investment companies and is active in the management of its investments. In addition to its investment in NWR, BXR currently has investments in real estate, logistics, green energy, financial services and other industries.

At the date of this Annual Report, Zdeněk Bakala, a Non-Executive Director of NWR, holds no direct interest in A shares or B shares but he is considered as being interested in the A shares and B shares as a result of certain affiliated companies and trusts relating to him and his family (collectively the 'Bakala entities') holding an indirect ownership interest in BXR. Mr. Bakala, through the Bakala entities, owns 50 per cent of the outstanding voting capital in BXR.

Peter Kadas, a Non-Executive Director of NWR, holds no direct interest in A shares or B shares but he is considered as being interested in A shares and B shares because of BXR's indirect

ownership interest in such shares. Certain trusts associated with the family of Mr. Kadas own a minority interest in BXR.

For biography of Mr. Bakala and Mr. Kadas please refer to the 'Board and Management' section on page 48.

### Changes in the majority shareholder structure during 2010

In April 2010, BXR informed NWR that BXR had replaced RPG Partners Limited as the ultimate parent company of BXR.

As a result of the share issuances in May and December 2010, the shareholding of BXR in NWR decreased from 63.66 per cent to 63.63 per cent and 63.57 per cent, respectively. More details can be found in the 'Purchase and issue of shares' paragraph of this section.

### Free float

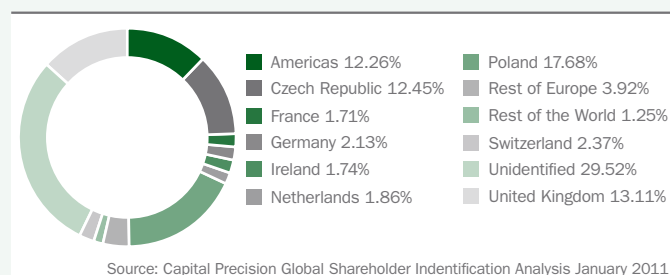
At the date of this Annual Report, public shareholders hold approx. 36.43 per cent of the A shares. The A shares are in registered form. NWR maintains the principal shareholders' register in the Netherlands with a sub-register in Jersey, which forms part of NWR's principal register.

A shares trading on the PSE or the WSE are registered in the name of The Bank of New York (Depository) Nominees Limited ('BoNY'), as common depository for Clearstream and Euroclear.

A shares trading on the LSE are represented by Depository Interests ('DIs') and the underlying A shares are registered in the name of the custodian, Computershare Company Nominees Limited.

The Company has received no filings under the Dutch Disclosure of Major Holdings in Listed Companies Act, and no public information is available with respect to the ownership of shares. A study conducted in January 2011 into the ownership of shares in NWR identified 70.5 per cent of the free float (i.e. excluding shares held by BXR). Of these identified shares, institutional investors held 61.3 per cent and retail investors held 7.6 per cent.

The geographical concentration of the free float is depicted in the chart below.



### Purchase and issue of shares

In 2010, NWR did not purchase its own shares. The Annual General Meeting of Shareholders held in April 2010 authorised the NWR's Board of Directors (the 'Board'), for the period until the date of the next Annual General Meeting of Shareholders of NWR following the date of the resolution, to acquire up to 13,216,505 A shares of NWR (which represented 5 per cent of the issued A share capital as at the day of the meeting), subject to certain terms and limitations.

The Annual General Meeting of Shareholders held in April 2010 also authorised the Board, for the period until the date of the next Annual General Meeting of Shareholders of NWR following the date of the resolution, to: (i) issue A shares and grant rights to subscribe for

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A shares; and (ii) exclude or limit any pre-emptive rights with respect to the issue of A shares of granting of rights to subscribe for A shares. Such authorities were limited to the aggregate nominal amount of EUR 5,286,602, being 13,216,505 A shares (which represented five per cent of the issued A share capital as at the day of the meeting).

A further renewal of the authorisations above will be submitted for approval to the Annual General Meeting of Shareholders on 28 April 2011.

The Extraordinary General Meeting of Shareholders held in November 2010 also authorised the Board to: (i) issue A shares and/or grant rights to subscribe for A shares; and (ii) to limit or exclude any pre-emptive rights with respect to the issue of A shares and/or granting of rights to subscribe for A shares. Such authorities are limited to the aggregate nominal amount of EUR 15,866,013.60, being 39,665,034 A shares (which represented approximately 15 per cent of the issued A share capital as at 13 October 2010); and such authorities may only be used for the purpose of one or more equity offerings.

During 2010, the Company issued a total of 368,615 of A shares as follows: in May 2010, NWR issued 103,465 new A shares to the respective Independent Non-Executive Directors under their share plan. In December 2010, NWR issued 265,150 new A shares to the Board's Chairman under his stock option plan.

#### Operation of the Annual General Meeting of Shareholders

The powers and operation of the Annual General Meeting of Shareholders are set out by Book 2 of the Dutch Civil Code (*Burgerlijk Wetboek*) and the Company's Articles of Association (the 'Articles of Association'). The description below should be read in conjunction with the Articles of Association and the document is available on the Company's website at: [www.newworldresources.eu](http://www.newworldresources.eu).

The Annual General Meeting of Shareholders of the Company (the 'General Meeting') shall be held within six months after the end of the Company's financial year. The General Meeting may be called by the Board or by the Board's Chairman. Any person or persons who are together entitled to cast at least one-tenth of the total number of votes that may be cast may request the Board or its Chairman to convene the General Meeting, and state items to be discussed. If neither the Board nor the Chairman convenes the General Meeting such that the meeting is held within four weeks of this request, any of the persons requesting the General Meeting shall be authorised to convene the meeting.

General Meetings shall be held in Amsterdam or Haarlemmermeer (Schiphol Airport). Notice shall be given not later than on the 42nd day prior to the date of the General Meeting. The notice shall be published in national daily distributed newspapers in the Netherlands, the United Kingdom, the Czech Republic and Poland.

The agenda of the General Meeting shall in any case include the discussion of the Annual Report, the adoption of the annual accounts and the discharge of the Directors from liability in relation to the exercise of their duties in the previous financial year, to the extent that such exercise is apparent from the financial statements relating to the previous financial year or other public disclosures prior to the adoption of these financial statements. Shareholders who represent at least 1 per cent of the issued share capital or shares of at least EUR 50 million are entitled to request the Board in writing to place items on the agenda. Such requests must be delivered to the Board

at least 60 days before convening the General Meeting. No valid resolutions can be adopted at the General Meeting in respect of items not specified on the notice.

The General Meeting shall inter alia decide on matters regarding appointment and dismissal of Directors, adoption of the annual accounts, amendments to the Articles of Association, liquidation of the Company and approval of resolutions of the Board regarding a significant change in the identity or nature of the Company or the enterprise, including in any event the transfer of the business or the majority business of NWR to a third party; the conclusion or cancellation of any long-lasting cooperation by NWR or a subsidiary with another entity if such cooperation is of essential importance to NWR; and the acquisition or disposal of a participating interest in the capital of a company with a value of at least one-third of the sum of the assets according to the consolidated balance sheet according to the last adopted annual accounts of NWR, by NWR or a subsidiary.

In addition to the various shareholder rights mentioned in the paragraphs above, holders of B shares and other shareholders representing at least one-tenth of the issued share capital or an aggregate nominal share value of EUR 225,000 may request an investigation into the affairs of the Company (*enquêterecht*) with the Enterprise Chamber of the Court of Appeal in Amsterdam.

Each share confers the right to cast one vote. Resolutions proposed for voting at the General Meeting require an absolute majority of votes. In a tie vote, the proposal shall be rejected. Resolutions to restrict or exclude pre-emptive rights and to reduce the Company's share capital require a majority of at least two-thirds of the votes cast if less than half of the issued share capital is represented. Resolutions to appoint a Director not proposed by the meeting of holders of B shares or the Board shall be adopted by at least a two-thirds majority of the votes cast in a General Meeting in which at least half of the issued share capital is represented. Furthermore, resolutions to amend the Articles of Association or to dissolve the Company other than on the proposal of the Board shall only be valid if adopted in a General Meeting in which at least three-quarters of the issued share capital are represented and with a majority of at least two-thirds of the votes cast. All matters regarding the exercise of voting rights shall be decided by the Chairman of the General Meeting.

Shareholders who hold shares on a predetermined registration date are entitled to attend the General Meeting, vote at the General Meeting and address it. By the shareholders are meant the registered shareholders, holders of B shares, holders of A shares listed on the LSE represented by DIs and beneficial holders of A shares listed on the WSE or the PSE ('Listed Shares'). Holders of DIs and beneficial holders of Listed Shares shall contact the bank or broker through which they hold their DIs or Listed Shares for information on how to: (i) exercise their voting rights in writing; (ii) attend the General Meeting and exercise their voting rights in person; or (iii) authorise another person to attend the General Meeting and to exercise voting rights on their behalf. The registration date for the Annual General Meeting of Shareholders of 28 April 2011 is 28 days before the meeting, i.e. on 31 March 2011. The Board may decide that shareholders entitled to vote may, within a period prior to the General Meeting to be set by the Board, which period cannot begin prior to the registration date, cast their votes electronically in a manner to be decided by the Board.

To the best of the Company's knowledge, there is no agreement involving a shareholder of NWR that could lead to a restriction of the transferability of shares or of voting rights on shares.

## Shareholder Information continued

The A shares sold to qualified institutional buyers ('QIBs') in the United States in connection with the initial public offering in reliance on Rule 144A under the US Securities Act of 1933, as amended, are subject to certain transfer restrictions under applicable US securities laws.

### 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.

| Stock Exchange | Currency | Closing price    |                  |                  |
|----------------|----------|------------------|------------------|------------------|
|                |          | 31 December 2010 | 31 December 2009 | 31 December 2008 |
| LSE            | GBP      | 961.0            | 560.0            | 268.0            |
| PSE            | CZK      | 271.0            | 161.6            | 73.3             |
| WSE            | PLN      | 44.4             | 25.3             | 11.3             |

### 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 share grants to the Independent Non-Executive Directors (as described in the Remuneration Report on page 72) and delivery of shares to the Chairman of the Board (also as described in the Remuneration Report on page 72).

### 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 Pounds Sterling, Euros, Czech Koruna or Polish Zlotys. The default election will be deemed to be Pounds Sterling 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 2010 of EUR 0.21 per A share.

The Directors of NWR have declared a final dividend for the year ended 31 December 2010 of EUR 0.22 per A share paid to A shareholders in the form of an interim dividend. Together with the interim dividend of EUR 0.21 per A share paid in October 2010, this takes the full year dividend payable to A shareholders to EUR 0.43 per share in respect of the year ended 31 December 2010. This represents approximately 50 per cent payout ratio for 2010.

### Provision of the Annual Report and Accounts

The Annual General Meeting of Shareholders held in April 2009 approved to provide certain information electronically in the future, to the extent permitted by law. The 2010 Annual Report and Accounts of NWR have been made available at NWR's website. Shareholders may also inspect the 2010 Annual Report and Accounts at the office of the Company and request to receive a hard copy by registered mail.

For further information, please refer to the Company's website [www.nwrgroup.eu](http://www.nwrgroup.eu) or email the Investor Relations team on [ir@nwrgroup.eu](mailto:ir@nwrgroup.eu).

### Agnes Blanco Querido

Head of Investor Relations

## Ancillary Information for Shareholders

### Shareholder information

#### Stock Exchange Listings

Prague Stock Exchange  
Warsaw Stock Exchange  
London Stock Exchange  
Trading symbol: NWR  
ISIN: NL0006282204

### Additional information

#### Jersey Registrar

Computershare Investor Services  
(Channel Islands) Limited  
P.O. Box 83, Ordance House  
31 Pier Road  
St. Helier JE4 8PW  
Jersey

### Registrar to the Depository Interest Arrangements and Depository

Computershare Investor Services PLC  
P.O. Box 82, The Pavilions  
Bridgewater Road  
Bristol BS99 7NH  
United Kingdom

### Principal Paying Agent

The Bank of New York  
One Canada Square  
London E14 5AL  
United Kingdom

### Czech listing agent

Patria Finance, a.s.  
Jungmannova 24  
110 00 Praha 1  
Czech Republic

### Polish Listing Agent

UniCredit CAIB Poland S.A.  
ul. Emilii Plater 53  
00 113 Warsaw  
Poland

### Bondholder information

#### Notes outstanding

**EUR 267.6 million aggregate principal amount of 7.375% Senior Secured Notes due 2015**

### Interest payment dates

15 May and 15 November of each financial year

### Trustee

Deutsche Trustee Company Limited  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

### Transfer Agent and Principal Paying Agent

Deutsche Bank AG, London Branch  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

### Listing Agent and Registrar

Deutsche Bank Luxembourg S.A.  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg

### Irish Paying Agent and Transfer Agent

Deutsche International  
Corporate Services (Ireland) Limited  
3rd Floor, 5 Harbourmaster Place  
International Financial Services  
Centre  
Dublin 1  
Ireland

### EUR 500 million aggregate principal amount of 7.875% Senior Notes due 2018

#### Interest payment dates

1 May and 1 November of each financial year

### Subsidiary Guarantors

OKD, a.s., OKK Koksovny, a.s. and NWR KARBONIA S.A.

### Trustee

Deutsche Trustee Company Limited  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

### Transfer Agent and Principal Paying Agent

Deutsche Bank AG, London Branch  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

### Listing Agent and Registrar

Deutsche Bank Luxembourg S.A.  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg

### Security Agent

Citibank N.A. London Branch  
Canada Square, Canary Wharf  
London E14 5LB  
United Kingdom

### Irish Paying Agent and Transfer Agent

Deutsche International  
Corporate Services (Ireland) Limited  
3rd Floor, 5 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland



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