SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements of New World Resources Plc ('NWR Plc') have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('adopted IFRS'). In accordance with these requirements, the Company's consolidated financial results and financial position prior to date the Company became the new holding company of the Group are those of NWR NV.

The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments, which are stated at their fair value. They are presented in Euro (EUR) and rounded to the nearest thousand. Financial statements of operations with functional currency other than EUR were translated to the Group presentation currency. The functional currency of NWR Plc and NWR NV is EUR. The functional currency of NWR Karbonia is Polish Zloty (PLN). The functional currency of the remaining consolidated companies is Czech Crown (CZK). For details refer to the Note d(ii). The accounting policies have been applied consistently by all Group entities.

Judgments, estimates and assumptions made in applying accounting policies

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Set out below is information about:
- Critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements; and
- Assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment within next financial year.

Critical judgments, estimates and assumptions

Coal reserves
Economically recoverable coal reserves represent the estimated quantity of product in an area of interests that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions. The entity determines and reports coal reserves under JORC code. The determination of coal reserves includes estimates and assumptions about range of geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, productions costs, transportation costs, commodity demand, commodity prices and exchange rates. Changes in coal reserves impact the assessment of recoverability of property, plant and equipment, the carrying amount of mining licences depreciated on unit of production basis and mine closure and restoration provision.

Restoration and mine closure provisions
Determining the cost of restoration, rehabilitation, and mine closure during mining activities in accordance with the Group's accounting policy (note q)), requires the use of significant estimates and assumptions, including: the appropriate discount rate, the timing of the cash flows, expected life of the relevant mine, the application of relevant environmental legislation, and the future expected costs of restoration, rehabilitation and mine closure.

Changes in the estimates and assumptions used to determine the cost of restoration, rehabilitation and mine closure could have a material impact on the carrying value of the restoration and mine closure provision and relevant asset.

The provision recognised for each mine is reviewed at each reporting date and updated based on the facts and circumstances available at that time.

Impairment of assets
The recoverable amount of each non financial asset or cash-generating unit ('CGU') is determined as the higher of the value-in-use and fair value less costs to sell, in accordance with the Group's accounting policy (note l)). Determination of the recoverable amount of an asset or CGU based on a discounted cash flow model requires the use of estimates and assumptions, including: the appropriate discount rate, the timing of the cash flow and expected life of the relevant area of interest, exchange rates, coal and coke prices, reserves, future capital requirements and future operating performance. Changes in these estimates and assumptions impact the recoverable amount of the asset or CGU, and accordingly could result in an adjustment to the carrying amount of that asset or CGU.

Employee benefits
The Group's accounting policy for employee benefits requires management to make estimates and assumptions about discount rate, future remuneration changes, changes in benefits, life expectancy, retirement age, number of employees and expected remaining periods of service of employees. Changes in these estimates and assumptions could have a material impact on the carrying value of the employee benefit provision.

b) Basis of consolidation

The financial statements include the accounts of New World Resources Plc and its subsidiaries.

(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) Changes in ownership interest without a loss of control
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

(iv) Loss of control
Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in an entity that was previously a subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

c) Principles for preparation of the statement of cash flows

Cash flow is presented using the indirect method. Net cash flows from operating activities are reconciled from profit before tax and non-controlling interests ('NCI'). Interest received is classified as an investing activity as it mainly relates to investments. Interest paid is classified as an operating activity 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. Foreign exchange differences arising on translation are recognised in the income statement.

(ii) Foreign operations
Assets and liabilities of operations with functional currency other than EUR are translated to EUR at the exchange rate at the reporting date; income statement items of operations with functional currency other than EUR are translated at exchange rates approximating the rates at the dates of the transactions. Equity items are translated at historical exchange rates. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of an operation with functional currency other than EUR (in full or in part), the relevant amount of accumulated exchange differences is transferred to the income statement.

e) Derivative financial instruments

The Group uses derivative financial instruments (such as for example forward currency contracts, interest rate swap and interest rate collar contracts) to hedge its exposure to foreign exchange risk and interest risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap and interest rate collar contracts is the estimated amount that the Group would receive or pay to terminate the contract at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

For the purpose of hedge accounting, hedges are classified as:

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedges item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designed.

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

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 forecasted sale or expenditure occurs.

If the forecasted transaction or firm commitment is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecasted transaction or firm commitment occurs.

Current versus non-current classification

Derivative instruments that are not a designated as effective hedging instrument are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Derivative instruments that are designated as and are effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

f) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset including borrowing costs for long-term construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is initially recognised as a provision under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Mining works are classified under the Land and Buildings class of property, plant and equipment. They are stated at cost less accumulated depreciation and impairment losses. Once approved, expenditure relating to a mining project that is designed to access a new mine level or to construction of new mining works (cross cuts, blind shafts, storage places, bins and mining depots, other auxiliary constructions etc.) are capitalised only if both following conditions are satisfied:

- mining work has useful life exceeding one year
- and such construction is necessary for accessing the new mining level.

These expenditures are capitalised and classified as construction in progress and the capitalisation ceases when the constructed mining work is finalised and ready for use. These costs are reclassified as land and buildings and depreciated from when the project is complete.

Expenditure for technical improvement of mining works are capitalised, even if they are not related to accessing a new mine level, but they represent a technical improvement of existing mining works.

Other mine development costs related to construction of undersurface located supporting structures (operational mining works) are expensed as incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(ii) Borrowing costs

Borrowing costs from specifically draw down borrowings or generally used borrowings, which are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(iii) Leased assets

The determination of whether an arrangement is, or contains a lease involves an assessment based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use an asset. A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfilment is dependant on a specified asset; or
d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Finance leases, which transfer to the Group substantially all the risks and benefits related to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

(iv) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(v) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land and assets in construction are not depreciated.

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.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

(iii) Amortisation

Amortisation of licences for the period is calculated as a proportion of the coal amount actually mined in this period to the total economically exploitable coal reserves as estimated by management.

Amortisation of other intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date.

(iv) Emission rights

Emission rights represent the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year an equivalent of one tonne of carbon dioxide (CO_2).

Based on the Czech Republic National Allocation Plan covering the period up to 31 December 2012, emission rights are granted to the Group, for its coking production, free of charge. Distribution of emission rights for free is planned also in the next National Allocation Plan covering period 2013 - 2020.

Emission rights are accounted for using the net liability method (EFRAG). Under this method, emission rights allocated from the Government are measured at their nominal amount, which is nil.

(v) Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to expenses as incurred, until the Group determines that commercially viable coal reserves exist.

h) Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement receivables are subsequently carried at their amortised cost using the effective interest method less any allowance for impairment (see accounting policy l).

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on a weighted average method and includes expenditure incurred in acquiring the inventories, the cost of conversion and other costs incurred in bringing them to their existing location and condition. The cost of merchandise is the acquisition cost on a weighted average basis. The cost of raw materials is the purchase cost on a weighted average basis. The cost of work-in-progress and finished goods is a standard cost based on the cost of direct materials and labour plus attributable production overheads based on a normal level of activity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and variable selling expenses.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and investments in marketable securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (with original maturity of three months and less).

k) Restricted cash

Restricted balances of cash, which are shown under non-current financial assets as restricted funds, relate to funds set aside to settle mining damages and restoration expenses and deposits with manufacturers of equipment the Group has on order. The current/non-current classification is based on the expected timing of the release of the funds of the Group.

l) Impairment

(i) Non-financial assets

The carrying amounts of the Group's non-financial assets, excluding inventories (see accounting policy i) and deferred tax assets (see accounting policy t(iii)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For 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 the cash-generating unit to which it belongs 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 to reduce the carrying amount of the assets in the CGU (groups of CGU) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of a non-financial asset or the CGU to which it belongs is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows generated by the asset or the CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the non-financial assets or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU and for such a non-financial asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Reversals of impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

(ii) Non-derivative financial assets

A non-derivative financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A non-derivative financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that non-derivative financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due by a debtor on terms that would not be considered otherwise by the Group, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security.

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 the following information is used historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a non-derivative financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognised in income statement and reflected in an allowance accounts against loans and receivables.

Calculation of recoverable amount
The recoverable amount of loans and receivables is calculated as the present value of expected future cash flows, discounted to their present value using the financial asset's original effective interest rate. Loans and receivables with a short duration are not discounted.

Reversals of impairment
When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income statement. An impairment loss in respect of loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

m) Non-controlling interest

The non-controlling interest in the statement of financial position and income statement represents the non-controlling proportion of the net assets of the consolidated but not wholly owned subsidiaries at the year-end and a share of results for the year, which is attributable to the non-controlling shareholders.

n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Related gains and losses are recognised in the income statement at the settlement date.

o) Employee benefits

The Group 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.

p) Share-based payment transactions

Employees (including senior executives) of the Group receive part of the remuneration for their services in the form of share-based payment transactions.

Equity-settled transactions
The cost of equity-settled transactions with employees for awards granted is measured by reference to the fair value at the date on which they are granted. The fair value is determined based on the market price listed on the stock exchange and whenever appropriate using option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured as the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Transactions with cash-alternative
The cost of transactions with a cash-alternative is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date with changes in fair value recognised in the income statement.

q) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Mine closure, restoration, and mining damages provisions
An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property and the Group is liable for environmental damage caused by mining activities.
These future costs generally include restoration and remediation of land and disturbed areas, mine closure costs, including the dismantling and demolition of infrastructure and the removal of residual materials, and mining damages costs.

Decommissioning of mine sites and land and disturbed areas restoration costs are a normal consequence of mining. The majority of mine closure and rehabilitation expenditure is incurred at the end of the life of the mine. Although the ultimate cost to be incurred is uncertain, the Group's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques.

Restoration costs and clean-up of land used for mining activities are liabilities to restore the land to the condition it was in prior to the mining activities or as stated in the relevant licences. These costs are incurred during the mining activity and can continue for many years depending on the nature of the disturbance and the remediation techniques. The mine closure costs include estimated costs of mine levels and pits closure, and capping of pits after removal of the surface construction.

Provisions for land restoration and mine closure costs are recognised as the net present value of the estimated outflow of economic resources to settle the obligation. Provisions are structured as land restoration and mine closure costs provision. Land restoration and mine closure costs represent a part of the acquisition cost of fixed assets and such assets are depreciated over the useful life of the mines using the linear depreciation method. Any change in the estimate of restoration costs is recognised within fixed assets and is depreciated over the remaining useful life of the mines.

The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost.

Mining damages costs are liabilities to reimburse all immediate damages caused by mining activities to third party assets. Mining damages costs are assessed by the Group for each individual project. This assessment is reviewed and approved by the Czech Mining Authority.

r) Trade and other payables

Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether or not invoiced by the supplier. Trade and other payables are initially stated at fair value and then subsequently at amortised cost.

s) Revenue

(i) Own products sold and services rendered

Sales revenues consist of sales of coal, coke and related by-products (coking gas, chemical products, methane etc.) and services rendered to third parties, measured at the fair value of the consideration received, excluding any applicable taxes, excise duties, charges, discounts and rebates. Most of the sales are priced as carriage paid to (CPT), delivered at place (DAP) or delivered duty paid (DDP).

The Group has concluded that it is acting as a principal in all of its sales arrangements, delivering complete supplies to specified place including responsibility for transportation, handling, solving duty tax issues and possibly insurance. All amounts billed to customers for transportation and handling are classified mostly as a sales revenue from own products, as a part of selling price, or occasionally as services rendered, with transportation and handling costs recognised as service expenses.

A significant proportion of Group production is sold under frame contracts, which are quarterly (mostly for coking coal and partly for coke) or semi-quarterly updated by amendments specifying pricing or volumes for the next period. However, the sales revenue is only recognised on an individual sale when all of the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to the customer;
- the Group has retained neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

All these conditions are generally satisfied, when the product is delivered to the destination specified by the customer and as such, the title passes to the customer. Sales revenue is commonly subject to adjustments based on an inspection of the product by the customer. Where there are agreed differences in volume or quality of delivered products, this is reflected as reduction or increase (usually for better qualities of coal) in sales revenue recognised on the sale transaction. Sales revenue from services rendered is recognised when services are rendered and accepted by the customer.

(ii) Revenues from electricity contracts

Revenues from electricity contracts were classified as discontinued operations. For the period 1 January– 21 June 2010 the Group concluded sale and purchase contracts for physical delivery of specified commodities (defined quantity of electricity) over the counter and through energy exchanges. These transactions were classified as an own use category (with physical receipt or delivery of the commodity) at inception and were not within the scope of IAS 39.

Revenues from realised electricity sales were recognised in the income statement, net of value added tax and excise duties, based on actual deliveries and when the significant risks and rewards of ownership were transferred to the buyer in line with the contract conditions.

(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 installments.

t) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Net finance costs

Net finance costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on derivative instruments that are recognised in the income statement. Interest on borrowings is expensed only to the extent that they are not directly attributable to the acquisition, construction or production of a qualifying asset.

The finance income is recognised as interest accrues (using the effective interest method which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(iii) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

A current tax liability is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the tax laws do not permit consolidated tax returns.

A deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted in the expected period of settlement of deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

v) Non-current assets held for sale and discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations. Classification as a discontinued operation occurs when the operation meets the criteria to be classified as held for sale or upon disposal, if earlier.

w) Earnings per share

Basic earnings per share amounts are calculated by dividing net 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 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.