

# NWR Group Risk Management Policy

This Risk Management Policy applies to New World Resources Plc (“NWR”) and its entities (the “NWR Group”) and was adopted by the NWR’s Board of Directors (the “Board”) on 8 April 2011.

## CFO Message

Dear Colleagues,

We produce high quality coal and coke in safe and efficient operations. We maintain longstanding customer relationships based on our reputation for operational excellence, product quality and reliability. Our thinking is long term, ensuring sustainable profitability and consistent creation of value.

We will achieve our objectives by understanding the challenges and obstacles on the road ahead, and by prioritising our responses accordingly. Our ability to identify and assess *risks* and treat them as opportunities will increase our competitiveness and help us create more value for our stakeholders.

It is everyone’s responsibility, at all management levels, to identify and address *risks*, and to minimise their potential *impact*. Safety of our people and the environment we operate in is our first priority.

This *Risk Management Policy* describes our approach to *risk management* and sets our standards, applicable at every level in the business. It is widely distributed internally and will be made available to the public on our website.

As Board *Risk* Sponsor, I am responsible for ensuring that we manage *risk* effectively across the whole NWR Group. I cannot do this alone. I invite your support and commitment to implement this *Risk Management Policy* in all aspects of your work.

**Marek Jelínek**  
**Chief Financial Officer**

## Our Risk Standard

### Objective

Successfully managing *risks* and maximising opportunities will ensure that our business objectives are met in the most effective way. This will generate increased value for our stakeholders and confidence in our ability to deliver on our commitments.

We strive to comply with the highest international standards of corporate governance and to satisfy regulatory authorities, business partners, investors and auditors that *risk analysis* and *risk management* are applied consistently across all business units and activities.

Internally, NWR Group companies use *risk analysis* and *risk management* as tools for running the business in a professional and consistent manner, including the preparation of business plans, the management of internal projects and investments, and the maintenance of safe and secure operations.

### Scope

Our *Risk Management Policy* is binding on all NWR Group companies and all our businesses. Some activities require a specific, more sophisticated approach to identify, evaluate and *mitigate risk*. Their approach should comply with principles expressed in this policy and the assessment they produce should contribute to the overall *risk assessment*.

### Commitment and Roles

*Risks* are controlled and operationally managed where they occur. It is the responsibility of every NWR Group entity to actively manage its *risks*. Local management is responsible for identifying, assessing and mitigating *risks* with the methodological support of *risk managers*, and to report to NWR’s Audit and Risk Management Committee (the “Audit Committee”) (by delegation of the Board) for decisions made and actions taken. NWR Group Management is responsible for supervising this process, monitoring the top *risks* for the NWR Group and managing them directly where relevant. Within these boundaries, at entity and at NWR Group level:

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- The Board (or the Audit Committee by delegation, if relevant), at least on a yearly basis, receives a report and a presentation from Group or entity management on *risk management*. This report includes a statement on NWR Group's risk appetite, which is submitted for the Board/ Audit Committee's approval. In addition, it provides an overview of *risk management* activities, main changes in *risk assessments*, identified top *risks* and related actions taken since the last report was presented. The Board or the Audit Committee assesses whether decisions made to *mitigate* or assume *risks* are consistent with the NWR Group's *risk appetite*.
- Management's responsibility on every level in the organisation extends beyond participation in *risk identification* and assessment, to prioritising and proposing *action plans* to *mitigate risks*, and reporting on progress made.
- The responsibility for internal control rests on each owner of a process or part of a process. These owners ensure that optimal processes are in place to *mitigate risks*, report on existing issues and actions taken, and contribute to the assessment of *residual risks*.
- *Risk managers*, under the guidance of Group Risk Management, support the process by providing adequate identification and measurement tools and facilitating the *risk management* workflow. They seek approval from Group Risk Management on methods used and ensure that measurements are consistent with guidelines issued at the NWR Group level.
- Internal audit provides an independent assessment of *risks* as part of their field engagements. The annual internal audit plan is prioritised using existing *risk maps*. Because the *risk management* process is a key component of an entity's and of the NWR Group's control environment, internal audit is in charge of auditing the *risk management* process.

#### Our Risk Management Process

*Risk management*, as a management process, follows a sequence of phases, each phase involving various contributors. Once risk management has been initiated,

the phases are implemented in successive iterations: Identification, Evaluation and Response. Each phase is described in detail below.

#### Risk Management Process Initiation

Senior Management at each NWR entity appoints a *risk manager* tasked to lead the *risk management* initiation, with the support of the NWR Group's *Risk Manager*.

*Risk management* initiation includes the following tasks:

- Definition of the scope and context of the *risk analysis*,
- Determination of objectives at *risk*, that are subject of the *risk analysis*,
- Choice of methodology, tools and techniques to be used during the *risk analysis*,
- Allocation of roles and responsibilities among the team,
- Decision on significant thresholds for probability and *impact* categories to be used during the *risk analysis*<sup>1</sup>,
- *Risk acceptance thresholds* definition used to classify *risks* as acceptable, moderate, significant or critical,
- Decision on *risk* reporting and update cycles.

The outputs from risk management initiation are documented in a *risk analysis* plan.

#### Risk Identification

The aim of *risk* identification is to expose and document all *inherent risks*, which could affect achievement of our objectives.

*Risks* are first documented in an entity *risk register* and subsequently incorporated into the NWR Group *risk register*. The entity *risk manager* determines the level of documentation detail required to support subsequent *risk evaluation* and response.

Once *risks* have been identified, entity *risk managers* analyse the possibility of interdependence of multiple *risks*. Should the entity *risk manager* deem multiple *risks* as interdependent he or she records such aggregate *risks* for special attention.

Entity management is responsible for the quality and regular updates of the entity *risk register*. The entity *risk manager* assigns each identified *risk* to one of the NWR Group *risk* categories. The entity *risk manager* does this with the agreement of his / her entity management and under the supervision of Group *Risk Management*.

<sup>1</sup>e.g. probability of occurrence of a *risk* can be categorized as 'low', 'significant', 'high', 'very high'. Similar ranking is assigned to the *impact* of such *risk* materializing.

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#### Risk Evaluation

The *likelihood* and *impact* of each identified *risk* are assessed using the *likelihood* and *impact* categories approved by Group *Risk* Management. Each *risk* is classified and prioritised for further attention using the approved *risk acceptance thresholds* and categories.

The *impact* of *risk* occurrence can be either economic or non-economic. All NWR *risk* analyses consider at least the following types of economic and non-economic *impacts*:

Economic Impact	Non-Economic Impact
Capital expenditure	Safety
Timing differences	Health impact
Operating cost	Environmental impact
Production volumes	Community impact
Revenue	Compliance with regulations
	Reputation

Internal NWR stakeholders undertake evaluation and, while *risk* managers aim to reach consensus, entity management takes responsibility for the final assessment.

The adequacy of existing *internal controls* has a high influence on level of *residual risk*. A *risk analysis* systematically identifies to what extent improvements in an entity's *internal control* system are effective in reducing the *residual risk* to an acceptable level.

*Risk* managers pay special attention to *risks* with very high negative *impacts* and very low *likelihood*. Among these are *risks* where consequences include fatalities, environmental incidents, or a plant or mine failures resulting in severe business interruptions. Where such *risks* are identified, they are noted in the *risk register* as special cases, and action is taken immediately.

Results of the *risk evaluation* are recorded in the *risk map* of the relevant entity. In a situation where a *risk* has

significantly increased in probability of occurrence or severity of *impact* since the previous evaluation, the *risk* manager coordinates with Group *Risk* Management on the appropriate course of action.

#### Risk Response

Each *risk* owner determines and implements the appropriate responses to *risks* in order to bring *residual risk* to its optimal level. While retaining this responsibility, he/she designates those with experience and expertise in the relevant area to develop suitable *risk* responses.

Possible responses vary depending on the nature of *risks*: Threats can be avoided, transferred or minimised. Opportunities can be exploited, shared or enhanced. The cost effectiveness of each response is determined before it is agreed or implemented. Agreed *risk* responses are allocated to a single *risk* owner, and appropriate resources are made available to ensure that responses are implemented effectively. The possibility of secondary *risks* arising from agreed responses is considered.

Where active *risk* responses are not possible, *residual risks* may be accepted. Such acceptance is documented for further reference, reported to the next level of management and possible responses are reviewed on a regular basis.

Progress on *risk* responses is monitored against agreed milestones and targets. Where an agreed *risk* response is not achieving the intended result, additional responses are developed, if appropriate with different *risk* owners. Where needed, Group *Risk* Management can facilitate the search for adequate *risk* response.

Agreed *risk* responses are recorded in the entity's *risk map*, together with their current status and progress.

#### Risk Reporting

*Risk* managers document and report to entity or Group management, to Group *Risk Management* and to the Audit Committee on the *risk analysis* process, their evaluations and agreed responses. Group *Risk Management* sets minimum standards of the content requirements for such reports and decides on escalation to a higher management level if deemed necessary.

Entity and Group management monitor top *risks*, with the support of *risk* managers. Group *Risk* Management provides support to *risk* owners in their quarterly presentations of *action plans* to the Audit Committee.

In the event that a particular *risk* loses its relevance to our business, such *risk* is removed from the *risk map* ("closed"). The *risk register* retains information on all closed *risks*, to provide an audit trail and to assist in learning for future *risk* analyses.

#### **Risk Updates**

All *risk* analyses are updated at least on an annual basis. Such updates reflect the results of *risk* responses that have been implemented, and identify additional *risks*, which have emerged since the last update.

All *risks* in the *risk register* are re-examined to ensure that *risks* previously classified as acceptable or moderate have not developed a higher profile.

## **Appendix A – Common Definitions**

**Effective *risk analysis* and management requires a shared understanding of key terminology. NWR has adopted a common *risk* language that is consistent with international standards.**

#### **Action plan**

The overall decision made to modify the *residual risk* level. An *action plan* contains a specific set of actions, under the responsibility of a designated person or function, with a clear deadline and a measurable objective.

#### **Impact**

The outcome of a *risk* when it occurs. Threats have adverse impacts, and opportunities have favourable impacts. Impacts fall into two types: economic and non economic.

#### **Inherent risk**

The *risk* as originally identified before actions or controls have been implemented.

#### **Internal Control**

A set of activities designed and implemented as part of the regular course of business to either prevent, detect or *mitigate risks*.

#### **Likelihood**

The level of uncertainty existing for a particular *risk* to occur. This can be expressed as either a probability for a single event or condition, or a frequency of occurrence for repeating events.

#### **Mitigate**

Any action taken to modify the level of *residual risk*: this can include reducing *risk*, transferring it, insuring against its consequences, or avoiding it altogether.

#### **Opportunity**

A positive *risk*: an uncertain beneficial event or condition that could result in favourable outcomes such as improved safety, saved time or cost, improved relations with communities and other stakeholders, or enhanced reputation.

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#### Residual risk

The *risk* remaining after agreed actions and controls have been implemented. Adequate *risk* response will bring residual *risk* to the level where the benefits of further active management are lower than likely consequences of that *risk*.

#### Risk

*Risk* can be defined as the combination of the probability of an event and its consequences: it is an uncertain event, feature, activity or situation that can have a negative or positive effect on one or more objectives.

#### Risk acceptance threshold

A measure of the level of *risk* exposure above which action must be taken to proactively manage *threats* and maximise opportunities, and below which *risks* may be accepted. This threshold is directly linked to the *risk appetite*.

#### Risk analysis

The overall process of *risk identification* and *risk evaluation*.

#### Risk appetite

The level of overall *risk* that an organisation accepts to take to fulfil its long-term value creation objective. *Risk* appetite depends on the corporate culture of an organization, its environment and its objectives.

#### Risk evaluation or assessment

The process of estimating the *likelihood* and consequences of identified *risks*, and comparing against a defined *risk acceptance threshold*.

#### Risk identification

A structured process to identify *threats* and opportunities.

#### Risk management

The process of taking appropriate decisions and implementing appropriate actions in response to known *risks*, based on the results of a *risk analysis*.

#### Risk map

An action-oriented document centralising *risk* information, analysis and responses for a given entity or process, or for the NWR Group. That information

is extracted from the *risk register*, from specific *risks* assessments and from actions plans undertaken by management.

#### Risk register

The list and definition of all *risks* identified by an entity, and extracted from the NWR Group *risk register*. The register does not include information on *risk evaluation* or *action plans*, as these items are included in the entity's *risk map*.

#### Threat

A downside *risk*: an uncertain adverse event or condition that could result in unfavourable outcomes such as injury, damage to the environment, communities, stakeholder confidence, reputation, delays, or economic loss.

#### Top Risk

A *risk* that could significantly impact the ability of the NWR Group or one of its entities to achieve its objectives. A top *risk* has a critical *impact* at inherent stage (i.e. before implementing action as a response). It demands constant monitoring even though, as a *residual risk* (i.e. after implementing action as a response), its *impact* might be considered lower. *Likelihood* is a secondary factor as catastrophic events (of critical *impact*) normally have a remote probability of happening. Top *risks* identification may result from aggregating a number of *risks* that, on an individual basis, are rated at a lower level of significance.

## **Appendix B – NWR Key Strategic Objectives**

### **Efficiency**

NWR's operations are efficiently run. Our coal and coke are quality products and our services are noted for their reliability. We have strong and long-lasting customer relationships. All these factors help provide a firm foundation for the future.

- Maintain high level of responsiveness to customer specifications
- Strengthen procurement and operational efficiencies
- Timely deliveries

### **Investment**

Our principal capital investment programme, Productivity Optimisation Programme 2010 ('POP 2010') has already made significant productivity gains, improved efficiency and, importantly, raised the safety levels at our mining operations. Additionally our Coking Plant Optimisation Programme 2010 ('COP 2010') remains on track, rationalising our coking capacity through closing our Šverma site and modernising the Svoboda site, where we are refurbishing one coking battery and building a new one.

- Enhance profitability by investing in equipment and technology
- Enhance safety
- Focus on core business of coal mining and coke production

### **Sustainability**

Our current reserves will enable us to remain in business for the long run. Our commitment to POP 2010 has helped improve our productivity capabilities, access deeper coal seams and reduce costs – improving our competitive position. Coupled with opportunities offered by our two development projects in southern Poland, our sustainable growth remains sound.

- Build the reserve base from existing mines
- Selectively pursue growth opportunities in the region