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Conference Call Transcript

NWR.L - New World Resources NV Board Approves the Debiensko Project
Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the New World Resources conference call. At this time I would now like to hand the call over to Agnes. You may begin.

Agnes Blanco - New World Resources NV - IR

Hi, and good afternoon, everyone. Thank you very much for joining us today. We're here today to give you a little update on the Debiensko project, and give you the opportunity to ask questions to our management, in terms of the project as for the announcement you saw on Monday.

Today on the call we have with us Jan Fabian, our Chief Operating Officer, who will be charge of the project, and Marek Jelinek, our Executive Director and Chief Financial Officer. Jan Fabian will take you quickly through a couple of slides we've put together, and then we'll just open this call for Q&A.

So with that, I'll hand it over to Jan Fabian.

Marek Jelinek - New World Resources NV - Executive Director & CFO

Thank you, Agnes. Hello, everybody. Good afternoon. Let me go briefly through the slides that you will see in front of you just to give you a little bit of flavor of what we have gone through and what we have achieved over the past month. And since many of you know actually the basics of this slide from our press release, we will then go directly to question-and-answer.

Let me start with page number three. The project itself is really a unique growth step in the development of New World Resources because on our side of our operations in the Czech Republic there was no new mine builds since the last 43 years. The last mine was the mine (inaudible) which was built in 1968. But I think not only for us, but also for the whole region this is a very challenging and very important step in the development of the whole region.

Debiensko itself will account for some 15% of our NWR production by 2018 when we will achieve 2 million tons per annum. Since this is a greenfield project and we are opening basically a brand new mine, we do believe that this will be really a top notch world-class modern mine which will be operating efficiently and has to operate safely.

Linked to this is of course the competitive cost situation, very good coking coal quality and the proximity to the market because we will be continuing serving our clients from Debiensko mine, the clients that we have already at the moment. And this project has strong support in the local community and in the region because it offers substantial amount of new jobs that will be created.

Slide number four gives you an overview of how the mining operations look like. We are talking here about the reserve base of 190 million tons. That's the number you have been hearing over the last three years JORC reserves for Debiensko. The license is valid until 2058, so a 50 years license. The ramp-up period, as previously announced, is five years. So, assuming we will break ground sometime maybe at 2011 at the end of the year the first coal should be coming in 2017.

The development CapEx after the detailed feasibility study and after very detailed calculations comes up to EUR411 million. The opening of the mine would be by twin slopes with using some of the existing shafts that are already existing at the multiple operations of Debiensko. Annual production, as already mentioned before, 2 million tons. Average cash cost -- something that already compares to our existing OKD operations. And, here, we are at the level of some EUR70 per ton, so some 15% to 20% lower than our existing operations at the moment.

Longwall sets that will be operational will be three longwall sets at the time mining coal, mining these 2 million tons per annum. And there will be one spare set because of the longwall movements. There will be one longwall set additionally, or as a spare set. Development sets which will be operational -- some ten number of development sets. And number of employees we are talking here about 2,100 people -- up to 2,100 people.

Slide five gives you just an overview of what we have achieved in the first stage of the definitive feasibility study, or the first phase. That was the planning phase which we have concluded, completed by March 31st.

There are basically two major portions of that plus the financial model. And the two major parts are the major CapEx studies, or modules for surface infrastructure as you see done by (inaudible) coal preparation plan. That was done by Separator, Robert Schaefer, the American company. Access slope and shaft equipment, which were done partially by some Polish companies or some South African companies.

Other studies that have supported the entire scope of the planning phase were done by South Africans, which was the three dimensional reserve model and the mine plan for the next 48 years to come, digital surface map, which was done by a Polish company [CAD expert].

And we also had a study or analysis of the railway capacity, which was undertaken by the Silesian Technical University, which was answering for us a very crucial question, can we transport all the coal that will be produced at the site at the level of 2 million tons.

So that was the -- and of course the financial model with all the sensitivities has underlined and summed up all these numbers that came up from the individual modules. And based on these the Board has decided to press the button now for the Debiensko project. So that was the first phase, the planning phase. We are now entering the second phase, the detailed engineering phase which we expect to finish by March 31, 2012, and actually we are meanwhile working with -- we start working on the detailed engineering phase.

Slide number six, what is the regulatory framework at the moment for the Debiensko mining license number eight from 2008 is still valid for the 50 years. Then the next four bullet points describe the license or our application for the environmental -- or application of the environmental report for the access slope.

So the next four bullet points have described that in June we have submitted an environmental report for this very crucial access slope to be started, and we have submitted to the local municipality. We expect to receive these licenses by end of August, and this is a prerequisite to start excavation of slope number one.

After that -- after we will receive these licenses we need the permits from the -- the construction permits actually from the construction inspectorate and mining inspectorate, which we expect in the late fall of 2011, and the excavation, the box cut itself of slope number one. The -- we expect to start in the late fall of 2011.

This was on the access slope. The bullet point coming after is something that is linked to the upper levels of or upper seams above the existing license of 190 million tons. And this is the amended license that we have been talking to many of you over the past years. Here, we await completion of the environmental review process.

There were some delays because of some bureaucratic steps, though we do hope that we can receive it in here a time span you see is six to 12 months because hard to assess whether it will be already in this year or beginning of next year. And then, we do expect to receive the amended license in summer 2012.

Next slide you see just a depiction -- a three dimensional depiction of how the site -- how the Debiensko mine will look like. On the left side you see some of the infrastructure that is existing today. Some of these red bricks buildings in behind there you see the existing coking plant which is owned by JSW.

And on the very left side of the left picture you see the area where the slope number one will be entering the ground. And on the right side on the right picture you see the processing plant in the background. And you see in the front all the rail, all the shunting rails and also the outcome of the other slope, which will be taking coal from the mine to the processing plant, which you see the background with the piles of coal.

On the next slide, number eight describes a little bit something about the mine plan itself, about the operations. So the Debiensko mine will be opened through existing shafts -- to existing shafts and a twin slope, or a twin slope that we will be doing shortly in 2011 starting breaking the ground.

The twin slopes will be driven down to the bottom to 780 meters deep to connect to one of these existing shafts, also for ventilation purposes and for material transportation. After we will complete the initial access down to the necessary levels the mine will be developed horizontally, or laterally to open the three mining districts, which will be [following] one longwall set each of them.

The mining, as I said, will be starting in 2017 with the full production coming a year later. The mining sequence will be obviously from the uppermost coal seams to the lower ones. And, as I said, we do expect to mine 2 million tons a year with this production level. Half of the existing licensed reserves will be extracted until 2048, so there will be still sufficient coal left after the expiration of the existing license.

And the very large bullet point and a very important remark you see here, these 2 million tons of annual production are actually have been derived from the possible impact of longwalls -- of the three longwalls underground in the depths, as indicated, to the surface.

So should the impact to the surface -- impact of the mining to the surface be lesser than allowed by the existing license conditions which are somehow constraining us that we see some possibility to increase the production rate, but this would be really an add on. With the existing license and with the conditions of the license, we do assume to be mining 2 million tons a year.

The slide on the processing plant -- the next slide just describes about the basic parameters. The new processing plant will be constructed from 2014 on to up to 2016. The nominal throughput capacity of the coal processing plant is designed to be 650 tons of final product per hour, so of course run of mine will be much higher.

The product that will come after the processing plant, the sellable product, will consist of seven-eighth of coking coal and one-eighth of thermal coal, which is also a good piece of information, given that originally we have assumed a higher thermal coal proportion. So now, we have a pretty high coking coal, or very high coking coal ratio. And the processed coal will be then loaded through fully automated loading, or on the shunting station onto the railway cars to the six railway lines that you -- as you have seen previously on the right.

Where we stand today? The last slide of the presentation before we go to Q&A. So we have -- as we have scheduled and as we have informed the market, we have completed the DFS by March 31st. We are continuing buying the infrastructure, the necessary infrastructure and the land on the surface is in progress. There are some delays given the sometimes slow and tedious governmental processes, but we do expect to have required all the necessary infrastructure by summer next year.

We see a strong support from the local community and population, and this is being also reflected in a very high number of applicants. We have see some 3,500 new job applications coming in, predominantly from the area around Debiensko. Because, as you know, in (inaudible) there was an old Debiensko mine, so people are used to mining and people are used to have mining salaries in the region.

We already started also hiring of course critical employees at levels of technicians and managers that will be managing the project already now -- actually starting now from last week on. We are also in the process of selecting potential contractors. We are of course not being [awake] now by these board decisions. We have been leading these discussions over the past months, and quarters and some of them may be for a year.

Jun 24, 2011 / 01:00PM GMT, NWR.L - New World Resources NV Board Approves the Debiensko Project Conference Call

So we are in a pretty decent stage of getting firm bids from them. And we do hope that this new project, which is really unique and very, very interesting for the mining community will have a strong political support also from -- not only from the self-government in the region, but hopefully also to the highest levels of the Polish government.

This would be from me on the presentation on the technical operational part. Here I would like to turn over. Agnes?

Agnes Blanco - New World Resources NV - IR

Yes. I think we can open to Q&A now. Thank you, Jan.

Jan Fabian - New World Resources NV - COO

So we would then hand over to Stan for the assistant on this call for the Q&A.

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions)

Our first question today comes from Marcin Gatarz of Unicredit. Your line is open. Please, go ahead.

Marcin Gatarz - Unicredit Research - Analyst

Yes. Good afternoon. I would like to ask about the timeline of the CapEx. When would be the peak of the CapEx, and how much we should expect in the -- in this peak year for the CapEx?

Jan Fabian - New World Resources NV - COO

The CapEx spending will be -- at the beginning there will be certain part of CapEx or high levels of CapEx. Then there will be a lower level of CapEx spending in towards the completion of the initial phase, where we'll be starting purchasing longwall sets and all the necessary equipment, and of course equipping the entire preparation plan. Then you will see again an increased level of CapEx.

Marcin Gatarz - Unicredit Research - Analyst

Okay. Thank you.

Operator

(Operator Instructions)

Our next question today comes from Thomas O'Hara of Citigroup. Your line is open. Please, go ahead.

Thomas O'Hara - Citigroup - Analyst

Thank you. Hello, guys, just a question on the sort of maintenance CapEx contingencies that you've assumed for this project.

Jun 24, 2011 / 01:00PM GMT, NWR.L - New World Resources NV Board Approves the Debiensko Project Conference Call

Jan Fabian - New World Resources NV - COO

We are assuming maintenance CapEx of some EUR15 million annually.

Thomas O'Hara - Citigroup - Analyst

Okay. Thanks very much. Cheers.

Operator

Our next question today will come from Monika Tabanyi of Concorde. Your line is open. Please, go ahead.

Monika Tabanyi - Concorde - Analyst

Thank you. Good afternoon. My question would be the same -- the maintenance CapEx, however, it was answered. So, thank you.

Operator

(Operator Instructions)

Our next question comes from Vasily Nikolaev of Goldman Sachs. Your line is open. Please, go ahead.

Vasily Nikolaev - Goldman Sachs - Analyst

Hi. Thanks for taking my question, a really simple one, or a difficult one, depending on how you want to look at it. Could you talk a little bit about the economics of this project in terms of the IRRs that you see in the sensitivity of the coal price, and what coal price you assumed to meet the hurdle IRR that you would like to produce here?

Marek Jelinek - New World Resources NV - Executive Director & CFO

Hi, Vasily. I'll try to take this one. And, Jan, please jump in if you want to comment.

Jan Fabian - New World Resources NV - COO

The easy one -- the easy one, yes.

Marek Jelinek - New World Resources NV - Executive Director & CFO

I'll take the easy one. On the economics it obviously depends on the financing mix that you assume. We have been assuming a 50/50 -- so 50% of the total upfront spend to be financed by that and 50% by equity. On that basis we get to an IRR in the high 20s.

And in terms of the coal prices that we assume we have looked at the qualities that we expect to produce in the -- in Debiensko, both the thermal qualities and the met coal qualities. And we have essentially taken the prices that we are assuming as a long-term average for the same quality in our existing mines.

So, we are assuming that the coal is going to be priced similarly to what we receive today for the coal that we produce in the operating mines today. And we have assumed a flat pricing that just as a technical detail the whole model is a real model, so we have no inflation in anything, including in price.

Jun 24, 2011 / 01:00PM GMT, NWR.L - New World Resources NV Board Approves the Debiensko Project Conference Call

Vasily Nikolaev - Goldman Sachs - Analyst

Thank you, Marek. And what is the assumption?

Marek Jelinek - New World Resources NV - Executive Director & CFO

Sorry?

Vasily Nikolaev - Goldman Sachs - Analyst

What is this assumption for coal price?

Marek Jelinek - New World Resources NV - Executive Director & CFO

Well, there's no sense in talking about the average, so it's the same prices that we are getting in OKD.

Vasily Nikolaev - Goldman Sachs - Analyst

You mean today -- the same prices you're realizing today, or --?

Marek Jelinek - New World Resources NV - Executive Director & CFO

No, not the same prices we are realizing today. I'm -- I don't want to talk about the actual number because that doesn't mean anything. It's an average between a number of qualities. I'm just saying we have assumed that the coal that comes out of the ground in Debiensko is going to capture the same price as a similar quality coal that comes out the ground in our operating mines today.

Vasily Nikolaev - Goldman Sachs - Analyst

Well, the -- sure, I understand there's no point of discussing the average for the mix of grade, but any indication for whatever -- seven-eighths of the output will be coking coal, and I assume the majority of that will be hard. So, maybe just give us a benchmark for the hard coal price that you assume.

Marek Jelinek - New World Resources NV - Executive Director & CFO

No. I don't want to give out the number, sorry.

Vasily Nikolaev - Goldman Sachs - Analyst

Okay. Well, thanks.

Operator

We take our next question today from Marcin Gatarz of Unicredit. Your line is open. Please, go ahead.

Marcin Gatarz - Unicredit Research - Analyst

Jun 24, 2011 / 01:00PM GMT, NWR.L - New World Resources NV Board Approves the Debiensko Project Conference Call

Yes. I would like to ask you whether you are going to reach this production mix of seven-eighths of hard coking coal -- [just] coking coal just from the beginning, or only if you go deeper underground.

Jan Fabian - New World Resources NV - COO

From the beginning there will be a higher -- a little bit higher proportion of thermal coal than this one-eighth, but within couple of years we'll get to this split. So at the beginning there will be a little bit more of thermal coal, maybe 20%, 25%, but then later on we get to only 13%, 15% of thermal coal.

Marcin Gatarz - Unicredit Research - Analyst

Thank you.

Operator

We have no further questions over the line at this time.

Agnes Blanco - New World Resources NV - IR

Okay. Then if -- oh, I think there's one more question.

Operator

We take our next question from Vasily Nikolaev of Goldman Sachs. Your line is open. Please, go ahead.

Vasily Nikolaev - Goldman Sachs - Analyst

Yes. Thanks. Just a quick follow-up, was just wondering the -- who's going to be doing the work for you to -- on this twin slopes. Is this an external contractor? Is this a Polish contractor? Who will be doing that work for you?

Jan Fabian - New World Resources NV - COO

We have been obviously talking to various guys over the last, as I said, even in the last months and a year. We are looking on -- and we have been looking on a potential contractor that could do it. It is definitely a contractor. It will be contractor. It will be most probably a contractor coming from the region.

We have talked previously to even some German guys and some guys from out of this smaller Silesian region. But it's hard to say where we will end up at the moment because we will also get the firm bids with all the pricing and the timing, and of course performance criteria, which is very important for us, or you know the advanced rate per day.

But we are -- we will be getting very shortly, or in a short time to a final decision, but it looks like it will be somebody from -- coming from the regions or from the Polish market.

Vasily Nikolaev - Goldman Sachs - Analyst

Okay. Well, I assume the timeline that you're providing to us is consistent with what the contractors are saying in terms of the timeline that they can actually achieve that.

Jan Fabian - New World Resources NV - COO

Jun 24, 2011 / 01:00PM GMT, NWR.L - New World Resources NV Board Approves the Debiensko Project Conference Call

(Inaudible) more looking on the positive side that we do hope that there is some upside and they can develop even faster than what we have seen in the previous bit.

Vasily Nikolaev - Goldman Sachs - Analyst

Understood. Okay, thank you, Jan.

Jan Fabian - New World Resources NV - COO

You're welcome.

Operator

(Operator Instructions)

We have no further questions at this time.

Agnes Blanco - New World Resources NV - IR

Okay. Then I think that's it. We'd like to thank you all for dialing in today, and if there is any follow-up questions you can contact us from the investor relations department. Thank you, Jan, and thank you, Marek.

Jan Fabian - New World Resources NV - COO

Thank you, everybody. Thank you, Stan.

Marek Jelinek - New World Resources NV - Executive Director & CFO

Thank you, everyone. Bye-bye.

Jan Fabian - New World Resources NV - COO

Bye-bye. Have a nice weekend.

Operator

Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation. You may now disconnect.

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