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NWR.L - Q1 2014 New World Resources Plc Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the New World Resources first-quarter results 2014 conference call. (Operator Instructions). At this time, I would like to turn the call over to Mr. Radek Nemecek, Head of Investor Relations. Please go ahead, sir.

Radek Nemecek - *New World Resources Plc - Head of IR*

Thank you, operator. Good morning, and thank you for joining us on this conference call to discuss our Q1 results. We are joined today by our Executive Chairman Mr. Gareth Penny and our Chief Financial Officer Mr. Marek Jelinek. As usual at the end of the presentation we will open up the call to your questions and we have reserved approximately half an hour for the Q&A session.

Without any further delay, let me hand over to Gareth.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Thank you, Radek, and good morning to everyone on the call and welcome to our results presentation. I will start by giving an overview of our performance for the first quarter of this year and then Marek will present the financials. I will then conclude by outlining our outlook for the current year, along with an update of where we are with regard to the capital structure review that we initiated on January 22, and an update of our mid-term strategic goals.

If I ask you then to turn to slide 5, it does not need me to remind people that we along with the rest of the coal industry, have been experiencing a sustained and intense period of price weakness, perhaps unprecedented in terms of both its length and its depth. Having begun in earnest in the middle of 2011, it has carried over into 2014 and naturally has affected our first-quarter results.

Revenues for the first three months of the year were down 18% at EUR173m, driven principally by declining coal prices and volumes sold. Average realized prices for coking coal were down 12% for the quarter at EUR91 a tonne and for thermal coal were down 6% at EUR60 a tonne. Total volumes of coal sold were down 12% year on year.

This drop in revenues is of course going to exert great pressure on our results and to a large degree dictate their direction. But it is important that it does not mask some very encouraging developments. It is crucial that in the face of these potent cyclical and structural economic headwinds, NWR does everything within its control to withstand them as best it can and to position itself to benefit fully from the market recovery when it does come.

Although I pointed out that the principle driver behind the lower top line was a drop in overall volumes of coal sold, this was driven by a 36% drop in thermal coal sales reflecting the continuation of general subdued market conditions in the region. Volumes of higher priced coking coal actual rose by 9% in this period, thereby improving the quality of sales mix to 65% for coking coal obviously. By comparison, the sales ratio for the corresponding three-month period last year was 49% to 51%, coking coal to thermal coal.

As you will recall in the spring of 2013 we launched a cash enhancing and cost containment measurement program as part of our broader mid-term strategy. It was successfully executed and I'm very pleased that the strong focus on improving both operational and capital efficiencies has been sustained into 2014.

For this quarter, cash mining unit costs were at EUR66 a tonne, down 23% on production that was 4% higher. Similarly, SG&A expenses were down 15% at EUR36m and CapEx at EUR12m was down 80%.

Testimony to our efforts to focus on specific drivers that are within our control is being able to report an EBITDA profit of EUR10m for the first quarter of 2014, compared to a loss of EUR25m in the equivalent period for 2013. Likewise, stemming in the loss per share to EUR0.10 versus EUR0.31 for last year.

Net debt as of March 31, stood at EUR651m, which includes cash of EUR159m.

Earlier this year in January we announced the initiation of a capital review -- of a capital structure review about which I will talk more later. But I should point out that NWR is being treated as a valid going concern for accounting purposes based on the expectation the capital restructuring will be successful.

If we move then on to the next slide, operational performance, slide 6. Before I go into our production and sales levels I'm pleased to report that our health and safety performance continues on an improving trend with the lost time injury frequency rate of 7.27, a reduction of 2% when compared to the full 12 months of 2013. And if I can emphasize that this is of absolute crucial importance to management.

As you can see from slide 6 our coal production for the quarter was 2.2m tonnes, up 4% with external sales of 1.9m tonnes, down 12%. Behind this drop in external sales though, as I've previously mentioned, was an improvement in the sales mix where coking coal represented 65% of total sales as compared to 49% for the corresponding period in the previous year.

As previously discussed, CapEx for the period was EUR12m, down 80% versus the first quarter of last year, putting us on track to reach our target of less than EUR100m for the full year.

Furthermore, I'd like to highlight that optimization of our working capital has remained a key focus as reflected in the 45% year-on-year decrease in coal inventories, thereby freeing up capital to be used more productively and improving operational cash flow.

Following the end of the quarter on April 28, we are very pleased to announce an agreement with the Czech government concerning financial support for the closure of Paskov, the high cost mine, which will now remain open until at least the end of 2017. This agreement remains to be finally signed but the terms of it have been agreed with the Czech government.

The Czech State will provide approximately CZK600m, approximately EUR22m that will cover the social costs of this closure. This agreement will be contingent upon certain profitability criteria being met, and is still subject to the approval of the European Commission regarding state aid rules.

Looking then at the wider picture and the health of steel producers who remain our biggest customers, we have witnessed a rise in steel production for the quarter within our core markets, albeit small at about 5%. Whilst it is too early to tell whether this will translate into long-term recovery, it is an encouraging sign nevertheless.

Now let me pass over to Marek who will take us through the more detailed financials.

Marek Jelinek - *New World Resources Plc - CFO*

Thank you, Gareth. Good morning, everybody. Thank you very much for taking the time. For those of you following the slides I'm now on slide 8 of the presentation, P&L. Gareth has talked about the pricing development so let me move on to costs.

Cost of sales were down in the quarter by 37%; however, if you net out the impact of the inventory development, that decline is 26%, still an impressive number. This is a testament to our ongoing focus on bringing down operating costs to make the operations as efficient as possible and clearly you can see the results here.

We equally have seen a 15% drop in selling and admin expenses that stood at EUR36m. As a result, the EBITDA for the quarter is EUR10m, which is in a stark contrast to the EUR25m negative EBITDA in the same period last year. We still recorded a loss per share of EUR0.10.

Net cash flow from operations was slightly better, with a EUR20m outflow compared to EUR22m last year. CapEx however was significantly reduced to EUR12m in the quarter, this compares to EUR60m in the same period last year. So the preservation of cash and improving the liquidity position remains one of our key priorities.

Moving on to a more detailed picture on coal prices, I'm now on page 9. You will not be surprised to hear me say that pricing conditions have continued to be weak for both types of coal that we produce. This is particularly true for thermal coal, not only have we seen a pretty significant drop in thermal coal prices but in our relevant market in Central Europe there is a very significant level of inventory, both at the coal producers as well as utilities and that is going to limit any potential upside in the near term.

Our average realized coking coal price for the first quarter was EUR91 a tonne which is a 12% drop year on year and it was EUR60 a tonne which is down -- for thermal coal, which is down 6%. We have seen this continue into the second quarter with the average coking coal price agreed at EUR85 a tonne for the second quarter of 2014, which represents about 6% reduction relative to the preceding first quarter of this year.

In terms of thermal prices, 80% of our expected sales are now locked in and priced at EUR54 a tonne, so any further weakening in the price should not have a dramatic effect on our performance and this again applies to thermal coal only as you will be aware our coking coal continues to be priced on a quarterly basis.

Moving on to the EBITDA development, this is page 10. Clearly, there's a significant improvement from a negative EBITDA of EUR25m in the first quarter of 2013 to a positive EUR10m in the first quarter of 2014. The chart on page 10 shows you the elements of that development. Clearly, pricing has affected the EBITDA negatively and quite significantly negatively. However, the -- first of all the coal mix has added about EUR9m to the EBITDA in Q1. The mix included significantly higher portion of coking coal than previously and a significant positive impact was seen in cost of sales where we added on a comparative basis approximately EUR38m to the EBITDA in the first quarter of this year.

Looking at the key types of coal in a bit more detail, now on page 11. Coking coal revenues were down 3% to EUR113m, which is a result or a combination of a 12% decline in the average price and -- which was partially offset by a 10% increase in the volume of coking coal sold in the period.

Thermal coal revenues were down 40% year on year, to just EUR40m. This is really driven by a 36% decline in the volumes sold and this is a reflection of the generally subdued market for thermal coal in Central Europe and the 6% price drop, of course, contributed to the 40% drop in revenues.

Inventory levels fell by 45% to just under 700,000 tonnes. This is an increase in inventory since the beginning of the year but a very significant decrease in a year ago comparison.

Importantly, cash mining unit costs were down 23% to EUR66 a tonne and on a constant currency basis, the drop would be 18%. So the koruna did help us a little bit on unit costs. And again our selling and administrative expenses were down 15% year on year.

Now moving to slide 12, for just a brief summary of our financial position. Net debt at the end of March was at EUR651m, which includes EUR159m of cash.

This brings me to the end of the financial review. Before I hand over, back to Gareth for his final comments and for the Q&A, let me just very briefly say this first quarter shows a real delivery on our cost cutting and efficiency improvements. The team at OKD has done a tremendous amount of work but let's not forget that we still burned EUR25m of net cash in the quarter, so there's still a lot of work to be done and I would caution people against trying to annualize the first quarter results. Thank you very much.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Marek, thank you. If we move then to slide 14, looking ahead to the rest of the year, it's readily apparent that the pricing environment remains in a very weakened state. As Marek mentioned earlier, prices for both coking and thermal coal in the second quarter are down on the first quarter of this year. Against this backdrop though, our operational targets remain broadly unchanged; both coal production and sales volumes between 9m and 9.5m tonnes, a 55% to 60% coking coal target in the sales mix, less than EUR100m of CapEx and further improvements in the LTIFR towards the 2015 target of 5.

The only change has been with regards to cash mining costs. With the higher-cost Paskov Mine now expected to continue in production, at least until the end of December, 2017, the projected run rate by the year end is to be in the mid EUR60 range. Previously it was EUR60 per tonne excluding the Paskov Mine.

Turning to slide 15, I would like to say a few words about where we are with regards to the capital structure review that we initiated on January 22. As has been well recorded, we initiated a review of our capital structure, prompted by the current pricing weakness of the global coal market and the negative impact that this had had on economic viability of our reserve base, along with the expiry of our revolving credit facility.

The principle objective of this review is to ensure that the appropriate capital structure is in place to support the continuing development of this business, taking into account the interests of all stakeholders. The process as you would expect is thus an extensive and lengthy one and discussions are still ongoing including with the advisors to the ad hoc committee of note holders who represent holders of both the EUR500m senior secured notes which are due in 2018, and the EUR275m senior unsecured notes which is due in 2021, as well as the cross-holders of both those notes.

I should reiterate that we have the support of the major shareholder of NWR, BXR Mining, who has indicated that it's prepared to invest new equity capital into such an appropriately revised structure. There is no set timetable for this review and further announcements will be made via the customary channels. Nevertheless, we do expect resolution by the end of this year.

In the meantime however, NWR will continue to conduct its business as usual and remains focused on implementing its previously announced efficiency and cost optimization measures, about which I will talk more on the next slide, 16.

Our strategic goal remains to become Europe's leading miner and market of metallurgical coal by 2017. This strategy as we said before is a three pronged one. The first of which is the full optimization of our current operations by the end of this year in order to put the company on a firm footing. We have already made considerable progress against this target but are endeavoring to improve further as outlined.

The second part is to increase the amount of coking coal supplied by NWR to the European market. It is intended that this increase will be met through a combination of mining projects and new marketing initiatives including the importation of seaborne coking coal, and is intended to address the growing structural deficit in this key raw material that we continue to see in Europe.

The third part and final part of our strategy is to build on our existing and well-established marketing capabilities by supplying a full range of coking coal qualities to our existing and expanded customer base throughout Europe and evolving into what we call the one-stop shop for European steel customers.

So to conclude, there can be no denying that the pricing environment of the last few years has been unprecedented in terms of its intensity as the industry has had to cope with both cyclical and structure shifts. It is critical to NWR's immediate and long-term future that it is able to not only identify potential issues early on but to implement actions and strategies to counter them effectively. And it is our strong belief that NWR is doing everything within its powers to meet these external challenges which will leave the company in good stead to capitalize on future improvements in market conditions.

With this, I would now like to open the floor to any questions that you may have regarding today's results. Radek, back to you.

QUESTIONS AND ANSWERS

Radek Nemecek - *New World Resources Plc - Head of IR*

Yes. Operator, we are ready to take the questions.

Operator

(Operator Instructions) Ben Defay, JP Morgan.

Ben Defay - *JPMorgan - Analyst*

Yes, good morning. Thank you for taking my questions. A couple of questions from my side. Firstly, are you factoring in any increase in net working capital in your quarterly cash outflow guidance or is this assuming flat net working capital?

And secondly, how confident are you that the European Commission will actually approve the plan you have struck with the Czech government, and what would be the timing of any answer from the European Commission? Thank you.

Marek Jelinek - *New World Resources Plc - CFO*

Thanks, Ben. On the working capital you will have seen in the first quarter there has been an outflow which is really driven by the increase in thermal coal inventories between January 1 and March 31. This will be partially reversed in the rest of the year so you shouldn't expect -- basically the answer is assume flat.

On the EU Commission, I don't think that we can really talk about the timing that is uncertain. In terms of how likely or unlikely this is to pass the test, the agreement is fully within the framework of what has been an acceptable state aid into coal mining in Europe. The key principle is that this is a state aid that supports a mine that's in a shut-down mode and on that basis, I think it is fully in line with what has been done in other European countries.

Ben Defay - *JPMorgan - Analyst*

Okay, thank you.

Operator

Michael Boam, Claren Road.

Michael Boam - *Claren Road Asset Management - Analyst*

Hi, thank you very much for the presentation. I have quite a few questions, so let's kick off. In terms of cash to run the business can you comment how much cash you actually need to run the business?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Michael, why don't you get all your questions done and then we'll answer them.

Michael Boam - *Claren Road Asset Management - Analyst*

Okay, second question, following up on the inventory answer that you just gave, you commented during the presentation that thermal coal inventories were very high both at mines and at customer sites, how do you expect to keep your -- or how do you expect to reduce indeed your thermal coal inventories going forward given that position, as you've commented that you expect inventories to reverse throughout the rest of the year.

And in terms of your mining, are you mining specific low cost areas at the moment in order to keep costs down or are you just mining as you would have done historically?

The next question, do you intend to keep making your bond interest payments given that restructuring is imminent and the cash is likely to continue to flow out of the business?

And then my final question is on CapEx, obviously the last two quarters haven't been very low, should we think -- what sort of numbers should we be thinking about for -- even just for the second quarter maybe if you can't give out any more clarity further on? Thank you.

Marek Jelinek - *New World Resources Plc - CFO*

Thanks for the questions, Michael. In terms of the minimum cash level, we require approximately EUR40m cash for daily operations. On the inventory and the thermal coal inventory specifically, we are going to sell some of that inventory, but it's not a question of being able or unable to sell it, it's really a question of price.

Michael Boam - *Claren Road Asset Management - Analyst*

Obviously you're selling at a discount, is that why you've given guidance of EUR54 a tonne and is that realistic given how weak Q1 volumes were in the thermal coal space?

Marek Jelinek - *New World Resources Plc - CFO*

We will certainly have to accept some level of discount. We haven't sold any material levels of the inventory yet so I think it's premature to talk about specific numbers today.

Gareth Penny - *New World Resources Plc - Executive Chairman*

And, Michael, remember 80% of our thermal coal sales are sold annually and that price we know.

Michael Boam - *Claren Road Asset Management - Analyst*

Yes.

Marek Jelinek - *New World Resources Plc - CFO*

On the cost of mining, we are not artificially reducing the cost number by just cherry picking nice low cost areas in the mines to mine, I think we wish there were such low cost areas in the mines but there are not. What you see in the EUR66 number for the first quarter is that we are getting to our target which we set ourselves for this year and specifically for the end of the year. We are getting there sooner than we anticipated.

Michael Boam - *Claren Road Asset Management - Analyst*

But it is fair to say though that Q1 was flattered by the movement in inventory because obviously as your inventory moves up your profitability improves? As your inventory moves down your profitability gets worse.

Marek Jelinek - *New World Resources Plc - CFO*

Yes, if you are selling down inventory at a discount, that is true. I think, Michael, the bigger impact on the unit costs was that production was up by about 4% and the number -- as you know the unit cost number is quite sensitive to production. What I was going to say and I made that comment in the presentation, we had a very good quarter, nothing has gone dramatically wrong in production and mining coal a kilometer underground in Eastern Europe is a very tough job. So I -- we are obviously happy with the EUR66 number and with the progress we are making in terms of getting to the ultimate cash cost run rate that we want but you -- as you've seen we are not revising the guidance for this year. We just had one good quarter but that's way too short a period of time to conclude anything massive. So our targets for the year are still the same.

On the CapEx, again the guidance is still the same. It's up EUR100m but that -- I'm not trying to be cute, it's not -- obviously 50 would be sub-100, but that's not the number, it's just under EUR100m and again, because our CapEx -- depending on what it is, but it tends to be bulky, a long wall can cost EUR20m, then you do have those swings between quarters but the annual CapEx for 2014 will be just under EUR100m.

Michael Boam - *Claren Road Asset Management - Analyst*

Okay, so it's fair to say the next quarter will or should be higher than this quarter?

Marek Jelinek - *New World Resources Plc - CFO*

Yes.

Michael Boam - *Claren Road Asset Management - Analyst*

Okay.

Marek Jelinek - *New World Resources Plc - CFO*

Yes. Coupon payments, these are contractual obligations aren't they, so that's -- I think that answers your question.

Michael Boam - *Claren Road Asset Management - Analyst*

Okay. Thank you very much for your time.

Marek Jelinek - *New World Resources Plc - CFO*

Thank you, Michael.

Operator

(Operator instructions) Julian Raffelsbauer, BNP Paribas.

Julian Raffelsbauer - *BNP Paribas - Analyst*

I have one on thermal coal price phasing and the other one on costs. So you achieve thermal prices of EUR60 and you guide for EUR54 for the whole year, so when are we going to see the decline? Are we going to see the decline as soon as Q2 to reach this EUR55 annual average?

The second is on costs. The personnel costs has decreased, sequentially and year on year. Is the run rate we've seen in Q1 the run -- the full -- is it taking into account the whole impact of the agreement you signed with the union or shall we expect more decrease in terms of personnel costs sequentially?

And on energy, I saw, as well, that the energy costs were down materially, sequentially. Is the reflection of lower power prices in Central Europe or is it the reflection of lower volume? That's the question I had.

Marek Jelinek - *New World Resources Plc - CFO*

Okay. Thank you for the question. In terms of thermal coal, yes, you will see a gradual decline in the average thermal coal as the year progresses. And also this will be affected as we discussed previously when Michael asked the question; the inventory selldown will also have an impact on this.

Julian Raffelsbauer - *BNP Paribas - Analyst*

And -- sorry, just to follow up, are you going to start to sell this inventory in Q2 already?

Marek Jelinek - *New World Resources Plc - CFO*

That is quite likely, yes.

Julian Raffelsbauer - *BNP Paribas - Analyst*

Okay. All right, thanks.

Marek Jelinek - *New World Resources Plc - CFO*

In personnel costs, the new agreement with the unions is now fully implemented and fully reflected in the personnel expenses in the first quarter.

Julian Raffelsbauer - *BNP Paribas - Analyst*

Okay.

Marek Jelinek - *New World Resources Plc - CFO*

And in terms of energy, there are actually two factors. There's -- one is more efficient use of energy but also it's the cost of energy that has helped.

Julian Raffelsbauer - *BNP Paribas - Analyst*

And just -- sorry, on your energy, could you remind us how much you buy spot and how much you buy under long-term contract?

Marek Jelinek - *New World Resources Plc - CFO*

Practically all of it is under a contract.

Julian Raffelsbauer - *BNP Paribas - Analyst*

A contract, okay. So it's much more efficiency then, I guess.

Marek Jelinek - *New World Resources Plc - CFO*

Yes. But the contract also has a formula in it so it's both price and efficiency.

Julian Raffelsbauer - *BNP Paribas - Analyst*

Okay, I see. Thanks a lot. Thanks.

Marek Jelinek - *New World Resources Plc - CFO*

Thank you.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Are there any more questions?

Radek Nemecek - *New World Resources Plc - Head of IR*

Operator, do we have any more questions?

Operator

Matt Farwell, Imperial Capital.

Matt Farwell - *Imperial Capital - Analyst*

Hi. Good afternoon or good morning, wherever you are. I'm curious about the Paskov Mine. The deal that you're currently cutting is to continue it operating; it doesn't appear that it's generating cash flow. Why is this deal with the government in the best interest of the bondholder/shareholder?

Marek Jelinek - *New World Resources Plc - CFO*

Right. Thanks for the question and it's a good one. Let me say this first. Our -- in an ideal scenario, which appears unlikely at the moment, but nevertheless in an ideal scenario we do not shut down Paskov. The reason why we are doing it, we are not shutting it down just for the sake of shutting down mine; it just burdens the rest of the operation with such a cost and such a cash drain that we cannot afford to keep it open.

However, in the -- towards the end of last year and very much in the first quarter of this year, the team at Paskov has done a tremendous job in terms of keeping costs under control. Production has been excellent. The cash drain has been limited so they are making tremendous progress. We are still nowhere near -- as you correctly say, we are still nowhere near a cash generative or profitable situation for Paskov and that is a very, very long shot but, again, in terms of the direction we are moving in the right direction.

Now, in the absence of being able to turn Paskov around, we will have to shut it down and we will have to limit the impact on both the Company but also equally limit the impact on the area, on the local community. This will -- the shutdown will result in a very negative impact on the local labor market and obviously it's not just the employees of the mine but it's the -- obviously, there's a number of suppliers and related businesses that will be hurt. So, in that context, we have entered into this negotiation with the government and this is the agreement that we arrived at.

It is -- why is it a better deal for everybody involved, better than no deal? The answer is EUR22m of state aid. But, again, our ideal scenario is to keep the mine in operation. Unlikely as it looks today, I don't think it's entirely impossible and we now have three years to try and make it happen.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Matt, can I just add one or two things to that. It's important to note that the quality of Paskov coal is exceptional. It's not the average of OKD coal and so, whilst one gets very focused on the effects on cost per tonne, the fact is that the revenue per tonne of Paskov is much higher than the average revenue for the rest of OKD.

It's also the kind of coal that when the recovery comes is most likely to be benefited most quickly. So, actually, if we can defer a decision on closure with the kind of support that we've got because we've guided the market already that to close the mine would cost us about EUR50m and that would have to happen this year and next year. To keep it going, particularly with the kind of improvement that we're seeing that Marek has spoken of, the operational improvements -- you've seen the overall figure for NWR in terms of where the cost per tonne has come down to and that's reflected in the same way in Paskov, perhaps even more so, because they understand that they have a burning platform there and therefore they need to make enormous efforts to get this mine to turn around.

We're seeing some very encouraging signs at Paskov in terms of new ways of working and understanding between unions, labor, the mine management, etc., to bring the costs of this mine down. Marek says we're not there yet but, directionally, this thing is correct and, actually on balance, our view is that early closure and the acceptance of the kind of costs that I've mentioned and that I think we've spoken of before is less advantageous to the Company than focusing on the efforts we're making, getting assistance from the state down the line with our closure costs and keeping optionality in terms of a market upturn. On balance, we feel that's a better thing to be doing for our stakeholders.

Matt Farwell - *Imperial Capital - Analyst*

Could you just confirm that the aid is not to the Company; it's to the local area and the workers?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Well, it's the same thing, in a sense, because if the state wasn't paying those, call them retrenchment costs, we would be paying them.

Matt Farwell - *Imperial Capital - Analyst*

Okay. We've seen a couple of mines shut down in North America and we've also seen your 2Q pricing, while lower, has not come down one to one with the benchmark and are those two factors correlated? Are you seeing better pricing power with your customers locally? Can you give some more color there?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Well, I think a few points. One is it isn't a couple of mines that have closed around the world; it is multiple coal mines. Obviously, depending on where they are in the cost curve and so on but in the Appalachians alone there are many, many coal mines that have closed. At some point, this is going to have an impact on the forward pricing curve but, obviously at the same time, you have had new production coming on in Australia which has countered the impact of mine closure.

Just remind me, Matt, on the second part of your question.

Matt Farwell - *Imperial Capital - Analyst*

I was suggesting that your forward pricing hasn't stepped down with the benchmark. The 2Q benchmark is down $23 per tonne; your forward pricing is only down roughly EUR6 per tonne at least. So are you seeing --?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Just to respond to that, you are right, the overall market was down something like 16% Q2 against Q1. If you look at the kind of agreements that were reached between some of the majors, for example, and their customers, we are down minus 6%. I think that's a reflection of our geography, where we are in logistics, the relationships that I think we have with our customers, the importance to our customers. I think it's a whole collection of things and it talks to our longer term strategy, actually.

Matt Farwell - *Imperial Capital - Analyst*

Could you -- what is the transportation cost for an Australian producer or a US producer to deliver a product from the port in Poland to customers in Central Europe?

Gareth Penny - *New World Resources Plc - Executive Chairman*

I think that's a variable number. It's not something that I can just give you immediately over this call and it's clearly going to depend on many different factors so I don't think that we can just give you a single number as an answer to that question.

Marek Jelinek - *New World Resources Plc - CFO*

I think that one important thing to understand is that, yes, the benchmark was down close to 20%, quarter on quarter; our prices were down 6%. The irony of the situation is that we sell -- or historically, we have been selling at prices that were very highly correlated with the benchmark in a market which is fundamentally short coking coal. It's something like 4m tonnes of coking coal that's imported into Central Europe every year and, yet, the price is driven by whatever happens between Australia and Asia.

I think the difference between the benchmark and our actual price this current quarter is a manifestation of a trend where I think people -- the market, generally, is beginning to understand that we are actually not in the global market; we are in a Central European market where some qualities of coking coal, particularly the higher qualities of coking coal, are simply not available, and I think that helped the price development in Q2.

Matt Farwell - *Imperial Capital - Analyst*

That's very useful. Thank you very much.

Marek Jelinek - *New World Resources Plc - CFO*

Thank you.

Operator

Thank you. Bartek Kubicki, RCB.

Bartek Kubicki - *RCB - Analyst*

Good morning, gentlemen. If you can give us some figures regarding -- or some numbers regarding the Paskov meaning what was the revenue per tonne in the first quarter versus the cash costs per tonne in the first quarter? Also, how the cash cost looks like versus the times when you were -- before restructuring. And also what's the target in terms of having the mining cash costs in 2014 for Paskov Mine and also the production target for this year? So that would be the first question, maybe a little bit more flavor in terms of numbers.

And the second in terms of the preparatory work, meaning the corridors you do in the mines. How much have you decreased the work versus, let's say, the works -- the preparatory works you were doing two years or last year?

Marek Jelinek - *New World Resources Plc - CFO*

Right. On the first question on numbers on Paskov, I'm afraid we do not disclose numbers per individual mine so I'm going to have to decline.

On the development, there isn't actually a massive change in development, with the expectation -- sorry, with the exception of Paskov, which now obviously operates as a mine that is scheduled for shutdown so the development there is reduced.

Bartek Kubicki - *RCB - Analyst*

Okay.

Marek Jelinek - *New World Resources Plc - CFO*

But we will not go into the numbers on that.

Bartek Kubicki - *RCB - Analyst*

So in case the pricing improves you will be able to improve your production quite quickly, as well, with this low CapEx you have right now. You can start producing, let's say, 11m tonnes of coal immediately once the prices are okay.

Marek Jelinek - *New World Resources Plc - CFO*

No, we will not be able to do that. There is a long lead time between investment into new locations and actual production from new locations and that lead time is in years. And there's a lot of CapEx, massive, massive CapEx involved in that so you shouldn't expect -- if you are modeling 30% price increase and that implies 30% production increase, that is absolutely wrong; it's not going to happen.

Bartek Kubicki - *RCB - Analyst*

Thank you.

Operator

Thank you. Christian Hanson, INT Asset Management.

Christian Hanson - *INT Asset Management - Analyst*

Morning, Gareth, Marek. First of all, congratulations on a great result given the circumstances. I have some questions regarding the Paskov agreement but I don't think you're able to elaborate further on it. However, could you give me some color on breakeven pricing for both thermal and coking coal, giving the improvements that you have seen over the last year or so? What numbers should we look at, going forward?

Marek Jelinek - *New World Resources Plc - CFO*

The number is -- first of all, we don't really distinguish internally between the cost of production of thermal and coking coal. It technically becomes thermal or coking only after it leaves the prep plant. So the number is the same. As we guided, we expect a cash cost number in the mid EUR60s as the situation at the end of this year and you need to add about EUR8 or EUR9 on top of that cash cost to get to the total OpEx, so I don't know if that's the breakeven that you are looking for or what else do you want to include in that?

Christian Hanson - *INT Asset Management - Analyst*

And also the overhead.

Marek Jelinek - *New World Resources Plc - CFO*

Yes, so that's that number.

Christian Hanson - *INT Asset Management - Analyst*

So that would be around close to --.

Marek Jelinek - *New World Resources Plc - CFO*

EUR73 (multiple speakers).

Christian Hanson - *INT Asset Management - Analyst*

EUR75.

Marek Jelinek - *New World Resources Plc - CFO*

Yes, something on that order.

Christian Hanson - *INT Asset Management - Analyst*

Okay.

Gareth Penny - *New World Resources Plc - Executive Chairman*

So that, Christian, would include, obviously, logistic costs but it would exclude --.

Marek Jelinek - *New World Resources Plc - CFO*

Depreciation.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Yes, depreciation, (inaudible), etc., so all non-mining overhead cost.

Christian Hanson - *INT Asset Management - Analyst*

Okay. Coming back to the Paskov agreement, why is it that the initial contribution of CZK1.1b was so dramatically reduced? I know except for negotiations but, to me, it seems like a really drastic fall and the CZK1.1b would be more in line with the cost of closing down the mine.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Christian, this was obviously subject to a series of negotiations. There was a change of government in the (multiple speakers).

Christian Hanson - *INT Asset Management - Analyst*

Yes, I know.

Gareth Penny - *New World Resources Plc - Executive Chairman*

As you now know, we have a coalition government so the nature of the parties to the agreement have changed. I think government has felt that its responsibility is towards the social cost, by which this obviously means people and communities and not towards technical costs, as they call them, which is the balance of the CZK1.1b. And that was a view that they came to so you would need to ask them why they came to that view but that's where we got to in the end. And, as we've described already on the call, we felt that net-net it was a better situation for OKD and NWR and its stakeholders than no agreement at all. And I think that if you unpack it, that should be clear.

Christian Hanson - *INT Asset Management - Analyst*

Okay. Would you also say that from a purely economical point of view?

Gareth Penny - *New World Resources Plc - Executive Chairman*

As I've said already, I think so. There are Herculean efforts to get the cost down there and they are coming down. They're coming down in line with the significant reductions that we've articulated for the Company as a whole. There is the upside that we're not having to spend that kind of money on closure and that if market returns, this is very desirable coal so there are a number of elements.

I also think there's some intangibles like the fact that it has given us, I think, a much stronger working relationship with the unions. It's led to a better understanding and (technical difficulty) more with government on these things. So there are a lot of intangibles around which it's difficult to put specific numbers that I would think, in the longer term, will be very beneficial to the Company. I think government is appreciative that we have -- that we're playing this role. There are a lot of jobs, there's a lot of impact on the region and so the overall benefit, we think, is significant.

Christian Hanson - *INT Asset Management - Analyst*

Okay. We'll see what happens, going forward. Thank you very much, gentlemen.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Thank you.

Operator

(Operator Instructions).

Gareth Penny - *New World Resources Plc - Executive Chairman*

I think it sounds to me like we have probably come to the end of our questions and maybe I can summarize.

Firstly, thank you for being on the call, everybody, and thank you for some of the feedback that we've had which is helpful. It's clearly been a very tough quarter. You only have to look at that one slide on pricing from 2011 to get a sense of the challenges that the business has faced. I think that the efforts that management has taken around the controllable elements have been exceptional. I think to have got our costs down now -- our costs per tonne, that's cash mining costs to EUR66 -- you only have to look at what the number was for the first quarter of last year -- has been a tremendous effort.

We are not changing the overall guidance of around EUR65 a tonne for the year so I think to Marek's point this is the fact that we have been able to deliver sooner on what were our plans rather than that our plans have changed is an important point. Clearly, the market has deteriorated again since these numbers, which I think is important, by another 6%-odd so the efforts are going to have to be increased in Q2 just to stay up with the falling market.

I would say if you look at the operational side of this business there have been significant improvements. The challenge for us in Q2 will to be -- to make significant progress on the restructuring discussions; that clearly is an absolute priority for us. Those continue on track. We're not in a position to say more than that. Our major shareholder remains committed; we've said that already. And it is fully our intention to bring it to a conclusion in the months ahead.

Thank you all for your time and we look forward to talking to you again around the results for Q2.

Marek Jelinek - *New World Resources Plc - CFO*

Thank you, everyone. Goodbye.

Radek Nemecek - *New World Resources Plc - Head of IR*

Thank you very much. Bye bye.

Operator

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