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NWR.L - Q4 & Full Year 2011 New World Resources Plc Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 23, 2012 / 10:00AM GMT

THOMSON REUTERS

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PRESENTATION

Radek Nemecek - *New World Resources Plc - Head of Investor Relations*

Good morning, ladies and gentlemen. Thank you for joining us this morning for the announcement of New World Resources preliminary results for the financial year 2011. With us today we have Mike Salamon, the Executive Chairman of New World Resources; Marek Jelinek, Executive Director & Chief Financial Officer; and Jan Fabian, Chief Operating Officer.

The gentlemen will walk you through the presentation. And after the presentation, we will open for questions from you and from the conference call.

So without any further delay, let me hand over to Mike.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Thank you, Radek. Welcome, ladies and gentlemen. I will cover the highlights, then Jan will do a business review, Marek the financial review, and then I'll come back to the outlook. And then, I'll chair the Q&A.

Firstly, let me just start by saying it's been one of our strongest ever results under fairly challenging circumstances. So we feel pretty good about the overall result. Revenue up 3% to EUR1.6 billion, EBITDA down 2% to EUR454 million. The principal driver there was increased coking coal and thermal coal prices. Underlying net profit of EUR0.47 per share compared to EUR0.46 previously, and that's after stripping out EUR82 million for the sale of NWR Energy and a EUR23 million one-off tax refund.

I guess in line with our underlying belief in the business, we've maintained our dividend policy, declared a final dividend of EUR0.07, giving a total dividend for the year of EUR0.23, which is 50% of net income.

Net debt of EUR391 million, a good strong cash generation of some EUR380 million before tax and interest, and the importance in that on the balance sheet is that the first significant repayment is only in 2015. So a robust balance sheet with no pressure.

In terms of the operational side, again, a strong performance under tough conditions. In particular very good to see the lost time injury frequency rate down 8% to 7.9 million. So that's 7.9 million injuries per million man hours worked, and I think that's a testament to the legacy of the investment into POP 2010, the improving underground conditions, and of course, the training and commitment of our people.

Sadly, there were five fatalities in the business, and I think that just permanently acts to remind us of the challenges of the geological and mining environment 1,000 meters underground. And so it really challenges us to continue to focus on any and all mitigating things that we can do to limit the human impact of those -- of that difficult environment.

In terms of production, coal production was down 2% to 11.2 million tonnes, and external sales were down 1% at 10.6 million tonnes. Coke was more dramatically impacted, but of course, this was for the first time we've only had one coke plan; we've only had Svoboda operating for the year. So 23% to 770,000 tonnes, with external sales down 50%. And I think that is an indication of the more challenging situation at the back end of the year when we saw the steel mills consuming their own coke in preference to merchant coke.

Very, very important milestone in the evolution of the Company was the breaking of ground at our Debiensko project in Southern Poland. As you know, that's 190 million tonne resource, predominantly coking coal. And this is the first coking coal mine to be built in Europe for many decades, so very, very significant. We started work on the box cut for the first slope in December.

Also, we opened our plant to explore the very large Frenstat area within the Czech Republic. As you're aware, we reincorporated in the UK during the year, and are now part of the FTSE series indices. And we've maintained our robust reserve base of 385 million tonnes as of the start of 2012.

Turning now to international coal markets, over the last three years, there's been quite a bit of volatility given the variety of financial crises that we've seen. Both in terms of coking coal and thermal coal, 2009 was a very tough year. It came back in 2010 and really peaked in Q2 of 2011. And then we've seen weakness since then related in main to the uncertainties in the Eurozone.

The bottom two charts I think show the drivers well. In terms of coking coal, the rapidly increasing importance of both India and China as importers, which means that the medium-term fundamentals for coking coal remain strong. And of course, with us being now pretty much linked to international coking coal prices, those drivers are relevant to us in Central Europe as well.

In terms of thermal coal, we've seen good demand, in part as a consequence of the beginning of reduction of nuclear power in Germany arising from the Fukushima disaster, and the fact that thermal coal looks very strong in the region going forward.

Steel environment; the steel production in the region peaked in the second quarter, and then we've seen the Eurozone uncertainties impact us. And you can see that's evidenced by the two right-hand pictures there, one on prices and one on capacity utilization.

Having said that, the situation in Central Europe for steel has actually 0not been bad. We've seen double-digit percentage rise in automobile production in both the Czech Republic and Slovakia, and we're seeing steel capacity coming back on stream, as [various shifts around] it. But overall, the uncertain situation has continued into quarter 1 of 2012.

How has this impacted us on -- in terms of our pricing? Since April of 2011, all our coking coal is quarterly priced in line with the international benchmarks. And we've already announced the first quarter of 2012 the weighted average coking coal price we expect to receive is EUR142 per tonne. That's based on 54% hard coking coal, 38% demi-soft, and 8% PCI.

In terms of coke sales, we see a reduction to EUR311 a tonne in quarter 1. And as a consequence of the phenomenon that under these sort of circumstances the steel mills tend to buy, or consume their own coke, we have now quite a bit of flexibility in terms of the qualities of coke we can produce. And so our expectation is that some 70% of our coke sales will be foundry coke and only 20% blast furnace coke.

Then in terms of thermal coal, as I mentioned, the relatively positive environment, and we've seen the price for calendar year 2012 up 11% to EUR74 a tonne.

With that, let me hand over to Jan, and he'll handle the business review.

Jan Fabian - *New World Resources Plc - Chief Operating Officer*

Thank you very much, Mike. Good morning, everybody. I would like to start the business section with the regional drivers, [refining] coal business in Central Eastern Europe, meaning affecting both thermal coal and coking coal. Let me start with Poland, and then I will move over to the entire region.

Poland as the largest hard coal producer in Europe actually set the tone for regional coal sales, influencing both volumes and prices. Now looking on the pie chart, very clearly, Poland electricity generation is dominated by coal, coal-fired power plants, 92%, which is a very strong input for the positive outlook of coal, thermal coal for the future.

Looking at the supply side, however, we can see that the demand from electricity producers, which is again increasing, is not being matched by the declining hard coal production in Poland, which underlines the supply squeeze.

Now looking on the GDP development in our region compared to EU, Poland is at the level of some 63% GDP per capita compared to the EU-27 average, which, again, sets a potential for the growth, as well as Slovakia and Czech Republic.

And looking on the industrial production growth, we do expect again a rebound in industrial production which should be a very positive input for the entire region.

Looking on the development, GDP development in this region compared to the Eurozone, you can see that the region has been growing over the last 10 years much faster than the rest of the Eurozone, 5% compared to 1%. And looking on this map, you can see that this region is a very strong base for a large cluster of customers, manufacturing companies that have been sat here over the last decade, serving some 150 million customers in this region.

Looking now on the steel sector influencing our Coking Coal and Coke business, you see that the car production in this region has been again growing in 2011, especially in countries like Slovakia and Czech Republic, with a growth of some 12% and 13%. Altogether, the region is producing some 9 million vehicles, which is a very strong driver again for the steel production, and again influencing positively our Coking Coal and Coal business.

Turning to our growth projects, you see our operation highlighted in green, plus three development projects. I will start with the one, Debiensko, which is most advanced and most important for us. At Debiensko, after approving in June by the Board to go forward with the project, we have achieved the first big milestone, breaking ground in December with the box cut, with the portal opening for the slope.

We are at the moment in the phase of negotiating with the slope contractors to develop the slopes. We do expect the slope construction to be started in the second half of 2012.

Concerning the other activities that are going on at the surface, we are further purchasing real estate and infrastructure that we need, as well as reconstructing some of the buildings and infrastructure that we are using already at the moment.

Mike has already mentioned the key highlight of the project. We have a 50-year license to mine190 million tonnes of reserve, which is predominantly coking coal. What is very important for us is the expected cash costs are 10% to 15% lower than in our existing operations, and we do expect to produce around 2 million tonnes a year.

Looking of the CapEx spending at Debiensko, after a relatively small spending of some EUR5 million in 2011, we do expect to boost already there the CapEx spending in 2012. We are going to spend some EUR40 million to EUR50 million in 2012, CapEx.

The two other growth projects we have in our pipeline, Frenstat is a huge reserve base in the Czech Republic [south] of our other operations, some 1.5 billion tonnes of coal resource. We are now in the process of finalizing all the documents for the exploration license. We are actually ready to start with that in due course. We are having very intense discussions with the municipalities and with the relevant ministries, so we will be filing for that, for the exploration license in a very short period of time.

Morcinek is a development project here on the southern part of Poland, just right to our mining operations. Here we have an exploration license. We are the holder of an exploration license. What we do, we do further geological drains there, and we will be then preparing further on to decide what to do with Morcinek in that short term. However, compared to Debiensko, these other two projects we have to state very clearly are of a longer-term development. We are talking here five to 10 years, not earlier.

Now let me spend a couple of minutes on the development of our current operations. We have several projects in our mines. I will mention here and highlight one or a couple of projects from the most important, the largest mine, Karvina Mine. We are there looking at developing adjacent and deeper reserves, and we are now looking on expanding the mine to access additional 30 million tonnes of hard coking coal in this Karvina Mine.

But again, expected year of completion is some five to six years from now, or four to five years from now. So it's a longer-term development. At the same time we are deepening a shaft at the Karvina Mine, again, expected to be finalized in 2017/2020.

The CapEx spending for 2012 is in the level of EUR250 million. EUR40 million to EUR50 million of this is Debiensko, and the remainder is our part, 50% of our CapEx which is maintenance CapEx, additional 50%, which is again additional EUR100 million to EUR110 million will be for these kind of development projects that I mentioned before.

Looking on the sales mix, or the proportion of coking coal and thermal coal sales. In our total external sales, we do expect for 2012 to have a coking coal proportion of 48%, and -- for this year, for 2012, and above 50% over the medium term, meaning two to three years. Any further increase towards our historical levels is depending on the outcome of the ongoing projects, as I mentioned before, as well as favorable mining conditions. And then further on with Debiensko coming on stream, we will further increase the proportion of coking coal in the mix.

Last but not least, very important the safety performance of New World Resources. In last year, again, we were again able to achieve an increase, an improvement. We went to a level of 7.87 time lost injury frequency rate ratio, which compared to 2007, is actually halving. We halved our lost time injury frequency rate since 2007 when we started with a major investment program, investing not only in technology but also in safety.

And besides the intensive safety training, we have benefited from, also from programs like so-called continuous improvement program, which is running over the last two and a half years in our Company, which leads to further safety improvements as well as efficiency enhancements, meaning decreasing costs.

Looking now on the comparison with our regional competitors, especially Poland, you can see that however although we started with a worse starting position in terms of injury rate back in 2008, over the time with this strong focus on safety and with the investment, we have been able to already to overpass our other competitors.

That's on the business review, and I would like to hand over to Marek with that.

Marek Jelinek - *New World Resources Corporation - Executive Director, Chief Financial Officer*

Thank you very much, Jan; and thank you, everyone, for finding the time. I would like to first walk you through the key financial highlights, and then drill down into more granular] view of the individual parts of the business.

So 3% growth in revenues to just above EUR1.6 billion, EUR454 million of EBITDA, which is a 2% drop relative to the prior year. Depreciation is up by about 4% to EUR167 million. This is mainly due to the higher depreciation charges on new technology, both mining and coking.

Net financial expenses of EUR89 million. This is a 22% drop relative to the prior year. Of that EUR89 million, approximately EUR60 million is in interest expenses on interest bearing debt. Most of the rest is FX related.

Income tax was at EUR57 million, which optically would appear to be quite a significant increase relative to the prior year. However, the interest expense in 2010 was affected by this one-off tax return of EUR23 million. So in fact, both in 2010 and 2011, the effective income tax rate was almost exactly the same at about 31%.

Net income of EUR130 million. Again, that would optically appear to be a quite significant weakening in net income, but there were two one-off items, not just the tax return that I already mentioned, but also a gain on a sales subsidiary which was EUR82 million. So comparing like-for-like net profit, the net income number is actually 1% higher in 2011 relative to the prior year.

Earnings per share EUR0.47, and a final dividend of EUR0.07, which is in line with our policy. The EUR0.07 represents approximately 50% of consolidated earnings per share.

Total CapEx at EUR194 million, which is a 12% reduction relative to the prior year. About EUR100 million of that is maintenance CapEx in the existing operations. Approximately EUR90 million is growth CapEx again in the existing operations, meaning excluding Debiensko. The Debiensko CapEx was relatively modest last year with about EUR5 million. The main reason for this number being so low is that we started the real work on the ground at the beginning of December of 2011.

All of this was happening against the background of a rather volatile and appreciating Czech currency. The average euro/koruna exchange rate -- on average the koruna depreciated by about 3% in the course of 2011.

Moving on to look at the coal segment in isolation. I think first of all, it's important to note that the coal segment had an excellent year, EUR483 million of EBITDA, which is a 10% increase year on year. EBITDA margin at 32%, which I think by industrial standards is a very good margin. EBITDA per tonne of coal production is at EUR43, which is a 12% increase relative to the prior year.

Revenues in the coal segment; Coke and Coal revenues were up 8% mainly on the back of a positive pricing environment. Thermal Coal revenues were up by an impressive 27%. This is a result of both positive pricing development as well as quite a significant acceleration in Thermal Coal sales.

Coking Coal sales in 2011 comprised approximately 53% hard coking coal and 47% semi-soft, so there's an improvement in the product mix within the Coking Coal part of the business.

In Thermal Coal, about 77% of the tonnage was actual thermal coal, 6% was PCI, and 17% were middlings. Speaking of PCI, as we noted earlier, we are as of January 2012 starting to classify PCI as coking coal. We previously included the PCI tonnages and prices in thermal coal. The reason for the change is the fact that PCI is sold to coking coal customers. It is a partial replacement for coking coal, and coking coal products in the carbon steel production process. So we are switching in that classification to coking coal.

Finally on the Coal business, unit costs in the coal segment were up 12% on a stable currency basis. This is mainly due to ongoing intensive development works in the existing business. Some of the development funds are expensed, some are capitalized, and the other cause of the 12% increase in the unit cost is a general inflationary pressure in terms of costs of materials, mainly steel, energy, and also cost of contractors.

Moving on to the coke segment. The two predominant themes in our Coke business last year were the impact of the concentration of all our coke production in a single facility, which has reduced our production capacity, but at the same time quite significantly improved the cost base. And the other important topic was a weakness in the coke market, particularly in the fourth quarter of 2011.

So revenues were down, the Coke revenues were down 33%. Production was -- sorry, 33%. Production was down 23%. This is due to the shutdown of the Jan Sverma facility, while coke sales were down 50%, which is a combination of the reduced production capacity and the weak market towards the end of the year.

Nevertheless, despite the 23% drop in production, we have seen a 17% drop in unit costs, and I think this is something that we should point out. It's quite remarkable that we are recording a significant drop in production at the same time we also see a quite dramatic drop in unit costs.

Of course, normally that would never be the case, and this is fully the benefit of the restructuring of the Coke business that we have undertaken in the last several years. The Coke business EBITDA was at EUR7 million for the full year last year.

The key factors that have driven the variation of EBITDA between the EUR464 million recorded in 2010 and the EUR454 million recorded last year were -- the key positive impact was commodity prices that coal and coal prices have added about EUR350 million to EBITDA, while the variation in volumes and product mix have eaten away about EUR300 million of that EUR350 million positive impact of the pricing environment.

Moving on to debt, net debt stood at just above EUR391 million at the end of 2011. This represents a EUR70 million increase relative to December 31, 2010. The key -- two key drivers of that increase were our CapEx spending of close to EUR200 million, and a rather large total dividend payout of EUR140 million for the year 2011. And again, we have announced today a final dividend for 2011 of EUR0.07, which is approximately EUR20 million in total amount. That obviously is not reflected in the numbers that you see in front of you. The dividend will only be paid in the spring of 2012.

In terms of the debt maturity profile, there is no change since we last talked about our performance. We have no significant debt maturities for the next three years when the 2015 note, which today has EUR260 million outstanding, so that note comes due in 2015.

So overall, we have a very good liquidity situation, robust balance sheet, and despite the ongoing uncertainty in the market and in the European economy in general, I believe that we are very much prepared to face whatever 2012 presents us with.

I think those were the highlights. I'd like to hand back to Mike for his final comments. Thank you.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Thanks, Marek. Right then, firstly, if you look at the 2012 outlook, production objective 10.8 million to 11 million tonnes of coal, 700,000 tonnes of coke. External sales between 10.25 million and 10.5 million tonnes of coal split 52% thermal and 48% coking coal, including PCI, and 600,000 tonnes of coke. Prices, thermal coal EUR74 a tonne, coking coal EUR142 a tonne, and coke EUR311. Coking coal and coke is obviously for quarter 1.

In terms of costs, now we're going to see hopefully -- what our budget's indicating is that the reduction in steel price and what have you is going to feed back to a flat real cost situation going [forward to] next year in terms of coal production.

In terms of coke production, I guess what we're forecasting is an inverse proportion to the reduction of rise of coke conversion cost and inverse de-proportional to the lower volume.

In terms of CapEx, EUR250 million, of which EUR40 million to EUR50 million will be Debiensko. And I think important comments from Jan about the medium-term expectations on mix moving back more towards the actual split of the reserve base as a consequence of opening up areas around Karvina and ultimately, obviously, Debiensko itself.

Then in summary, I think in 2011, we can say we worked very hard to overcome both mining and macroeconomic challenges. We've seen reasonable cost containment, solid production with an improving lost time injury frequency rate, and absolute commitment to our organic growth with the start of work at Debiensko.

And then, obviously, the commitment in terms of the work towards enhancing the mix coking coal to thermal coal. All of that underpinned by the 50% on policy dividend payout.

In terms of positioning for 2012 and beyond, we do have state of the art equipment in our mines and in our coke works. Central and Eastern Europe remain an industrial powerhouse, regional powerhouse. Thermal coal will be enhanced by the reductions in nuclear power output, particularly in

Germany; and coking coal benefits both from that industrial powerhouse in the region, but also from the medium term rise of imports in both China and India.

And then as Marek has highlighted, a robust balance sheet with no near-term pressure.

With those comments, I would be happy to take any questions. Just identify yourselves when asking the question. Thank you.

QUESTIONS AND ANSWERS

Roger Bell - *JPMorgan - Analyst*

Roger Bell, JPMorgan. Firstly, just you mentioned the move to 60/40 split of coking to thermal in your sales mix was dependent on the development work you're doing at Karvina. And you said that won't be complete until around 2016. Does that mean we have to wait until 2016 before the mix substantially improves?

And then just a couple of other questions. You mentioned the importance of Poland in terms of thermal coal demand. How much of your thermal coal output currently goes to Poland?

And then finally, just directionally, where do you see Q2 coking coal prices going? Obviously, they've come down significantly in Q1 versus last quarter.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Okay, I'll answer, and then I'm going to ask Jan to comment. Starting with the last point, as you're aware, the current coke and coal spot price is lower than the quarter 1 benchmark price. So if we were pricing today, you'd expect it to come down a bit. And we'll see where it stands at the end of March, that's I think all that can be said.

The steel industry in terms of growth rates is down. Year on year globally, it is down. In the region it's pretty positive. As Jan indicated, our customers are actually upping production as we speak. So hard to pin it down, but the only hard piece of data that we've got is the coking coal spot price.

In terms of Poland and thermal coal, remember, Poland is not an island, it's a regional effect. So I think the importance of Poland in terms of thermal coal is that it is the biggest producer. And the fact the biggest producer keeps reducing its production I think that's really the point. Demand is rising and production is falling, and hence the squeeze. And the only way to square the circle is really the import.

And one talks about gas and various other things, but that's all pretty theoretical. A, the gas isn't there at the moment; and, B, even it was there, there's nothing to burn it in. So really in the near term, the only option in the region is thermal coal and there's pressure on it.

And in terms of the mix, I think, Jan, it's better that you answer that question.

Jan Fabian - *New World Resources Plc - Chief Operating Officer*

I mentioned earlier in my presentation that we are getting somewhere to over 50% over the course of the next two to three years and getting to a proportion that we know from the reserve base that we have 60/40 is definitely something beyond that, meaning it's not only Karvina mine, as an example, Karvina mine development. There are other developments that we are undertaken in the region, plus favorable conditions under existing operations that we have today. All this combined, you get to a proportion that is actually underground, because we all know that underground is 60/40.

Roger Bell - *JPMorgan - Analyst*

Thank you.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Any other questions here? If not, can we move to the wires?

Operator

(Operator Instructions). Thomas O'Hara, Citigroup.

Thomas O'Hara - *Citigroup - Analyst*

It's also a question on the mix. We've got guidance of 48% coking, including PCI for 2012. So if we assume PCI volumes of 4% as like last year, then we're looking at a 44% mix on the old basis. Given the long-term trend is, say, 55% to 60% on the old basis, there's quite a delta there.

So I was just wondering if there were any specific reasons that it's quite some way off the long-term trend. Is it a mine specific problem, or is it just the general geological effects? That's the first question.

The second one is to do with thermal pricing. You mentioned that thermal demand is strong in the region, but at the minute you don't actually make any money on thermal coal. Do you foresee an environment in which you actually start making a profit on thermal coal volumes?

Mike Salamon - *New World Resources Plc - Executive Chairman*

I think we've chosen to have a cost system which allocates the same costs every tonne of coal. We could quite easily choose to have a different cost system, and we could make profit on that thermal coal. So I think you've got to look at the totality of the business, and we make money on the totality of the business. And that's how -- the way we look at it.

Clearly, we push the pricing as much as we can. I think if you look at the mix, it's 82% prime thermal coal and it's 18% middlings. Now the middlings are a much lower quality and are not really compatible to what you would look at for Rotterdam, the Rotterdam price for something like that.

So I think you've actually got to look at that in its totality, and look at it complete, an overall contribution base.

In terms of the mix I think Jan has said pretty much what we can say. There are the regional issues, and there has definitely been, as we are mining on average at around 1,000 meters deep. Now we have a whole lot of tectonic challenges down there, and we have what we call [rock dancers], or others might call rock bursts, which have significant energy releases. And when it happens in or near one of our operating longwalls, what happens is either we have to stop the longwall or we have to very substantially reduce the output.

Now if you look at some of those bigger longwalls, we are mining in excess of 10,000 tonnes a day on those longwalls, and if you go down to, say, 1,000 tonnes a day it has significant regional mix. Oh, sorry, it has a significant mix impact.

And science has not got us where we can predict precisely when and how these things will happen. We know that the risk is there, and clearly, we try to design around and design out that risk, but we have a very complex geometry of operations deep down.

And so these are things that we have to work through on a continuing basis but they do create an element of uncertainty. And so what we -- the information we provide the mix is the best information we have.

Thomas O'Hara - *Citigroup - Analyst*

Okay, thank you.

Operator

[Bart Farasik], Credit Suisse.

Bart Farasik - *Credit Suisse - Analyst*

My first question about product mix was already answered, but I want to follow up on the Tokyo pricing. We heard market rumors that [2Q] prices in Australia can be as low as $210 per tonne for hard coking coal. Is this a level that we can expect also in Europe, or you've got some other estimates?

Thank you.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Quite honestly, we've got to wait and see. The only hard information we have is the current spot price. To my knowledge, there's been no significant settlements for quarter 2 as yet, and so we'll see what we will see.

Bart Farasik - *Credit Suisse - Analyst*

Okay, thank you very much.

Operator

Bram Buring, Wood & Company.

Bram Buring - *Wood & Company Financial Services - Analyst*

Yes, good morning. Two questions, please, first on the tax rate, specifically in the fourth quarter. Marek explained very well what was happening between the full year 2011 and 2010, but the fourth quarter rate was particularly high. If you could please tell me a little bit more about that.

And then a question about wage negotiations with unions for 2012. Where do those stand right now and what are you offering in terms of wage increases for 2012?

Mike Salamon - *New World Resources Plc - Executive Chairman*

Marek, would you take the first one; and, Jan, could you do the second?

Marek Jelinek - *New World Resources Corporation - Executive Director, Chief Financial Officer*

Yes, thank you, Bram. There's nothing unusual or specific about the fourth quarter tax rate. It's just about a matter of timing when the tax is actually paid. So the overall annual tax rate is always going to be in the 30% area. It is always going to be higher than the nominal tax rate in the Czech Republic because we don't pay taxes on a consolidated basis but on an individual entity basis.

And so the -- most of the -- for example, the holding costs and many of the financing costs that are sitting on the holding level are basically paid out of net income. But you shouldn't expect any dramatic variation in the tax rate.

Bram Buring - *Wood & Company Financial Services - Analyst*

Thank you.

Jan Fabian - *New World Resources Plc - Chief Operating Officer*

Bram, on the wage negotiations, collective bargaining, we have not come to an agreement, that's right. We have actually just received a confirmation on Monday another round of negotiations with the trade union representatives.

The views on 2012 differ substantially. They are expecting some 10% wage increase, and given the macro environment, I don't think we can get somewhere to above 5% or above 4%, or somewhere like that.

It's all about negotiations. We are now in another round. We will see after Monday where we end up. It seems that many companies around us have agreed with their trade unions. The agreements were somewhere in the range between 2.8% and 4 point something. Also, some of the mining companies, open pit companies, open cast companies in the Czech Republic. So let's see after next [week] negotiations.

Bram Buring - *Wood & Company Financial Services - Analyst*

Thank you.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Any more questions?

Operator

Andrzej Knigawka, ING.

Andrzej Knigawka - *ING - Analyst*

I have a question on the coke segment. Do you see your inventories, see the coke segment being depleted in the first quarter? Is there any positive impact from the restart of the blast furnace in [Kashetta] in particular, and where do you see your inventories of coke going forward?

Mike Salamon - *New World Resources Plc - Executive Chairman*

Generally, I think we've got to recognize that for blast furnace coke, what happens is that essentially some two-thirds of blast furnace coke is produced by the steel mills themselves. And of course, when times are uncertain or volatile, they tend to consume their own and their stockpiles. And the merchant coke industry, like ourselves, like JSW, has to take up the slack. And that's what we're seeing right now.

Jan, have you got any comments about what is happening in the very immediate term and as we see steel mills putting capacity again?

Jan Fabian - *New World Resources Plc - Chief Operating Officer*

Sure. You were correct that Kashetta blast furnace has been restarted. There are some other positive signs that we see in the region. However, we were anticipating very tough situation in terms of blast furnace coke already last year. Since actually May/June, we saw a tightening situation.

With the new capacity that we have, with the modernized Svoboda plant, we are now able flexibly to switch to a higher proportion of production of foundry coke, what we are also doing. The high value, high margin blast furnace coke, which is now a larger -- actually a larger portion of our production at --

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Mike Salamon - *New World Resources Plc - Executive Chairman*

Foundry.

Jan Fabian - *New World Resources Plc - Chief Operating Officer*

Sorry, foundry. Sorry, foundry coke. Foundry coke, which is now a larger proportion of our production. And there we see some actually positive signs, especially from the German foundries that are our customers.

However, the situation is tough and tight at the European level. Hard to predict what's going to happen in Q2 and then in Q3 and Q4.

Andrzej Knigawka - *ING - Analyst*

Thank you.

Operator

Myles Allsop, UBS.

Myles Allsop - *UBS - Analyst*

Just a few quick questions. Can you give us a sense of how CapEx will develop beyond 2012? Are we going to see it move up from EUR250 million, or is that where it's going to level off?

Mike Salamon - *New World Resources Plc - Executive Chairman*

Basically, what we've indicated is that within the existing business, we're going to be around the level of EUR200 million, split roughly equally between maintenance CapEx that Jan indicated opening up of new areas. And then over and above that, we have the profile on Debiensko. And, Jan, do you want to comment on what that profile looks like?

Jan Fabian - *New World Resources Plc - Chief Operating Officer*

Yes. The EUR411 million CapEx for Debiensko will be split over the next five years/five and a half years, which will be now, as you see, a substantial increase already 2012. There will be a substantial part in 2013. There will be a slight decrease. And then again towards the start of production in the last one and a half years, there will be an increase because we will be starting purchasing technology for longwalls. So this will be somehow a dip in the middle and then again increase towards 2017.

Myles Allsop - *UBS - Analyst*

Okay, and then what level of gearing do you feel comfortable with?

Mike Salamon - *New World Resources Plc - Executive Chairman*

Marek, do you want to comment?

Marek Jelinek - *New World Resources Corporation - Executive Director, Chief Financial Officer*

On gearing? Leverage?

Myles Allsop - *UBS - Analyst*

Yes. Net debt to EBITDA.

Marek Jelinek - *New World Resources Corporation - Executive Director, Chief Financial Officer*

Anything below 2 times leverage, as defined by net debt to EBITDA we think is okay. We would be prepared to look at perhaps going through that level for a specifically defined period of time in a specific situation. But as you can see, looking at the financials today, we are far away from 2 times leverage.

Myles Allsop - *UBS - Analyst*

And just thinking, if we go into tougher times and we see prices going down further and staying lower, will you prioritize the CapEx over the dividend, or will you be prepared to finance the dividend by debt up to 2 times or just above?

Mike Salamon - *New World Resources Plc - Executive Chairman*

I think firstly the dividend policy is 50% net income, so it depends on how tough the times get, and that will tell you whether there is a net income or not. Secondly, our priority at a high level is definitely the business; putting money to work to good effect in the business. But I think between those two positions is where reality will stand.

Marek, do you want to add to that?

Marek Jelinek - *New World Resources Corporation - Executive Director, Chief Financial Officer*

No.

Myles Allsop - *UBS - Analyst*

Okay, thank you.

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Operator

Romy Kruger, Exane.

Romy Kruger - *Exane BNP Paribas - Analyst*

I have two questions, please. First on cost inflation. You said that next year, you expect mining cash cost to be flat. I was just wondering if you could give us a breakdown by components. Where do your costs decrease, apart from steel? Where do you see an increase? Also, what would be the benefit of the continuous improvement program?

And lastly, in terms of personnel cost inflation, what kind of inflation should we expect in 2012? Should it be in line with wage increases, or should there maybe be a benefit from natural attrition?

And then secondly, on funding, you said in your release that you're looking for some new funding or refinancing of existing debt, and I was just wondering how this relates to your acquisition strategy. Do you see currently opportunities to pursue this strategy, or do you prefer to improve your funding situation before acquisitions?

Thank you.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Let me just answer the second question very simply by saying there was nothing sinister or what have you in what we said. Really, all we said was that if the opportunity arises, we will look at refinancing. But the best case is that we have a strong balance sheet with no pressure on it, no financing required until 2015, and I think a decent cash flow in the business.

So please, don't try and read into those anything other than the fact that our finance department spends its time looking for opportunities to enhance the quality of funding we have, and that is opportunistic.

And in terms of the cost situation, maybe between the two of you, you want to respond to that.

Marek Jelinek - *New World Resources Corporation - Executive Director, Chief Financial Officer*

I think we are targeting flat OpEx overall and flat unit cost of production. I don't particularly want to go into the details of how that is achieved. The one uncertainty is the area that Jan mentioned earlier, which is the ongoing negotiation with labor.

Jan Fabian - *New World Resources Plc - Chief Operating Officer*

Other than that. we are doing actually continuous improvement program or similar programs, where we do really achieve cost reductions. Whilst there, we have achieved over 300 million Czech [crowns], which doesn't seem too much, but if you take the amount of money that for example 1,000 or 850 people coming with improvement ideas is generating, that's the huge amount.

We are getting more and more people involved in this continuous improvement program. At the moment, there are 15% of our employees actively involved in coming up with improvement ideas. Not all of them are only cost reduction. Many of them are of course safety enhancement. But these are also small steps where we want to offset the increasing pressure on inflationary pressure.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Thank you.

Romy Kruger - *Exane BNP Paribas - Analyst*

Okay. Thank you.

Mike Salamon - *New World Resources Plc - Executive Chairman*

Is there anything else? Well, if not, then thank you very much for your attendance. We much appreciate it.

Thank you.

Operator

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