NWR ANALYST SEMINAR TRANSCRIPT

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Agnes – Introduction

With us here today we have Marek Jelinek. He is an Executive Director and Chief Financial Officer. And we also have Miroslav Hanulik who is Head of Accounting and Reporting.

They will run through this Agenda as you can see up on the screen. Following the presentation we will open both the floor and the webcast for a Q and A session. I would like to ask you to please try to keep your questions to the topic of this seminar. We're not here today to discuss the results nor the performance of the company. We're not going to discuss outlook and Q3 pricing we're not quite there yet. As also most of you have seen we announced yesterday that we're going ahead with our Debiensko Project. We will host a separate conference call this coming Friday and we'll have the presence of Jan Fabian our Chief Operating Officer and he will also be taking your questions on Debiensko on Friday so if you can please save the questions on Debiensko for that conference call that's what I'd like to ask you.

So with that I'm just going to hand over to Marek Jelinek to run through the slides, thank you.

Marek Jelinek

Thank you very much Agnes and good morning everyone. I'd like to at the beginning cover some high level stuff and then hand over to Miro to sort of drill deeper into some of the specific items that we thought would be useful for us to discuss here.

So by way of introduction I would think that everybody here knows that we are a coal company with assets in Central Europe operating mines in Poland, operating mines in the Czech Republic and development projects in Poland. We are also a coke company. We produce coke in addition to thermal coal and coking coal. And some of the input coal that goes into the coke process is actually sourced internally and that has some implications on the financial study that we show and Miro will walk you through some of the details on that. We operate in Poland and in the Czech Republic supplying local steelmakers, local assets of global steelmaking companies such as US Steel and ArcelorMittal that has some interesting implications about the particular level of seasonality and cyclicality of our business and again we'll talk about that. We sell coal generally in Euros and in Czech Korunas while most of our operating expenses are denominated in the Czech Korunas again that has important implications for the numbers that you receive from us and we'll cover that. Also the various areas of our operations impact the effective tax rate that you see at the bottom of our P & L and again we'll cover that in some detail. In terms of what we currently provide to the analyst community and to the market in general it's really driven by the fact that we are listed on 3 stock exchanges, London, Warsaw and Prague and that we have in the past issued two bonds that are listed in Ireland.

So today we are reporting on a quarterly cycle and that has again some implications on what you see from us. And we'll comment on the quarterly reporting and how you really shouldn't pay too much attention to the individual quarters and why.
Our year, our financial year ends on December 31st so it coincides with the calendar year. And again we report our results in Euros while our operations list either in the Czech Koruna environment or soon in the Polish Zloty environment. And we are reporting our results in a segmental split. The segments being the coal and the coke segment and in a minute I'll talk about what are the contents of those segment numbers. Before we get to the segments let me just briefly list what we think are the key performance indicators what we follow internally and what we think makes sense to focus on when trying to get to the bottom of our performance.

We follow our coal and coke production and external sales. Production clearly has a high impact on the costs. Sales clearly are driving revenues. The revenue situation is something we obviously follow very closely driven by the production, sales and pricing environment. Unit costs both in the mining segment and in the coke making segment and Miro will spend some time talking about what is contained in the unit costs and how to interpret them. And then EBITDA which we feel is the most relevant profit indicator in the business.

Now moving on to the segments we report we split our results into the coal and the coke segment and there is some internal handovers happening between the two segments so let’s just walk through that as a start of trying to understand how this works. Let’s start with the coke revenues because that's the most straightforward one. What that includes is revenues generated by the sales of coke. It includes revenue generated by the sales of coke by products such as cocol and gas, tar and some other chemicals. It also includes the coke transportation revenues which are a flow through. You can see a similar item in the cost section of the P & L. We pay for the transportation and then charge the transportation expenses on to the customer with no margin on it. So that's the coke segment revenue.

Moving on to the coal segment revenue what you see there is revenue generated by the sales of thermal coal. Revenue generated by the sales of metcoal, coking coal again transportation revenues same logic, same story as with coal a flow through item which appears both in the revenue and in the cost section. Other sales that includes sales of things such as the coal bed methane, rock and some other generally by products of the production of coal.

Now the coking coal sales actually in the coal segment do include sales to the coke segment so there is an internal handover. This happens at arms length at a market price what we do, every time we price our metcoal we simply take a weighted average of prices that we receive from customers that receive the same or a very similar quality as the coke segment internally and we apply that price to the internal handover. But clearly that part of the coal revenue needs to be eliminated in consolidating the two segments.

Now moving on to costs again it’s quite easy. The coal in coal business you can see the usual cost items, personnel, materials, energy, services and there's nothing particularly difficult about that. When you move to the analysis of the coke costs, coke segment costs that includes the handover of coking coal that comes from the coal segment. Again at the same price at arms length. And again when consolidating the two segments this handover needs to be eliminated. And finally to arrive at the consolidated numbers starting from the segmental disclosure you need to add some of the other parts of the group such as the holding structure which serves as a financing vehicle for the group. So, for example, the two bonds that I mentioned earlier and the costs associated with them including the interest costs are located in the whole laden and so they are not shown in the segments. And they would be added on, in the consolidation process to the total consolidated numbers.

I hope that's clear in terms of the segmental reporting and I'd like to now hand over to Miro to go through many other items in the disclosure.

Miroslav Hanulik

Thank you Marek. Welcome everyone. Nice that you could come. And in the next few slides I would like to show you some technical topics that I would like to talk about. Some technical topics influencing our financial reporting, and provide you with some information that we usually don't provide in our quarterly or yearly reporting.

So let's start with this first slide. Mining Unit Costs. In general our Mining Unit Costs include all the costs included within our coal mining including also overhead cost. As you probably know there is no general definition of Mining Unit Costs and we took quite a conservative approach taking into account all costs included in the mining and excluding only the transportation cost. So that's the only one part of the cost that we are excluding from the calculation. Looking at our remaining components of the Mining Unit Costs with forty percent personnel expenses is the most material one component followed by mining materials, energy consumption, contractors, spare parts.

In general once you, for example, try to use Mining Unit Cost and would like to reconcile back to the total segment coal segment cost you will need to add up the transportation cost back once production cost multiplied by Mining Unit Cost.

Following the next slide there is usually two areas that we are often asked regarding the Mining Unit Cost. And that's the split between the variable and fixed costs and the main factor driving our unit cost. From the short term point of view we may state that all our expenses are fixed. But looking from the long term point of view we would treat our cost 70% variable and 30% fixed. This is an average from our historical data.

Looking at the factors driving our unit costs you may see some little factors which you think is more important when although I think our unique costs some of them are within our control but some of them are out of our control and unfortunately we cannot do anything with that. For example with the input prices which we are incurred in our coal segment or coal mining.

The last factor mentioned within this Mining Unit Costs and which drives the unit cost is level of production. And it’s very important to have a look on the chart on the right which clearly illustrates the effect of the fixed cost element on our united cost and you may see once, for example, the productions go up then our Mining Unit Costs go down and vice versa.

Going forward we would like to continue to guide on these costs so like probably that you also look on the Mining Unit Costs and this in information that will be provided also on a regular basis.

Let's continue on the next slide. Turning to our coke conversion costs relevant for our coke segment similar there is no unified definition of the coke conversion cost but in general they include all costs include within our coke production and including again overhead cost.

It is important to mention that we are excluding two items from the coke conversion cost and that is transportation cost similar and in Mining Unit Costs and we are not including by products revenues by the calculation of our coke conversion costs. So looking at the main components of our coke conversion costs that is the personnel expenses again the most material one, element which is 29% and following by maintenance, energy consumption and other consumption of materials.

Once using coke conversion cost and to be able to get back to the total coke segment cost you will need to add up transportation cost and you will need to add up all the internal and external coal charge which is not included in the calculation of coal conversion costs.

In case of coal charge there are two main elements influencing the total coal charge and that’s one is average price for coking coal that we are buying either from OKD or from the third parties. And the second point is conversion factor which in general from our long past experience, our history it’s approximately 1 to 3 but this conversion factor may fluctuate depending on which type of coal we produce.

In case of coke conversion costs the split between variable and fixed costs it’s not really relevant as our coke production is going forwards to be quite flat. So we may treat all the costs like fixed costs. Of course there is one part that will play quite important role on the coal charge and that is the average market price which may be of course variable part then later on in our costs.

Similar then in case of the Mining Unit Costs we would like to continue to guide you guys on a coke conversion cost in the future.

Let’s skip to the next slide. Now although the question that we get relates to the production sales inventory cycles in this simple chart we would like to only focus that within the coal segment as already mentioned by Marek there are internal sales of coking coal to the coal segment. That's one important point and second important point that within our coke segment there is internal consumption of coal so we need to consume some coal internally to produce better quality of our coal.

One of the big problems probably by awaiting the movement in the inventories is the valuation of the inventory. In general we evaluate our inventories by total production cost full total production cost which, we of course, don't disclose externally.

As a starting point you may use probably coke conversion cost and Mining Unit Cost and then what you think it’s really helpful our like detailed segment reporting that we are disclosing each quarter within our OFR.

The calculation of the simple formula at the bottom of the slides will just show you the general or the results show you the change in inventory in terms of tonnage. And this result will give you, of course, the general direction of change in inventories in Euro terms as well. So once we produce more then the change in inventories will have positive impact on our results and while we sell more changing the inventories will have negative impact on our results. So again it's important to bear in mind that our inventory is valued by the full production costs.

Let's continue with the next slide. Exposure to foreign exchanges changes which change foreign exchange. In general NWR presentation currency is Euro but operational currency is Czech Koruna. On this slide you may see the split between the cost and the revenues in terms of Czech Koruna and Euros. As you may see the majority of our costs are denominated in Czech Koruna almost 85% of our costs are in Czech Koruna whilst our revenues are split evenly between Czech Koruna and Euro. What we would like to stress with this slide is that in case and calculating from the data from 2010 in case all other things remain the same 1% stronger Koruna would mean decreasing our EBITDA by almost 1% as well to be precise 1.8%. It's quite interesting information also to take into account data from 2010, from 2009 when our revenues were quite well much lower than in 2010. In this case 1% stronger Czech Koruna would decrease our EBITDA by 2%. So that's what we would like to stress with this slide that its quite important to have a look what Czech Koruna is doing against Euro and incorporate it this in your models.

Let's go to the next slide. That relates also to the FX and there's the currency hedging. We have detailed our currency policy already in the past so this is just some recap. Our policy is to hedge up to 70% of foreign currency exposure on a yearly basis as mentioned within the previous slides NWR has shortage of Czech Koruna as the result of a Polish split revenues but higher split of cost. And also we can mention is that our CAPEX is also mostly Czech Koruna denominated.

The group currently use forwards to cover our exposure and apply hedged accounting for these forward contracts. Currently we are hedged on a yearly basis but in the light as you know we moved to the quarterly reporting or quarterly pricing, sorry, we are looking closely at the quarterly updates of our annual hedging.

Let's go to the next slide which is also interesting topic. Financial expenses. We have three main components within the financial expenses. And that is the interest expenses, foreign exchanged realised and unrealised gain or losses. And losses or gains on interest derivatives. On this slide on the right you may see and this chart clearly shows that stable part that's our interest expenses in the green with the other parts like FX, realised and unrealised general losses or losses gains on interest derivatives which are less predictable elements and therefore its really right to estimate what we thought will happen in the future as it depends on the movement of the FX rates and the interest rates. In case of FX realised and unrealised general losses the main drivers are inter-company loans and cash pool, cash balances as in this case we are talking about quite material amounts and we are looking at this position from long term point of view.

There is still like order part of the financial expenses which is general is in material but you may see quite a huge increase in 2010 numbers and this is linked with one of items. One is linked to the cost related to repayment of senior cyclical facility in approximately 5 million Euros and another part is linked to the fees of Danke's Bridge Loan approximately 15 million Euros. But important it is to realise that the main part of our financial expenses is interest expense.

Going now to the last slide or at least the last topic that I would like to share with you our taxes. New World Resources is a Dutch Tax Resident but our operational unit OKD and OKK are taxed accordingly to Czech tax rules. It is important to realise that we cannot tax the company as a whole. There are some specifics of Dutch holding company and that is for example that there is no tax on dividends. And there is also no tax on capital gains from subsidiary. On the right you may see the development of the corporate income tax in Czech Republic. Slides are decreasing from 31 to 19% at this moment and at the bottom you may see the development of our effecting tax rate from, 2008 to 2010. In 2010 it is also good to mention that the effective tax rate would be 12% but including the effect of sale of our energy business and one of tax reclaim received from site of OKD we would end up with 21% of our effective tax rate. In general we think that our effective tax rate will therefore in general follow the corporate income tax rate in the Czech Republic and still it will be higher because there are still some non tax deductible expenses incurred within the operational units.

So thank you for your attention and now I would like to hand you back to Marek.

Marek Jelinek

Thank you very much Miro. I'd like to close up by covering three more topics. One is the cyclicality and seasonality of our business. In terms of the cyclicality that is really driven by the metcoal and coke business which clearly is in turn driven by the performance of the steel sector in Central and Eastern Europe. At the risk of stating the obvious I'll say that the steel production generally correlates very well with GDP growth. What is interesting though, as you can see in one of those charts is that at least in Central Europe the same steel production actually correlates quite nicely with production of cars. You may know that the markets that we supply with coal have a lot of recently built car production facilities and something on the order of 40% of our coal actually ends up in cars so car production is an important leading indicator for us.

In terms of the seasonality that is more relevant for the thermal coal business and as you can see in the right hand side of the slide there is a very consistent pattern of the second half of the year being stronger than the first half of the year. And the first and the second quarter in particular being rather slow in terms of the tonnage especially on the thermal coal side. So this is something that we would hope would be one of the important take aways from this morning a quarter is way too short a period to conclude anything about the rest of the year when NWR is concerned. And the first quarter in particular is not indicative of the full year performance. If you look at 2010 I think the first quarter even that was something like 12% of the full year even now. And if you follow the quarterly performance last year you will see a massive improvement in performance in the 4th quarter. This is the pattern that we have seen over many, many years. And I think you have all the reasons to expect that the same thing will be repeated this year and in the subsequent years. The other reason why the quarterly performance sometimes might be misleading is that some expense categories in particular maintenance includes bulky items. A long wall costs, a purchase of long wall costs anywhere between 30 and 40 million Euros. And it is a huge piece of kit which one sort of regular maintenance initiative costs a lot of money. And so even though we have in the first quarter of this year outperformed our own internal targets on any level of the P & L and in any matrix operational matrix imaginable including maintenance expenses we had some planned large maintenance actions in the first quarter which made the maintenance cost development year on year look like maintenance costs were going through the roof. They were not. They are going to go down in the rest of the year because there is one of items or not one of items planned multi items in the first quarter so again the message here is lets please not read too much into a single quarter especially in case of the first quarter which typically is the slowest of the year. Moving on to CAPEX and this is just repeating what we've been saying pretty much all year this year we expect for the foreseeable future to spend between 200 and 250 million Euro in CAPEX approximately, in the existing operations. Approximately 70% of that is maintenance and technology renewal. This includes a programme of purchasing on average one long wall a year until the year 2018. After 2000 or in 2018 we expect to be fully equipped with modern technology. Now we still have the mix of the new Pop 2010, the so-called Pop 2010 Long Walls and the old technology. By 2018 we want to be fully re-equipped but to get there we need to spend money including on acquiring new technology. And about 30% of that number of the 200 to 250 million in the existing operations is investments in new mining locations which are aimed at making sure that we can comfortably maintain the current production level and the desired production mix which is 60% metcoal 40% thermal coal.

And just to quickly remind you of the guidance for this year for 2011 we expect to produce 11 million tons of coal and sell 10.3 million tons of coal evenly split this year between metcoal and thermal coal. We expect to produce 800,000 tons of coke and sell 720,000 tons of coke. Thermal sales have been fully priced for the full calendar year. The prices are locked in and will not change. They are at the average price is at 71 Euros a ton. Metcoal and coke are priced quarterly this year and we will update you on the third quarter pricing probably around the end of July between mid July and the end of July. Second quarter prices we announced in the past 215 Euros a ton for Metcoal and 400 Euros a ton for coke. Mining Unit Costs are expected to grow by approximately 10% on a flat currency basis year on year in the calendar year 2011 while the coke conversion costs are expected to decline by about 15%, one five percent, again on a constant currency basis. This relates to the re-shaping of our coke business. The shut down of one of the coke making facilities and modernisation of the remaining facility which all has a significant positive impact on the conversion costs in the mining business. CAPEX 200 to 250 million in the existing operations plus about 50 million in the Debiensko project. I think Agnes mentioned at the beginning we have announced yesterday, I think, that we are now fully committed to the project. We are looking to spend in total about 400, its 411 million Euros in CAPEX and we plan to see production of coal in Debiensko in 2017.

Now those were the topics that we wanted to cover today. I hope that this has given you some useful insight. We will now open for questions and hopefully that will be even more useful. Finally before we start the Q and A let me just say that we would like to invite your feedback. You guys are one of the most important consumers of what Agnes and team produce and we would like to strive to you know continue improving the standard of the disclosure so any feedback is useful and welcome so if you want to yell at Agnes later please feel free to do so. And now we'll be happy to take your questions. Thank you.

Q and A session

Q.1

Good morning. **Henri Alexaline, BNP Paribas**

Just maybe a question on your cost structure you mentioned this, of viable and fixed costs. How do you think you compare with your regional competitors? Maybe if you can explain how the new long walls and your battery plant will change your operating methods?

Marek Jelinek

On the sort of regional bench marking I think that the split between fixed and variable, fixed and variable costs is probably going to be similar. I think it should be similar between JSW which is on everybody's mind right now and us because it's a very similar type of mining. I'm honestly not sure from the top of my head how we would compare with Bogdanka. That might be different because it is a different mining area, slightly different technology and definitely different geology. And in terms of the POP2010, the long wall investments and the coke investments I think those are by nature two different types of investment programmes. The POP 2010 programme what it did it took a company which was very much relying on old unreliable mining technology and it turned us into a modern producer with very high levels of operation productivity. We are not quite where we would like to be yet as I said a moment ago we will continue investing in those new long walls and rolled headers and it will take us until 2018 to be fully re-equipped. But it is something that we view as absolutely essential for ensuring the long term future of the existing Czech operating mines. The coke investment is a completely different story because what we've done is we used to operate two separate coke making facilities those were two separate locations. Neither of them was operating anywhere close to its full production capacity and the fixed costs in coke making are huge. It’s you can say practically other than coal everything else is practically everything else is a fixed cost. You have a coke facility, its two things actually. It's the actual coke making technology next to it you have a small chemical factory that captures and purifies and stores and distributes the by products which are chemicals. That is a huge chunk of overheads that you have to carry. And so by shutting down one of those facilities we have totally eliminated that bit of the overhead. And by increasing the production capacity of the remaining one we have gone closer to 100% capacity of the sort of chemical part of the business so that really has completely changed the economics of how we make coke. As I said we are expecting a 15% reduction in unit costs this year. And we are doing it at a time where the regional economy has very nicely come out of the crisis. Cars are being made and sold out. And a part of the local coke making capacity has gone out of business as a result of the crisis and so we think that the timing is great because there is a lot of demand for coke. Coke prices are as far as we are concerned very nice. And at the same time we are reducing the cost base so we are quite happy about where we are with the coke business right now.

Q.2

David Prowse from Merrill Lynch

Your CAPEX that 200 to 250 is that pretty much equally spread over each year i.e.

around 60 million.

Marek Jelinek

Sorry the 200 to 250 is an annual maintenance CAPEX in the existing operations. And on this year on top of that comes 50 million, 5, 0, which is the Debiensko spending this year. And the total spending in Debiensko will be 411.

David Prowse

Okay, thank you that's clear.

Q.3

Hi **Michael Ridley from Mizuho International**

Just on the coke could you just sort of talk through a little bit the internal consumption coke so you burn coke to make coke effectively? And then maybe you could talk about the conversion factor that's basically 1.3 tons of coke and coal for one ton of coke that comes out at the end of it.

Marek Jelinek

The conversion factor depends on the grades of coal that you put into the material and it also depends on what coke you are trying to make so it's anywhere between 1.2 and 1.4. On average it's 1.3 so you need on average 1.3 tons of coal to produce 1 ton of coke that's true. And the internal consumption this is what's called a coke dust which is an important element in the input coal mix so you don't, what you put into the battery is a mix of various coal qualities plus the coke dust that goes into it and that's the internal consumption. Does it make sense?

Michael Ridley

It does but I'm just wondering I mean how much coke do you need to make a ton of coke? Is it a big amount or just dust?

Marek Jelinek

No. No it’s not a big amount. It's I think several hundred thousand kilos per year; it's not a dramatic number.

Michel Ridley

And then on Debiensko you're talking about the CAPEX here I'm not sure when that facility starts delivering revenues. Have you stated that?

Marek Jelinek

First material revenues in 2017. Small revenues in 2016. There will be some small coal sales in 2016 which is basically a "by product" of development in coal already but real production in 2017.

Q.4

Good morning **Andrei Rodzianko from Black River**

Just when you speak about your FX exposure you always give us the prices of contracts for external coal and coking coal in Euros so the clients who pay in I guess local currency still it’s presumably referenced to the Euro rate. Is that correct or are they really two kind of separate markets? You know where there's a local price for the product and kind of more international prices and some of them you know are paying one of those prices?

Marek Jelinek

It’s the average prices that we give you based on an assumed exchange rate. And we also give you we always give you the price and a footnote which says this is the exchange rate, the Euro current exchange rate assumed in calculating this average price. So we do charge, we do have, for example, a thermal coal annual contract with a particle customer that has the price denominated in the Koruna and they pay us in Korunas. We send them invoices denominated in Korunas and whatever happens with the exchange rate does have an impact then on the final average Euro denominated price of coal at the end of the year.

Andrei Rodzianko

But when you're initially setting them is it kind of at the spot FX you know you're looking at what the Euro international price is so that you're basing your other contracts on, you take the spot and that's the price or is there a different way?

Marek Jelinek

Well we didn't want to make things too complicated here today because what happens is the world really thinks about coal in dollars and so what you really do you do the sales people do a quick spot conversion of the dollar international price into the Koruna and that's how they set the price.

Andrei Rodzianko

And I guess on the coking coal side given you're moving to quarterly pricing presumably that kind of reduces somewhat, shortens the FX risk that you're running.

Marek Jelinek

That's right yes.

Andrei Rodzianko

Second you mentioned the Bogdanka facility that you have in place and I guess the fee that you pay for that has, is that something that's available to you some period of time or has that already lapsed and kind of expired?

Marek Jelinek

It's expired.

Andrei Rodzianko

It's expired, okay.

Marek Jelinek

It was a you know acquisition bridge loan so once we walked away from the acquisition there was no point sitting on it.

Andrei Rodzianko

And lastly just to understand the, I guess changes in inventories that are running through your income statement. From what I understood there's no price like revaluing of inventory effect it's really just the I guess cost of production and the amount of inventory in there that's actually in and the change the value change running through the PNL statement.

Miro Hanulik

Yes, yes that's right only in case our cost kind of total production cost will be lower or higher than the external prices at the market then in this case we need to do some radical inventories or usually radical inventories valued by the production cost and we are not allowing for the market price.

Andrei Rodzianko

Okay so you only revalue on downside?

Marek Jelinek

Yes, yes. Yes. It's the lower of production cost to the market. And I guess if we were hypothetically if we were sitting on those inventories for a long time more than a quarter there might be some re-evaluation depending on what the price is but that's generally you know we have no inventories at the moment. We have negligible element.

Andrei Rodzianko

Thank you.

Q.5

Hi guys, **Richard Knights from Liberum**

You mentioned the planned one-off expenses as the reason for the weak Q1 this year how should we think about that going forward and is there any other sort of reason for the weak Q1 or the seasonal weak Q1.

Marek Jelinek

Oh it is generally coal sales are slower in the Q1. Thermal coal sales then slow generally slow down even further in Q2 whereas coking coal sales start to take off generally. The maintenance was my comment about the maintenance was really about maintenance expenses. It didn't really dramatically slow down production but it was a bulky expense item that showed up. And I think that year on year increase in maintenance expenses in the coal business were something like 150% some number that you know people didn't like. But it was actually less than what is budgeted for.

Richard Knights

So the seasonality is just the sales basically?

Marek Jelinek

Uhm yes.

Q6

Hi it's **Tom O'Hara from Citi**

Just a couple of questions. First of all on the coke sales side you're planning on selling 720 kind of tons this year so I was just wondering what's happening with the 80 left over from production. And also you said about sort of not reading too much into your quarterly results. Does the construction of new long walls have some impact on that as well and if so how long does it roughly take to construct a long wall?

Marek Jelinek

The disparity between production and coke sales is the internal consumption.

Tom O'Hara

So that's the dust?

Marek Jelinek

That's the dust that goes back into the production. In terms of the long walls. Ha ha I think you got me with asking how long does it take to produce a long wall. I think it very much depends on what kind of long wall it is. We have long walls that are this high and then we have long walls that are 8 metres high so I guess there's a difference. But generally the cycle is about 6 months. We contract, we sign a contact with very specific parameters with a supplier and about 6 months later the thing is being tested.

Tom O’Hara

You plan on constructing those in the first sort of 6 months in the year so you do it through the first and second quarters?

Marek Jelinek

Ah sorry are you talking about acquisitions or...?

Tom O'Hara

Long wall construction overall

Marek Jelinek

So you mean the moves between balance

Tom O'Hara

So I guess you know we said Q1 will usually be weaker and the maintenance will be higher and one of the reasons for that is the construction of new long walls if you do one per year.

Marek Jelinek

Ah sorry

Tom O'Hara

I was just trying to get an idea of sort of how long the impact of construction of new long walls would have on the mining capacity during the year and then if so would it be the case that Q4 would be better than Q3, Q3 would be better than Q2

Marek Jelinek

Okay understood. I think there's three separate things. One construction of new long walls, that's a CAPEX item and I don't think it has any bearing on the quarterly performance. Maintenance is what I talked about earlier. There was a bulky maintenance item in the first quarter and there is no magic behind it. We didn't plan a lot of maintenance for the first quarter because we wanted to have it in the first quarter we just needed to do it sooner rather than later. And this is a real big one off item that you cannot spread regularly throughout the year. And finally long wall moves which are a very important driver of the overall productivity. We keep telling everyone about how very efficient and productive the new long walls are but that's not really the whole story. You don't want to have a very efficient long wall just when it operates you also want to be able to move it around so when you deplete a particle coal panel you want to be able to disassemble the long wall and move it to a new panel which hopefully you have prepared with some forward planning. And this today takes several weeks on average and we think this is one of the areas where we can improve quite dramatically by its basically underground planning that we are trying to optimise so that the long walls that are you know this is a capital intensive industry. If you have a piece of machinery that costs 30, 35 million euros and it’s spent several weeks a year sitting little underground cars not doing anything that's obviously not great so that's where we think we have some potential of further input.

Q.7

Roger Bell – JMPC

Just on the subject long wall moves, what is the long wall transfer time on average at the moment?

Marek Jelinek

It is several weeks I think it's about 4 or 5 weeks.

Roger Bell – JMPC

Okay. Just going back to the internal coke consumption whenever you calculate your coke conversion cost is the denominator by calculation is it the external coke sales or is it the total coke produced?

Marek Jelinek

It's production, it’s production

Roger Bell – JMPC

Production

Q.8 **Agnes**

We now take one question from the web cast here. We have a question from Maciej Hebda and he's speaking to Espirito Santo Investment bank. He is asking about transportation costs and revenues. How should we read the line coal and coke transport by OKD and revenues and the transportation costs component in the services line of operating in costs so that they correspond in any way?

Marek Jelinek

Yes the transportation is a flow through item. We pay for the transportation and then charge the customer with the exact same amount with no margin on it so that's how these two relate.

Q.9 **Henri Alexaline – BNP Paribas**
Sorry I was just going to ask the carbon expenses. When do you report that accounting wise and do you allocate it per division. Where do you put it in the sale of any excess?

Marek Jelinek

Carbon is the topic?

Henri Alexaline – BNP Paribas

Yes.

Marek Jelinek

Well the only part of the business that is exposed and receives allocations of carbon credit is the coke business and it's not a material part of the business at all. Its single millions of Euros it's not really a topic.

Phone noise

AGNES

We'll take another question from **Maciej from Espirito Santo Bank.**

Q.10

He is asking in personnel costs do the mines operate 24 hours a day and 7 days a week. Does NWR incur additional personnel expenses for paying overtime or is, has a model similar to Bogdanka, work on weekends outsources to external companies set up by employees?

Marek Jelinek

We work 365 days 24 hours a day and we have a mixture of contractors and own payroll employees but there isn't any system like Bogdanka seems to have where you know the weekends would be done by contractors and the weekdays by payroll employees. It's all a mix of both types of labour.

AGNES

Okay.

Q.11 Man

Just a follow up questions on your currency hedging so you've sort of got a structural short in Czech Koruna and you use forwards. And I may have missed but just what are the sort of rules that guide your use of forwards? Do you cover 70% or do you know 9 months ahead, 6 months or 12 months?

Marek Jelinek

No, well we are in a bit of a transitional period right now because of the quarterly metcoal and coal pricing. Historically we would once we knew the price level locked in for the calendar year because that used to be the traditional way of pricing both metcoal and coke and thermal coal are priced on an annual basis so we would know at some point in January what our Koruna shortage is and we would then hedge 70% of the cash flow exposure so we look at revenues costs, financing and CAPEX and we would hedge the 70% of that exposure for the year so we would not have forwards dating longer than a year. Now we are in a situation where we hedge a smaller portion of the expected exposure. We just assume certain price development beyond the first quarter, hedge a smaller portion of that and then do the balance to the 70% on a quarterly basis depending on what the coal prices are in that particular quarter and what the resulting effects exposure is.

AGNES

Okay we're taking one from the webcast. It's **Peter Csaszar from KBC.**

Q.12

He's asking on Debiensko coal. How do you expect the product mix to develop from 2017? As far as I know the shallower layer contains mostly thermal coal. Will the product mix be biased to thermal coal in the early years of production?

Marek Jelinek

Actually one of the very positive things that came out of the definitive feasibility study was that there was actually more metcoal in the mix than we originally expected. And it now looks like there's about one eighth of the total is thermal and the rest is seven eighths are metcoal so that makes the overall kind of economics of the project much more attractive.

Q.13 **David Prowse Merrill Lynch**

Thank you. In your cost estimates going forward for the next 5 or 6 years what cost inflation have you factored into that?

Marek Jelinek

Sorry cost estimates, are you asking about the Debiensko project?

David Prowse Merrill Lynch

Yes, well right across the board I'm interested really in your CAPEX spending. What cost inflation have you factored in?

Marek Jelinek

We generally in our sort of budgeting process we usually work with about 2% cost inflation. When we modelled the Debiensko project on its own we have actually used a real model so we assumed an inflationary pressure so like we have you know current levels of pricing and current levels of cost in the model. And we of course discounted by the appropriate discounting.

Q.14 Man

I'm not sure if you disclosed it yesterday but what is the assumed operating costs per ton for Debiensko?

Marek Jelinek

It's about 70 Euros a ton.

Q.15

Just another follow up question on Debiensko. Is there going to be any variability in that seven eighth one eighth split of coking, thermal over the life of the mine?

Marek Jelinek

Not in any meaningful significant way. And of course we will be just like in the existing operations we are working with individual coal panels and it depends you know how the mining of individual coal panels comes together in any given year. But overall there should be very little variation in it. There seem to be a lot of questions operating type questions on Debiensko. I would urge you if you can to dial in to our call on Friday where we will have the benefit of having Jan Fabian the Chief Operating Officer who I'm sure is in a much better position to answer those type of questions than the three of us are, thank you.

AGNES

We take another one from the webcast. **Maciej** again.

Q.16

Does the redomiciliation of NWR in the UK have any impact on the effective tax rate?

Marek Jelinek

No, it does not. The effective tax rate is really driven by the corporate tax rate today in the Czech Republic and going forward also in Poland.

Q.17 MAN

Apart from the currency hedging does the company undertake any other hedging transactions of any type in terms of commodity prices you know directly in coal or kind of related products?

Marek Jelinek

I would love to but as it happens Central European coal prices are still have a problem correlating with whatever benchmark you pick whether you take the APIs for thermal or any benchmark you like for met coal the correlation is not great. And what that means is that designing a hedging product for Central European coal is not easy. You can, of course, structure anything but typically the price of that structure ends up being so high that it doesn't make much sense. I think that once there is if there is a coking coal index and once we are able to price our coal off that index adjusting for qualities and other factors, I think at that point in time whole new areas of potential risk management are going to open for us including commodity hedging but right now it is you know for all practical purposes it is impossible to do it so we are not hedging any of our foot pricing. On the other hand there is a, there are quite big areas of natural hedging if you like in that energy, we buy energy from our thermal coal customers and of course the energy price in the thermal coal price are correlated. And we also buy steel, one of the most important material expense items; we buy steel from one of our metcoal customers. And again there is a correlation, not perfect but a correlation in the steel prices and the metcoal prices so in this, from this point of view we are partially hedged but we are not actively engaged in structuring hedging products for coal.

AGNES Q.18 and Q.19

I have a question from **Romy Kruger from Exane BNP Paribas**. Actually two questions. He is asking about the JSW IPO. Do you still consider JSW an attractive M&A target? And if we expect the Polish government to sell the remaining stake in the next 12 months. Also he is asking about shale gas development in Poland and if we see a risk and substitution of thermal coal by shale gas in just a generation?

Marek Jelinek

On JSW as we all know they are now on the road doing the IPO. I think you know we can speculate about what the government will do next but I think that simple truth is that we just don’t know. I think the only available precedent is Bogdanka where the government did sell down a maturity stake several months after the IPO was taking place but there is no, I don't think there is any you know publicly available policy of sale or statements by the Polish government on the topic. Clearly we see that the privatisation of as hugely positive news for the regional market. JSW is the largest European producer of metcoal and for them to be listed in Warsaw be operating in a sort of normal private business type style is we think great news for the transparency of metcoal pricing partially it goes back to what I said about the, our inability to hedge metcoal prices today. So we are very happy about the privatisation and hope that it goes very well. And what happens later I think you know it's just too early to speculate about it.

AGNES

Shale gas

Marek Jelinek

Shale gas thank you. Look 90 I think it’s about 94% of Polish power generation is coal fired. The growth in Polish energy demand is quite substantial. Poland was I think the only European economy that didn't go into recession recently. There are scenarios, doomsdayers type scenarios that talk about blackouts in the space of about 15, 20 years because the power generation capacity seems to have a hard time catching up with demand. So of course hypothetically shale gas and any other substitute for coal is a potential replacement threat but you know I think we just would like to see somebody actually do it and then we can talk about it.

Q.20 **Roger Bell - JMPC**

Just on the subject of gas what percentage of the coal bed methane do you think that you actually capture from your mines at the moment and is there scope to increase that to reduce your exposure to the energy prices.

Marek Jelinek

I'll have to get back to you on that I don't know from the top of my head what the percentage is.

Roger Bell - JMPC

Thank you and just on the coke plant what percentage of the coking coal going into the coke plant comes from external sources and is there a difference in the quality of coal that you're acquiring from external sources and the internal coal?

Marek Jelinek

This is a very interesting topic. It's about traditionally it was about 50/50 internal external what happens though there is an interesting play in some of the external coal comes from North America. We buy the external coal typically in Poland but some grades of it in North America. Of course importing North American coal means incurring quite significant transportation costs so we would only want to import the highest grades of metcoal that we need for mixing the right mix the right input mix for the coke battery. But its, I'm sure its clear to the people that there is a sort of a certain playground which we can utilise in terms of getting the long term customers the right quality and then partially replacing it with Polish or North American coal or substituting you know if we have a bad month and we have a lot of lower quality metcoal we can basically hide it into you know turn it into coke because the coke grade is then the one that the customer demands whereas the metcoal quality in a bad month might not have been what the customer demanded. So there isn't a stable mix of external Polish and American and internal metcoal. We move that around all the time.

Roger Bell - JMPC

Thanks. And just on that if it makes economic sense for you to import North American coking coal what's the threat of your coking coal customers taking North American instead of your own coking coal?

Marek Jelinek

Yes the point is first of all it is impossible today technically impossible, logistically impossible to import the amount of metcoal that is consumed in Central Europe. Typically this is imported from some of the ports in the North of Poland and they just don't have the capacity so that's one very practical, that's one very practical barrier. But more importantly what every customer, every coke battery wants is a certain mix of coal qualities. And people would be importing including us would only be importing the parts of the mix the elements that either they cannot get in the local market or it’s not available in the local market. Every coke battery load includes certain percentages of super high illeguara type hard coking coal and all the way down to you know not that great semi soft coking coal. Semi soft coking coal is available in abundant quantities everywhere in Central Europe so there is always going to be mixing. I think the first imports that we've seen were in 2007 or in 2008. They stopped in 2009 for obvious reasons but they are back and we are one of the importers right now.

Yes good morning. **Monica Tabanyl from Concorde Securities**

Q.21

Back to this topic for a moment what is the typical price premium you pay for external coking coal over your realised coking coal prices if there is any as a consequence of higher quality?

Marek Jelinek

It's really impossible to say. You would have to be comparing like for like qualities. And as I said we are importing only the qualities that are not available in the market so you know per ton we pay higher price for American coal than we charge on average for our own price, for our own internally produced coking coal but that's a quality difference, that is not a market difference. So you can't put a number on it, it's like for like qualities I'm sure we are probably paying either equal or we are paying less because we are charging we are able to charge a regional premium that is driven by the fact that the market is isolated through logistics like of logistics capacity and the transportation costs that isolate the market from overseas coal.

Q.22

Andrzej Kingawka - ING

Just two more questions on that what's the difference between hard coal and semi soft coal production for NWR? And there's a question I have on Raspadskaya they have tragic .... blast last year which did halt the production significantly for a number of quarters. Are they able to sell into any of your markets or customers? Are you seeing any of ramp up production Raspadskaya impacting your prices, your prices of customers anywhere?

Marek Jelinek

Starting with Raspadskaya no we are not seeing and have not seen even before the accident any Raspadskaya coal in reaching our market. On the qualities it’s about 40% hard coal and 60% semi soft coal.

AGNES

We have another question from **Maciej Hebda and speaking from Espirito Santo Investment Bank.**

Q23

He is asking if we have any other development projects beside Debiensko on the radar, specifically projects which could boost production volumes before 2017. He also says that Ukraine has been mentioned as a direction for development and do we have any news in that respect?

Marek Jelinek

Starting with Ukraine it is naturally a market that we are interested in because it has a lot of coal. On the other hand it also has a lot of country risk to it and so there is a prioritisation programme in Ukraine coal prioritisation programme in Ukraine. There is quite a long list of companies that are supposed to be a part of it but we are very conscious of the risk in interpreting business in the Ukraine and that leads us to two things one, we are not interested in things like Debiensko in Ukraine. Debiensko is essentially a green field mining operation and we don't want to go through the process of opening a green field mine in Ukraine. And two, even among the opportunities that we are interested in which is going concerned, going concern existing mines with existing operation with existing enforceable supplier contracts and customer contracts even then we would want to make sure that our view of the risk profile of Ukraine is reflected in the valuation of the business so I guess what I'm trying to say is we would need to find a very, very rich opportunity before we move. We are very comfortable doing business in Poland, that's a country that we feel we know and like. Ukraine is a country that we like for its opportunities but we are conscious of the risks.

AGNES

I have no more questions on the webcast; do we have any on the floor?

Monica Tabanyl from Concorde Securities

Q.24

Just a short question back to the Debiensko project. Is this 50 million spent over this year included in the........?

Marek Jelinek

Yes, yes it is.

Monica Tabanyl from Concorde Securities

And can you tell us something the split between the years 2011 and 17?

Marek Jelinek

It is going to be more weighted towards the end of the period because that's when the technology comes in. There is about 85 million of technology which comes in, in the last year.

Monica Tabanyl from Concorde Securities

Is this also for this 130 million operating costs?

Marek Jelinek

Not really that's almost evenly split between years.

Monica Tabanyl from Concorde Securities

Okay, thank you.

Marek Jelinek

It seems ah, there is one more question.

Q.24 **Tom O'Hara - Citi**

What are your latest thoughts are on Frenstat and Morcinek?

Marek Jelinek

Morcinek is very interesting because it's the first phase of Morcinek which is the phase where we can access reserves from one of our existing operational mines with very little CAPEX and very little time. So that's why it is interesting. At the same time Morcinek is actually a joint venture with JSW and I think they are a little busy right now so we haven't really done very much on developing the JV but it's something that we are actively talking with them about. But we you know several weeks ago was the last sort of interaction and it was clear that the management has something else on their mind at the moment. On Frenstat it is a very attractive resource. It is also politically charged a bit and so we will need to work with the local municipalities to make sure that we jointly make an approach a mining design that works for the local communities and it also works for us. And it can generate some value. So I don't think this is something that we will see any coal from. Frenstat is not something that we will see any coal from in the sort of medium level future I don't think.

Tom O'Hara - Citi

And so if a decision was made on Morcinek that would be relatively quick to appear online so there's potential there for that to come before Debiensko?

Marek Jelinek

That's correct, yes.

It seems that we have exhausted all the questions. Again thank you very much for coming this morning. I hope that it was useful and we'll be here for a few more moments so if there is anything you want to catch up on please get a hold of us. Thank you.

END OF THIS SEMINAR