THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NWR.L - Q1 2013 New World Resources PLC Earnings Conference Call

EVENT DATE/TIME: MAY 16, 2013 / 09:00AM GMT

CORPORATE PARTICIPANTS

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

Marek Jelinek *New World Resources Plc - Executive Director, CFO*

Gareth Penny *New World Resources Plc - Executive Chairman*

CONFERENCE CALL PARTICIPANTS

Michael Boam *Royal Bank of Scotland - Analyst*

Romy Kruger *Exane - Analyst*

Chris Watson *Finisterre Capital - Analyst*

Victor Drozdov *VTB Capital - Analyst*

John Stipanovich *Citigroup - Analyst*

Alex Field *Credit Suisse - Analyst*

Petr Bartek *Erste Bank - Analyst*

Oliver Harker-Smith *Babson Capital - Analyst*

Lisa Barash *UBS - Analyst*

Andrei Rodzianko *Black River - Analyst*

Michael Posnansky *M&G - Analyst*

Yuri Mulanski *JPMorgan - Analyst*

Lioni Morel *Goldman Sachs - Analyst*

Thomas O'Hara *Citi - Analyst*

Ide Kearney *GLG - Analyst*

Christian Hanson *ITS Asset Management - Analyst*

Rebecca Clements *Investec - Analyst*

Bram Buring *Wood - Analyst*

PRESENTATION

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

Good morning and thank you, everybody, for joining on today's call to discuss our first quarter 2013 results. In addition to a review of our performance since the start of the year, which our CFO, Marek Jelinek, will start with, our Executive Chairman, Gareth Penny will provide you with an update on the business optimization steps that we have announced this morning. As usual, at the end we will be happy to take your questions. With that, I would like to hand over to Marek.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Radek, thank you very much for this, and thank you, everyone, for joining the call. Good morning. I will start with an overview of the Q1 results. The key feature of the results is the ongoing depressed state of the coal market, both coking coal and thermal coal. Just to illustrate that, over the course of the last three years our coking coal price has halved, and over the course of the last one year our coking coal price is down about 30%.

Clearly, this has a dramatic impact on our performance and while we have shown, I think, a very effective cost control. To illustrate that, costs of production are down 7% and admin costs, administrative costs are down 18% over the quarter. This is not nearly enough to outweigh the impact of the deteriorating coking coal and thermal coal market. And so, as a result, we have recorded a 31% decline in revenues to EUR240 million and we have seen a negative EBITDA of EUR22 million. This translates into a loss of EUR0.31 per A share. We ended the period with a net debt figure of EUR643 million.

While I'm on debt, I'd like to remind you that in January of 2013 we did refinance part of our outstanding debt and, in effect, we have pushed back a maturity of EUR275 million from 2015 to 2021. As a result, we have no near-term debt refinancing obligations, which is obviously a significant comfort in the current circumstance.

Further on the balance sheet and debt, as we announced previously, we have agreed a set of various amendments to loan facilities, mainly the Export Credit Facility and the Revolving Credit Facility, which implies that we are currently not subject to maintenance covenants. And towards the end of the year the maintenance covenants will reinstated, but they have been reset to much higher levels.

And finally, we will be, later on this call, be talking about an aggressive set of measures that will do two things -- one, they will stop the negative cash flow development that we have seen in the first quarter and will deliver about EUR100 million of cash savings before the end of the year; and the second set of measures will ensure that even in the current market environment, which, by the way, we do not expect to change in any meaningful way anytime soon, so even in this current environment we will return to a state where we are profitable and cash generative.

And finally, a technical note, I'd like to highlight that we have changed our reporting format of the P&L. We are now showing a P&L, which is eminently comparable to our peers in the industry. And I will talk in more detail about the new format and how you should read it in a few moments.

Moving to the operational performance -- and for those of you who are seeing the slides, this is slide six -- we are very pleased to report a record low lost time injury frequency rate, which is now at 5.7, so well below 6, and we are well on course to achieve our five-year goal of a lost time injury frequency rate of 5 or lower.

In terms of production and sales, we have produced 2.1 million tons of coal and sold 2 million tons, and also produced 168,000 tons of coke and sold 149,000 tons. Coking coal represented about 49% of the total coal sales represented in tonnages.

And finally, talking about the fundamentals of the coking coal market, steel production in our customer market in Central Europe is marginal down on the same quarter last year. And the global steel market still continued to be under pressure, which had a knock-on effect on steel-making materials, including, clearly, coking coal. The global steel utilization rate now remains at around 79%.

Moving on to a picture of our recent development in safety. Again, we are very happy to report a lost time injury frequency rate of 5.7, which is well on course to our long-term target and very competitive relative to our regional peers. Health and Safety is and will always be an integral part of our business, and many of the measures that we are now taking to regain cash generative-ness and profitability are all done with safety in mind. The one thing that we will never compromise is our safety standards.

Moving then to slide eight. You can see here the figures that I talked about. The point of this picture is really to talk to the new format of the P&L. Again, this is a simplified format that makes our P&L comparable with the industry standards. And just to provide you a sort of feedback into how does this format compare to the format we posted previously, the cost of sales shown here, the main components are materials and energy services, personnel, change in inventories, depreciation. In selling expenses, predominantly selling expenses are transportation and administrative expenses -- the key elements there are personnel and services.

Going to a discussion of our pricing environment, I have touched on that a few moments ago, in the first quarter we sold coking coal at a blended price of EUR101.00. This has only marginally improved in the current second quarter to EUR104.00. Our view of the market right now is that there is no reason to expect any meaningful appreciation of coking coal prices; we expect the market to remain depressed for well into the next few quarters.

Thermal coal has seen a similar picture. We have contracted for EUR60.00 a ton of thermal coal, clearly below our cost of production. The coke market is generally in a similar state as the coking coal market, we have not seen a meaningful positive development over the last three quarters.

Looking at the key factors that influenced our EBITDA development in the first quarter, on page 10. You can clearly see that the pricing environment has taken about EUR90 million out of EBITDA for coal; and further, about EUR12 million for coke. So more than EUR100 million is the impact of the pricing environment. We have managed to offset that to some extent; the OPEX savings achieved in the quarter were EUR26 million.

Moving on to the discussion of the coal segment, year-on-year our first quarter revenues from coking coal were down 44% to EUR101 million, which is a result of a 28% decrease in price and 22% decrease or decline in volumes. In the thermal coal part of the segment, revenues were down 12% to EUR66 million, which was driven by a 15% drop in prices that was only partially offset by a 4% increase in volume.

And finally, despite a 10% decline in production compared to the same quarter last year, our cash mining unit costs remained stable. Again, this is a testament to our increasing aggressive cost control. Again, administrative costs, for example, are down 18%, which I think is a good result.

Moving on to the coke segment, we have seen a 21% decline in coke prices and a 4% decline in coke sales, so our coke revenues in the quarter were down 24% to EUR37 million. The conversion costs in the coke segment are stable, unchanged, and this is despite a 4% decline in production. That said, the lower coal charge could not counterbalance the EUR12 million decline in coke revenues and we have seen, as a result, a 53% decline in the coke segment EBITDA to EUR2 million.

Moving on to slide 13 to discuss our balance sheet and financial position. Cash flow from operations was negative at EUR15 million. We have spent EUR60 million in CAPEX. I think it's important to note that a part of this EUR60 million were actually deferrals from the fourth quarter of last year, so the EUR60 million is not representative of the yearly CAPEX budget.

And during the first quarter, we recorded a one-off expense of EUR9 million, which was a cost related to the refinancing of one of our outstanding bonds. Our net debt at the end of the quarter was EUR643 million. Our cash position at the end of the quarter was EUR193. And in addition to this liquidity reserve, we also have available EUR100 million of fully undrawn Revolving Credit Facility.

With this, I'd like to hand over to Gareth, who will provide you with more detailed information on our immediate and mid-term plans.

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

Marek, thank you very much, and good morning to all of you on this call. And if we go to slide 15, Marek has already spoken to this point on two previous slides, but really what the top left-hand part of this shows is the decline in, in this case, premium hard coking coal prices from the beginning of 2011 all the way down to where we are today. It's been a 50% plus decline over this period and, as Marek has said, in our particular basket of goods you've seen ca. 30% decline Q1 2013 versus Q1 2012. So, a very difficult environment that we've found ourselves in.

If you look at the right-hand side of this slide, the estimate currently is that some 30 million of global coking coal annual supply has been cut in 2012, with a possible further 35 million expected to be this year if these prices continue. It's estimated that something like a quarter of global hard coking coal supply is uneconomic at current prices.

In the bottom part of that graph, you'll see the extent to which premium hard quality coking coal prices did increase through the early part of this year or the last part of last year, that actually since then have reverted back to a similar position to what they were in 2012. And really, I give this reason why, as Marek has said, we are not projecting a very significant increase in prices in the months ahead. And it is for that reason that we feel now we have to take extra measures over and above what we have already articulated and put in place.

And if you turn over to slide 16, there are really four areas that Marek and I want to talk to now. The first is what we call short-term optimization measures, where we will generate something like EUR100 million incremental of cash flow. We want to talk about our business portfolio and thoughts that we have about optimizing that given the current environment. We want to talk about the targets for the remaining part of 2013, where we have adjusted one or two of them. And then we want to outline a little bit our progress with regard to the long-term target of becoming Europe's leading miner and marketer of coking coal by 2017.

So, if we go over onto the short-term measures, Marek, why don't you walk us through this?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Thank you, Gareth. So, in order to stop the current negative cash flow development, we have already started implementing a package of those short-term measures, which is worth about EUR100 million, and it contains the following:

About EUR25 million of OPEX savings -- and that breaks down as follows -- EUR15 million is a 10% salary cut, and this applied across the entire organization. It is being implemented as we speak and we'll save EUR15 million between now and the end of the year. Further, EUR5 million will be saved by a decrease in the cost of contractors and a further EUR5 million will be saved on administrative costs and cost of purchased material. That's EUR25 million of cost savings.

Next, we will save EUR20 million in investments, CAPEX. This entails savings and deferrals on gateroad development and some non-critical maintenance CAPEX. And next, the third element of this EUR100 million package is a EUR55 million working capital package, which includes a cleaning out of about 500,000 tons of low quality thermal coal from inventories.

It also entails an optimization of the receivables and the payables, again, for a total cash flow saving of EUR55 million. This package is in process of implementation and, again, will generate EUR100 million between now and December 31 this year.

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

Marek, thank you. Turning to slide 18, obviously, all of those measures are overwhelmingly aimed at the short-term, but in addition to that, we are now in the process of looking at how do we position this business so that it is able to continue, able to be cash neutral at current prices.

And the first thing that we announced in our press release today was that we have looked very carefully at OKK, our coking operation, and we feel that under the current circumstances this is not a business that we would like to keep. It is, after all, an industrial business, not a mining business. And it is cash generative, it is a profitable business, even at these prices, and we think that it is of more value to others than it is to us. And so we are now going to commence with a process whereby we'll, with the assistance of a third party, run a competitive process and look to sell this asset in the months ahead.

The second thing that we will be doing is we will be looking at all the existing mines, both at a mine level and, indeed, at a section or at part of the mine level to see which of those it is appropriate for us to retain in their current form. The objective obviously being is to ensure that we move significantly down the cost curve from where we are now and that we are running mines that at current prices are at very least cash neutral.

And then the third element is to consolidate our administration and our management. We effectively have five different current managerial teams, one for each of the four mines and then one in a central location. And the idea is to put these all together and manage a centralized mine management, which we think will lead to cost savings and actually will be more effective. We will be administering staff reductions and we plan to have this new structure in place by the end of the year.

If we turn over to slide 19, Marek, can we talk through the targets for the remainder of the year?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Thank you. So, we now expect to produce between 9 million and 10 million tons of coal and 800,000 tons of coke for the full year 2013. We further expect to sell between 8.5 million and 9.5 million tons of coal, equally split between coking coal and thermal coal, sales from production. On top of that, we expect to sell approximately 500,000 tons of low quality thermal coal from inventories, so for a total of 9 million to 10 million tons of total overall sales of coal, and we expect to sell 700,000 tons of coke.

Our prices for thermal coal, again, are set at EUR60.00 a ton for the full year 2013. Our coking coal prices in the current second quarter are agreed at EUR104.00 a ton, and we don't expect any dramatic positive development going forward. And our coke prices in the current quarter are EUR246.00 a ton. We expect to achieve stable cash mining unit costs and conversion costs for the full year. And finally, we have the revised CAPEX guidance is EUR100 million, of which approximately EUR10 million is budgeted for the Polish development.

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

Thank you, Marek. And finally, on slide 20, ready to talk to the longer-term view. We put this slide up in front of you when we laid out the objectives that we set ourselves for the next five years and, in a sentence, to become Europe's leading miner and marketer of coking coal. And there were always three legs to the strategy.

The first, really, which is the one that we've been focusing on overwhelmingly today, is to fully optimize current operations. And, obviously, given the market environment, we have had to shine a focused light on this and to bring forward, if you like, many of the activities that one may have been able to do over a longer period of time.

So, in optimizing those operations, really, you see the proof points here -- a lower level of production; a greater emphasis on the coking coal element, 60%, up from around 50% where we're at now; the very ambitious target that we've set ourselves to get down to EUR60.00 per ton. That is in terms of the new way that we're accounting. So you see that figure of EUR86.00 previously; that will come down through the course of this year, in any event, as we produce more.

So it's not reflective of an annualized figure, but clearly there's going to have to be an excess of EUR10.00 a ton incremental cost saving that we will need to make and some more to get down to the EUR50.00 target ambition that we've set ourselves.

Obviously, in terms of reflecting on which operations we keep and how we run them, that will also be of influence in terms of the ability to hit that kind of target. A maintenance figure of around EUR100 million CAPEX and, as Marek has already talked to this last time, injury frequency rate of below 5, which we're well on track to achieve. So that's really the first element of what NWR will achieve in the months and years ahead.

The second element is the moving up from the 5 million [odd] tons, including PCI, of coking coal to a figure around 10 million tons. There are a number of different targets we are busy looking at. We have a new team in place with a head of that team which we recruited from afield to help us to drive this process. And there are a number of very interesting targets, because, obviously, many and perhaps most coal mining companies around the world have been affected in the same as NWR has, and so it is a good time to be looking for those kind of acquisitions.

And then lastly, if we move, if you like, from the supply side to the demand side to become a one-stop shop to expand the range of capabilities and supply. And again, to that end, we are the in the process of assembling, I think, a world-class team that will help to build out that side of the business as we look to expand the marketing element from its low levels that it has been historically, although it has been part of this business, just as I say, a very small part of it, but as we become a more important player in this field.

And so it's really the three-pronged approach that we will continue to update you on, and I am confident that by the time we next are all on this line in August to produce the half-year results that we will have made quite significant progress across all three, but clearly the major focus in 80% to 90% of this right now is going to be focused on the blue circle because that's clearly what is most necessary in the current environment.

And so, ladies and gentlemen on this call, thank you for spending the time to hear Marek, myself and Radek out, and over to you, Radek, to field the questions.

QUESTION AND ANSWER

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

Operator, we are ready to take the questions.

Operator

Thank you. (Operator Instructions). Our first question today comes from [Michael Boam] of Royal Bank of Scotland. Please go ahead.

Michael Boam - ***Royal Bank of Scotland - Analyst***

Hi. Thanks for taking my question. Given the operating environment, the likelihood that it's going to take some time to announce the savings that you've talked to, how realistic is it, do you think, that you'll remain in compliance with the revised covenants that you have set? Because it seems to me that come the end of the third quarter you're going to be significantly more levered than nine times, as is required under the revolver, and come year-end the same situation applies to the ECA loan. So, I just wonder what you're thinking. Will you be drawing down any of the revolver or not?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Thank you for the question, Michael. On the cash generation profile, if you take a key assumption that coking coal and thermal coal prices stay stable -- and thermal will, but coking isn't clearly quarterly priced -- if you take that assumption, then I think it's reasonable to expect that --.

Somebody who should be on mute isn't. Can you please check whether you are all on mute? Thank you.

So, on that basis, you will see a -- still a negative cash flow in the second quarter at a much, much slower pace than in the first quarter. But this trend will reverse itself in the third and fourth quarters, and this is driven by two factors -- one is the acceleration in production throughout the year, and the other one is the gradual rollout of the EUR100 million savings package. So, those two combined, it's my expectation that we will hit within the revised covenants. But clearly, this is one that we have to watch very closely.

Michael Boam *- Royal Bank of Scotland - Analyst*

Okay. Just on the CAPEX issue, you've commented why you spent so much in Q1, but it seems that you really are running bare bones for the rest of the year. Is it actually possible to run the operation with the low level of CAPEX that you expect to spend in the rest of the year?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

I understand where you're coming from here, Michael. Let me turn it around. I think it's not a question of whether it's realistic or possible, this is the new normal. We need to get to a point where we are spending no more than EUR100 million a year in maintenance CAPEX to become cash generative and profitable. So, yes, our cash flow -- our monthly cash flow outlook for the rest of the year does confirm that this is not only possible, but very realistic. This is what's going to happen, and it's going to become the new standard going forward.

Michael Boam *- Royal Bank of Scotland - Analyst*

Okay. And then, two other quick questions, if I can. In terms of Q1 production, how early did you know in the quarter that your sales were going to be very weak, shall we say? I just wonder how long it takes you to actually flatten production, because when you were on the road for the bond deal it seemed that everything was going fairly well.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

And it is, Michael -- I think that the one thing that I should have mentioned at some point was that relative to what we budgeted for, and clearly the first quarter figures are not good, but they are better than we expected. They are -- sales are in line with what we expected and costs are significantly better than we expected.

Michael Boam *- Royal Bank of Scotland - Analyst*

Okay. And can you just comment on how things have trended thus far in the second quarter in terms of volume?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

It's in line with, again, with what we expected, in line with the guidance. And the only difference from what we would otherwise expect is the added sales of the low quality thermal coal that we are commuting out at discounted prices, but the aim here is to unlock cash out of the working capital.

Michael Boam *- Royal Bank of Scotland - Analyst*

Okay. Thank you very much for your time.

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

Michael, this is Gareth. Can I just add one thing? Clearly, what isn't in line with our expectation is that the consensus forward price of, in particular, hard coking coal blend of coals was showing improved prices in the second half of the year quite significantly. And this was the consensus, as you well know. And it's that sort of change.

The spot price, instead of improving from the 165 to 170 kind of figure, and were expected to go up to kind of 195, has clearly gone in the opposite direction, and that was against general overall opinion and consensus. And so it's really that, it's focusing our attention on saying we're going to have to make sure that we do a whole lot of incremental things with immediate effect, because the outlook now is one, as Marek said earlier, we're not projecting very significant price increases in the second half.

Michael Boam - ***Royal Bank of Scotland - Analyst***

Okay. Thank you very much for your time. Thank you.

Operator

Thank you. We now move on to our next question, from Romy Kruger of Exane. Please go ahead.

Romy Kruger - ***Exane - Analyst***

Yes, good afternoon, gentlemen. Thank you for taking my question. I have quite a few, actually. First of all, I would like to have a bit more color on the sale of thermal coal. So, as you say, it's 500,000 tons of low thermal coal to one-time buyers, if I got that right. And can you give us a bit more color, who are these buyers?

And also, what do you expect when you sell those 500,000 tons of coal? Obviously, they're lower quality, so it's lower than your average price. But also, when you sell them right now into the market, you expect to have to give further discount of that?

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

Right.

Romy Kruger - ***Exane - Analyst***

That's my first question.

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

Is she going to give all the questions?

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

You give us the questions and then we hit them one by one?

Romy Kruger - ***Exane - Analyst***

Yes. Yes, please. So, the first one was just who are the buyers? You said there are one-time buyers that you will be selling your low thermal coal, so they didn't seem to be your usual buyers? So, that was the first question.

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

Right, that is -- Romy, that is correct. We are selling this coal to -- there are two sort of type types of buyers. One are utilities that are outside of our usual range of delivery. So, for example, some of them are at the very western borders of Germany. This, of course, implies relatively high transportation costs, and so takes effective price significantly lower.

And the second sort of typical off-taker in this program are people who normally actually do not burn hard thermal coal at all, they burn lignite or other fuels, but really what they buy is the energy content, not the color, if you will, of the coal. And so these people are now also -- because the prices are where they are, they are now ready to buy a hard thermal coal as well. Does that answer your question?

Romy Kruger *- Exane - Analyst*

Yes. And just to give me a little bit more color in terms of the higher quality thermal coal, do you think that if you had to you could sell some more there, too, or is it not something you would think is possible?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Well, I think everything is possible. It's a question of price. And what we are doing is we are clearing out the low quality products that is not currently very highly priced and so, again, this will clearly hit P&L in terms of a loss, but it will deliver, as I said earlier, about EUR15 million of cash inflow.

Romy Kruger *- Exane - Analyst*

Okay, thank you. So, my next question is on the coke business. So, you said you would like to divest it to other producers who actually would have more value added. I was just wondering, are you talking about steel producers? And also, what is really your horizon on that? And also, on your overall perception of the coke market, if you could give us a little more feel here.

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

Romy, it's Gareth.

Romy Kruger *- Exane - Analyst*

Yes.

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

What we are going to be doing is running a process, so we would not restrict that process to any particular party. I think there will be many people who will find this interesting. OKK is a well-run company. It is in good shape. We've spent quite a lot of money on it over the years. It has a very significant market share, about 36% of the European foundry coke market, which gives it a strong market position, which, to many people, will be attractive.

And just in general, I think it's an interesting opportunity. It is, as I said earlier, a profitable, cash generative business. So there may be any number of buyers. Yes, it might be steel companies, but it may be private equity players, it may be other investors. I don't think we're going to close out on the process to any one specific group, and we'll have to see how the thing progresses.

Romy Kruger *- Exane - Analyst*

All right, thank you. And can you just maybe give us a little more feel on your perception of the coke market right now? Because you've maintained your guidance for 700,000 tons of sales, so that does imply a pick-up in the following quarters. And I was also wondering, the EU did not maintain its anti-dumping duties for Chinese coke imports. Does that have any impact on your market?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Right. Romy, Marek again. The coke market, yes, we do think that it is quite reasonable. And again, if you look at our segment of this, the coke business right now actually performs better than the coal business in terms of margins and profitability. However, I think that the key feature -- for me, the key feature of the coke business is a very, very high capital intensity. So, last year our coke segment generated EUR12 million of EBITDA; the year before it generated EUR6 million of EBITDA; and in the years 2008 till 2010, we invested over EUR80 million to modernize the asset.

So, generating a return is difficult. And basically, the fundamental problem is that the economics of making coke is a hostage to the spread between the coke price and the coking coal price. Those are very volatile, especially the coke price, they do not always move in sync, and we think that we can actually generate significantly better returns on capital mining coal relative to turning that coal into coke. That is why we have taken the decision to run a process and monetize the asset.

Romy Kruger *- Exane - Analyst*

Okay, thank you. And a last question on Debiensko, if you could just give us an update. You were looking for someone who could be a JV partner, and I was wondering if you would also consider selling the project as a whole.

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

On Debiensko, things haven't changed in terms of our views. We are still busy with it. We have continued to invest in the same order of magnitude as what we had guided previously; that's around EUR10 million this year. We think it's early days in terms of the project. Clearly, there is a lot of work still that needs to happen to crystallize value.

We are in the process of acquiring surface properties, which will consolidate our position. We're doing this value engineering exercise that we looked at previously to see what is the most effective way to mine this. And we are still talking to third parties to see which particular alternative is the most value accretive.

So, there's no one particular party, there's no one joint venture arrangement that we at this stage have locked onto. It's still part of our process.

Romy Kruger *- Exane - Analyst*

Okay. But overall, in terms of your thinking of the project in general, you would not consider selling it entirely?

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

Well, that isn't part of our thinking right now.

Romy Kruger *- Exane - Analyst*

Okay, thank you. That's all from me, thank you.

Operator

Thank you.

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

Thanks, Romy.

Operator

We move on to our next question, from Chris Watson of Finisterre Capital. Please go ahead.

Chris Watson - ***Finisterre Capital - Analyst***

Thanks very much, gentlemen. I had a couple of questions for you. The first one was to try to understand this point about CAPEX better. If we look at where the business has been historically, and certainly over the last five years you've been sort of looking at EUR200 million plus per year, and then even for the last two quarters you've been running at a rate of about EUR60 million plus.

And so if we take the EUR100 million as a guidance for the remainder of the year, and we're talking about sort of EUR13 million per quarter, I'm just trying to understand how that's possible in the context of the business and the context of the production numbers that you're talking about.

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Understood, and I see why you ask that question. And again, our role has to be -- it is necessary for us to reduce maintenance capital spend from the, as you say, EUR200 million plus to about EUR100 million or so going forward. And we are starting that right now -- we have already started that. This is the new reality. This is how the Company is going to be operating going forward.

And we do have, again, a specific monthly cash flow outlook that does include, exactly as you say, on average about EUR13 million a quarter. This is what's going to happen for the rest of the year. There is no question about it.

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

Chris, can I add a few other things? One of the points you need to take on board is that for the rest of this five-year period, OKD used to spend way below EUR 100 million CAPEX. So, the figure that you quote of sort of EUR200 million is something of recent years. It in particular went behind the POP program. It was very focused on upgrading the existing operations, etc.

There were also certain quite big one-off items say in last year, for example, the Karvina gateroad, which was about EUR30-odd million, which obviously now has been completed. So I think in terms of what is a like-for-like comparison, one needs to be a little bit careful in saying what is the steady state long-term CAPEX requirement of this business.

The second point I want to make is that it obviously takes a while -- you can turn the taps off, but you still get a flow-through even afterwards. So, we started turning the taps off as we saw things progressing through Q4 of last year. But obviously we've got lots of things, orders that are forward-placed, things that are in the pipeline, which is why the quarter is not indicative of where this will be and it represents a skewing of the capital spend during 2013.

So, we are going to get to a figure of around EUR100 million; that is where we need to be. And frankly, it's where we were historically in this business if you take in (technical difficulty) the last five-year period.

Chris Watson - ***Finisterre Capital - Analyst***

Okay. But then, clearly, there will be some implications, wouldn't there -- would there not be, for production levels next year? Once again, my understanding about the CAPEX was that as you're moving down the mine, there's the cost of immediate production and then there's work that needs to be done to enable production to occur at some point in the future.

So I appreciate that the CAPEX levels historically were much lower, but at the same time your operating costs historically were much lower. And as you -- my understanding was that as you move down the mine, there's just a natural increase in costs that comes from, to a certain extent, from the depth factor.

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

You're right. Obviously, as you go deeper in any mine it's going to be more costly. But again, I keep coming back, two other examples. In terms of as SAP system, we've put -- that's been quite a big expense. There have been quite big expenses on things like ventilation, which, frankly, are -- that project is now more that's in completion. So I think those kinds of things will offset the incremental amount that may be needed.

But we are just going to be extremely cautious in how we spent CAPEX, but what we won't be doing is holding back on CAPEX that will impact the production that we require, in line with the strategy that we've articulated. We're not going to spend CAPEX on areas that don't fit within the strategy; clearly, that would be quite a silly thing to do. But where we see part of the business as being long-term sustainable at current prices, we will spend the required CAPEX.

Chris Watson - ***Finisterre Capital - Analyst***

Okay, fair enough. I guess my second question is really going back to this point around volumes. The lower end of the sales range there now suggests that you're really not expecting much in the way of a recovery from where we are -- a very modest recovery off the first quarter.

Is that -- are we really -- is the 8.5 to 9.5, is that really suggesting that the delta there on that range would come from a second half recovery in volumes, and that the second quarter volumes are probably not looking that much better than the first quarter?

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

Well, and including the first quarter at 2.1 is not indicating of the year, so that's clearly less than the quarter of the 9 to 10 that we're guiding. So, you are going to see a fairly significant uplift in the second half and something of uplift in the first half, at least in the second quarter.

So the second quarter will be higher than the first quarter, and there afterwards you will see a continuation in terms of quarterly increases against the first quarter through till the end of the year. And that is not actually a function really of the markets, it's just a function of how the mine planning is working in this particular year in terms of panels that they're mining and the mine program, etc.

And to your first -- the first part of your question, around how we see the market, I think we've hopefully been pretty clear about that in that the thermal coal price is locked in at EUR60.00 a ton for the balance of the year, or 80% of that in any event. And we are -- clearly, we don't have certainty about what coal prices -- coking coal prices are going to do in Q3, but we are working on the basis that they aren't going to be very significantly different from the EUR103.00, EUR104.00 that we're currently getting.

So, put that into the mix and I think that's really why we feel we need to take all these other measures to optimize the business. Can I also just say, Chris, we are less focused on the fact that we need to be producing a certain -- we obviously do need to produce a certain critical mass of tonnage, but much more important to us is that the overall value of the business and the production we are producing, it's economic and that at the same time -- and this is a big task, that the unit costs, if they're going to be lower, are at least maintained at current levels.

So, the one thing that the figures that we put out this quarter I think gloss over in keeping costs at EUR86.00 a ton constant at a unit cost when we've produced significantly (technical difficulty) has been quite an achievement.

Chris Watson - ***Finisterre Capital - Analyst***

I concur completely. It's been a huge achievement on your part to manage the cost base down in the face of what is a very difficult market to operate in. I guess my last question is really around the concept of potentially idling mines. My understanding there - and that's a pretty extreme step to take, and obviously one that makes sense in the context of this, trying to get from negative EBITDA numbers to at least flat EBITDA numbers and flat overall cash numbers.

My understanding, though, is two-fold, is that, one, idling mines can be very expensive, particularly in the context of your unit agreements and potential environmental liabilities, but that, two, once the mines are idled it's actually very difficult to bring them back online. Could you comment on either of those points?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

In general, you're clearly right. Idling a mine is an expensive exercise. We are now sort of combing through the organization and through the individual part of the mines to identify those that either have a product mix that's not satisfactory or have a cost base that is not sustainable and not competitive. And so inevitably I think there are going to be sections of mines that are going to be discontinued. We do not -- I cannot tell you the specifics on that, but I think directionally you should expect NWR to produce between 8 million and 9 million tons of coal in 2014 with about 60% of that being coking coal.

Chris Watson - ***Finisterre Capital - Analyst***

Great. Thanks very much, gentlemen. I really appreciate it.

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Thank you.

Operator

Thank you. Our next question comes from Victor Drozdov of VTB Capital. Please go ahead.

Victor Drozdov - ***VTB Capital - Analyst***

Good morning, gentlemen. In fact, I have a question which is related to your strategic targets. You have listed that you expect coal production between 8 million tons to 9 million tons per year in 2017. And could you please remind me what was your previous target on this one? It's the first one question. And could you please explain how those numbers correlate -- 8 million tons to 9 million tons, correlate with 10 million tons of coking coal to be sold in 2017? Thank you.

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

Sorry, we have some trouble with the line. A technical note on the 2014, yes, we expect 8 million to 9 million tons, and this is the first time ever that we are providing the guidance for 2014, so there was no previous guidance that you could have seen.

How does this relate to the 10 million tons met coal sales target for 2017? There are three sources of those 10 million tons -- one is our existing operations in the Czech Republic; the other are operations that we are potentially to acquire; and finally, there are organic development bricks that we will be working on in the comings years.

Victor Drozdov - ***VTB Capital - Analyst***

So, to clarify, the number of 8 million to 9 million tons listed in strategic targets relates not to -- relates to 2014 year, but not 2017?

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

Correct.

Victor Drozdov - ***VTB Capital - Analyst***

Okay. Okay. Great. Thank you.

Operator

Thank you. We now move on to John Stipanovich of Citigroup. Please go ahead.

John Stipanovich - ***Citigroup - Analyst***

Hi, there. Just going back to the coking coal outlook, earlier in the year, as you mentioned, and, Marek, at the road show, you had mentioned the outlook for a 2H recovery. There was, speaking of the order of magnitude of 20%, 25%. Now the view, of course, you're putting out is no improvement. Just over the course of the year, what has changed in the market to change the outlook so dramatically?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

The 20% recovery that we previously expected in the second half was, at the time, and Marek (technical difficulty), this wasn't a number that we pulled out of thin air. We just took advice from people like you, frankly, and that recovery has not taken place. We continue to see relatively low capacity utilizations in the steel segment globally. I think right now it's about 79%. And you clearly see a pretty dismal situation in European economic growth.

The critical (technical difficulty) for us and the indicator for us is the automotive segment, both in Western and in Central Europe, and all of these people are having a hard time. They have double-digit declines in sales, with the exception of some very high premium German brands. All the other auto makers are sort of 15%, 20% or more percent down in sales right now. And that is really what drives ultimately demand for coking coal.

John Stipanovich - ***Citigroup - Analyst***

Okay. And moving on, the process to sell the coking coal division, when did you start that process?

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

We have made the decision this week, and we are kicking off this process this afternoon.

John Stipanovich - ***Citigroup - Analyst***

Okay. So at this point, no actual discussions have happened with any external parties?

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

No.

John Stipanovich - ***Citigroup - Analyst***

Okay. Okay, that's it for me. Thanks.

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

Thank you.

Operator

Thank you. We now take a question from Alex Field of Credit Suisse. Please go ahead.

Alex Field - ***Credit Suisse - Analyst***

Hi, there. So, I have a few questions. My first one is just in terms of Q2, you know, I guess, what your coke price and your thermal coal price are going to be. Do you have any sort of rough guidance of where EBITDA could be? Because, getting back to the question on covenants, I would think you would need to do EUR10 million to EUR20 million of EBITDA in Q2 if you are to meet that Q3 covenant. Is there any hope of getting to anything like that number, or would you be looking for more like break-even or lower? Thanks.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

We are not in the habit of providing specific guidance on individual P&L items, and I don't want to change that now. Clearly, this is something that we need to watch. And it is going to be tight, but that's the reality of today. I think generating -- saving EUR100 million of cash in eight months, I think, is a pretty good outcome. Clearly, a lot of things have to happen for it to -- for that EUR100 million to materialize, but I'm confident that we will get there.

Alex Field *- Credit Suisse - Analyst*

Maybe to put it another way, would you need to see a pretty meaningful improvement in Q3 to be able to hit that covenant target?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Improvement in what sense? We are not --

Alex Field *- Credit Suisse - Analyst*

In EBITDA in Q3. When you talked to cash flow, obviously, on the earlier question, but really the covenant is obviously measured on EBITDA, too.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Yes, yes, yes, that is correct. And what you will see -- so in our revised budgeting for the year, we expect flat pricing for the first of the year and we expect production to gradually accelerate quarter after quarter, which will result in the fixed costs being spread, clearly, over a bigger production number, and that is going to improve EBITDA. Yes.

Alex Field *- Credit Suisse - Analyst*

And the next one is just on Q3 pricing. I think that the Q2 price, the benchmark that was set in Japan that most people kind of use as a baseline, was really set when the spot price was near 160 a ton. The spot price is now near 145 a ton. Is it unrealistic to expect any increase in the coking coal price for Q3 at these kind of levels?

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

Yes, I think it is unrealistic.

Alex Field *- Credit Suisse - Analyst*

Would you expect a decline?

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

No, I don't think we'd expect a decline, but we would certainly -- I think it will be around that.

Alex Field - ***Credit Suisse - Analyst***

Okay. And just on the CAPEX again, we keep coming back on this, but I guess most people would believe that maybe you can cut the CAPEX to that level. But historically, last time you did a major CAPEX cut you had a major decrease in the yield of coking coal from your mines from about 60% to, I think on the way you used to measure coking coal, to about 45%. How is it that you're going to cut your CAPEX this time but still maintain those kind of yields? It seems very, very ambitious of you. Thanks.

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

We will not only maintain the yields, we will actually increase the yields starting in 2014 by discontinuing parts of our operations that have a very high proportion of low quality coal.

Alex Field - ***Credit Suisse - Analyst***

But my understanding is that typically aren't the deeper mines more productive in terms of coking coal for you than the more shallow mines?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

No, that doesn't apply generally, no.

Alex Field - ***Credit Suisse - Analyst***

Okay, thank you.

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Thanks.

Operator

Thank you. Just to advise, we have many questions in the queue today. Thank you for signaling, and we will take as many questions as time permits. We now move on to our next question from Petr Bartek from Erste Bank. Please go ahead.

Petr Bartek - ***Erste Bank - Analyst***

Good morning. I will have four questions. To CAPEX. The EUR100 million long-term CAPEX target is for maintenance on [there], I guess, so I would like to know how much we should expect for the development to keep the production at this site to 9 million tons long-term production level.

And second question would be how fast do you expect to get to this 60% coking coal share in production? And what think is that this EUR25 million OPEX savings for this year, how much of that is recurring? How much of that is one-off? And what is your target for flat unit costs doesn't match with this with this number, with this EUR25 million, so how are you actually going to achieve this flat unit costs? What additional savings do you expect?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Thank you. On the question on CAPEX, yes, the EUR100 million is maintenance CAPEX, not growth CAPEX. Once we restart the growth projects within Poland or the Czech Republic, we will review CAPEX budget for those.

You also asked about the timing of the 60% coking coal in the mix. We will product - or sell 60% of coking coal in 2014, so this is a target for the full financial year 2014. And finally, I'm not sure that I understand how you see a mismatch there. Even if we did not implement the 25% -- I'm sorry, EUR25 million real OPEX cut, we would still maintain flat unit cost, so this comes on top of that.

Petr Bartek *- Erste Bank - Analyst*

Thank you. Is this already occurring, this number?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Oh, sorry. Let me put this way, we will take out EUR10 million out of the cash costs starting in 2014. That's part of the -- that is part of this massive reorganization of the current mining operations.

So, I think you cannot just look at the EUR25 million in saving now and try to apply it to next year and further. It's going to be a different operation. It's going to have a much smaller administration. It's going to have a much reduced overhead. And through eliminating some high cost parts of some mines, it's also going to bring the cash costs down.

Petr Bartek *- Erste Bank - Analyst*

So, back to this EUR100 million maintenance CAPEX, this CAPEX, you are able to keep this 8 million to 9 million tons production long-term, and to keep this coking coal and thermal coal split?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Yes.

Petr Bartek *- Erste Bank - Analyst*

Or do you need the development CAPEX at all?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

No, no, no. This applies to the current operations. And yes, the maintenance CAPEX, the EUR100 million is sufficient.

Petr Bartek *- Erste Bank - Analyst*

Thank you.

Operator

Thank you. We move over to a question from Oliver Harker-Smith of Babson Capital. Please go ahead.

Oliver Harker-Smith *- Babson Capital - Analyst*

Hi, guys. Thanks for the presentation this morning. I guess, just on the sort of demand side of things, I think you've kind of -- so making it clear that this demand for the product is there and it's kind of a pricing thing. But I wonder, obviously, with ArcelorMittal's comments recently around potential closing of sites in your region, as I understand it, those sites were probably already sort of idle already.

But given that's sort of their view on demand in the region sort of going forward, I wonder if you could just comment on your thoughts around that and I guess your thoughts on sort of regional demands and kind of the steel outlook for your kind of customers, especially given, obviously, a large amount of your coking coal goes into Arcelor in particular.

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

What I can tell you is we've met with all our major customers in the last two or three weeks. And obviously, they're all struggling. This is a difficult time. But none of the indicated to us that they were entertaining closing their plants. They are all planning a future that is very similar to what we're thinking about ours. They are clearly many of them that are not using their full capacity. That in terms of actual closure, it's certainly not information that we have been provided with, and so that's the basis on which we are planning to go forward.

Oliver Harker-Smith *- Babson Capital - Analyst*

Okay. So, just a review of the thoughts on kind of those comments that came out of Arcelor and kind of not what you've heard or seen through from, I guess, your kind of constant conversations with your client base, I guess?

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

Yes, that's correct. And I don't think it's really our role to speculate about the strategies of individual companies, other than our own.

Oliver Harker-Smith *- Babson Capital - Analyst*

Sure now, I appreciate it. Just given a large customer, I was just wondering if you had some thoughts. But no, I appreciate your comments. Thanks a lot.

Operator

Thank you. We move on to our next question from Lisa Barash of UBS. Please go ahead.

Lisa Barash *- UBS - Analyst*

Hi. Most of my questions have already been asked, but I just had one on the potential divestiture of your coke operations. I was wondering if you could help me think about the range of proceeds you're hoping to get, or maybe, if not, maybe historical valuation multiples for coke assets. And then, what you expect the timing to be on this process, please.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

We will run a competitive process in the selling of the coke segment, and that's the best way, I guess, to discover the valuation. The asset generated EUR12 million of EBITDA. We don't have a specific price or valuation targets; we will simply go through the process of discovering what the market valuation is at the time and then take a view. And in terms of the timing, this is something that, as I said earlier, starting with earlier today and we will want to close the transaction well before the end of the year.

Lisa Barash *- UBS - Analyst*

Okay, thanks.

Operator

Thank you. We now take a question from Andrei Rodzianko of Black River. Please go ahead.

Andrei Rodzianko *- Black River - Analyst*

Hello, and thanks for the presentation. A few questions. First, on the cost-cutting measures and your target of getting to EUR60.00 per ton, which definitely seems quite ambitious. And you mentioned your expectation of taking about EUR10 million out of the costs per ton for 2014. Over what time period do you expect to get to that kind of EUR60.00 per ton cash cost per ton?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Hi, Andrei, and thanks for taking the time. We will be there next year, in 2014.

Andrei Rodzianko *- Black River - Analyst*

I thought you mentioned that you were looking to take out EUR10.00 per ton in 2014?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Let me just try to clarify. I don't know whether you had a chance to go through the slides with us when we were going through them, you did -- okay. So perhaps in the comment on the new format of the P&L. And to match this new format basically, to match the cost of fair number with the cast costs we have also redefined the cash costs. And so EUR60.00, the target of EUR60 for next year, really equates to EUR70.00 under the old methodology.

So if you look at our -- under the old methodology, our cash cost target for this year will be EUR80.00 and we will be bringing that number down to EUR70.00 in 2014. Now, lower all those numbers by EUR10.00 and you have the new methodology. And so that maybe explains your sort of impression of this being very ambitious. It is the EUR10.00 equates EUR60.00 next year. Does that make sense?

Andrei Rodzianko *- Black River - Analyst*

That makes sense. And, I guess, those other EUR10 per ton under, let's stick to the old methodology, that would get you to about EUR70.00, those stay relatively fixed then, if I understand correctly.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Yes. In our view of 2014, yes, this is the number. And obviously, we will continue as the market develops.

Andrei Rodzianko *- Black River - Analyst*

Okay. My next question is on the working capital side and the optimization of payables and receivables that you were referencing here. Is that a reference to year-end 2012, or is that a reference to kind of an improvement from Q1 2013?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

It's an improvement that you will see for the first time at the end of Q2, so at the end of June.

Andrei Rodzianko *- Black River - Analyst*

Okay. I guess I'm asking because I think there was some deterioration in your net working capital in Q1. So, is the EUR40 million improvement pretty much from the end of Q1, or are we looking for EUR40 million improvement from the start of the year?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Okay. Sorry, I misunderstood originally. Yes, it's an improvement relative to Q1 -- end of Q1.

Andrei Rodzianko *- Black River - Analyst*

Okay, understood. And the last question I have on the -- any ideas for if you do manage to sell OKK, what kind of use of proceeds you would be looking to do, or more just to bolster your cash position?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

That's the sort of Plan A, we are doing this to bolster the cash position. I think we will be ultimately obligated to reinvest the proceeds into the business.

Andrei Rodzianko *- Black River - Analyst*

Okay. That's all from me, so thank you.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Thank you.

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

Thanks, Andre.

Operator

Thank you. Michael Posnansky of M&G has our next question. Please go ahead.

Michael Posnansky *- M&G - Analyst*

Good morning. Just a couple of questions from me. Firstly, with regards to the 10% salary reduction that's immediate, have you got that cleared by the unions and what's your expectations there?

And then, secondly, just looking at slide 20 in the sort of 2017 strategic targets and especially the 10 million tons a year of coking coal, and lining that up with your sort of ambitions with Debiensko and then comparing that with the sort of current state of the balance sheet and the pressures that you're under there, those two things don't quite sort of add up to me. Is there any potential for a sort of capital raise to get you to those targets, or which gives first? Getting to that 10 million tons a year or sort of doing a capital raise? Thank you.

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

Michael, I think -- firstly, just on the 10%, for all non-union staff it's already been implemented. For unionized staff, we are in the process of discussing it with them. And we are, I think, making good progress, but it's not finalized yet. But we have made it clear that this will be backdated to 1 May. We think we'll get there, but this is clearly a process that does require engagement with the unions.

In terms of the target of 10 million tons, there are many ways in which we can get to that figure. Marek mentioned three. One is our own production. Secondly is acquisition. Thirdly is new projects like Debiensko. They would be falling outside of this period. They wouldn't be developed within this time period. And lastly, clearly, is simply acquiring coal tonnage from third parties. So, if you like, it could be purchasing from third parties and on-selling, which, of course, we have done to a very limited extent already. So it could be any of those combinations.

The third point was would we need capital raise? I don't know at this stage, is the answer. Not for the existing business, not for the current operations as we see them. We think we have, with the EUR200-odd million that we have already cash on the balance sheet, with the EUR100 million revolver, and with the incremental remaining portion of the EUR100-odd million savings, we think we are in a very strong cash position.

But what I can't say is if we found a fantastic acquisition to make that was clearly value accretive, that one wouldn't approach shareholders to say we do like to shoot for this. It would clearly be naive and wrong to say that that isn't some kind of possibility, but it would be for the existing business.

Michael Posnansky *- M&G - Analyst*

And would that include sort of a potential rights issue to cover the CAPEX for Debiensko, given the poor sort of cash flow generation at the moment?

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

All I can tell you is that we have no -- at this stage, there hasn't even been a conversation of rights issue.

Michael Posnansky *- M&G - Analyst*

Okay. And then, moving on to the revolver you mentioned. Obviously, that matures early part of next year. Can you talk about any sort of potential discussions that may have been had with the banks? I know that there's obviously the covenant waiver there, but, clearly, to provide some comfort and headroom over the financing over the medium term you would rather that be sort of extended in the maturity as opposed to just have disappeared? So, can you talk about that, please?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Of course, the plan is for the RCF to be rolled over when it -- not when, but well before it expires early next year. As you would imagine, we are in a very close dialogue with the lenders. There's a monitoring system in place etc. I think I'm not saying too much when I say that the fact that we have agreed to it with a suspension of covenant testing now and a revised covenant level during the year, I'd like to see that as a level of support by the lenders. And so I do believe that we will roll over the entire RCF, and I think the one open question is in pricing.

Michael Posnansky *- M&G - Analyst*

Okay, thank you.

Operator

We now move on to a question from Yuri Mulanski of JPMorgan. Please go ahead.

Yuri Mulanski *- JPMorgan - Analyst*

Thank you for taking my question. I had a couple of follow-ups regarding some of the CAPEX questions that have been asked. Could you give us an update on how much was actually spent in April and the first two weeks of May? And a follow-on to that is given that you, at your 2012 balance sheet date, have reported something like EUR76 million of contractual obligations for CAPEX, to what extent do your CAPEX goals require you to renegotiate contracts with your suppliers?

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

Thank you, Yuri. Yes, go-ahead.

Yuri Mulanski *- JPMorgan - Analyst*

Yes. So the next question I had was on the revolving credit facility, do you have any forward-looking covenants that currently preclude you from drawing down on that facility? And, if not, why haven't you drawn down on it already?

And finally, regarding the capital raise, you mentioned that you wouldn't be expecting to do a rights issue for the existing business. Have you had discussions with your controlling shareholders about any kind of financial assistance? That's it from my end.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Thanks for the questions, Yuri. On CAPEX, the revised CAPEX, that guidance did involve some renegotiation with some of the suppliers, but all of these have been -- are in place now, and that is the basis for the CAPEX reduction.

There is nothing stopping us from drawing down under the RCF. There is also, however, no reason to draw down the RCF. We are not in immediate danger of a sold liquidity shortage and there's obviously a cost associated with the RCF being drawn. So, this is available to us and we may utilize it going forward. I think the only sort of (inaudible) scenario there that I can think of where we would utilize it is if the pricing outlook is going to be much worse than we context.

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

The discussion with major shareholders?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Again, to echo what Gareth said earlier, rights issue is a similar discussion to drawdown of the RCF. We do not have an immediate liquidity issue. Liquidity is going to be improving, especially at the end of the second quarter and then over the rest of the second half, so there is no discussion about support.

Yuri Mulanski *- JPMorgan - Analyst*

Okay, thank you.

Operator

Thank you. We now take a question from Lioni Morel of Goldman Sachs. Please go ahead.

Lioni Morel *- Goldman Sachs - Analyst*

Good morning and thank you for taking my questions. My first question is on the market. So you mentioned on page 15 that you expect more coking coal capacity to be cut. Could you please comment on your positioning in terms of cost curve versus your competitors and where you expect to see some capacity reduction in the markets?

And related to that, there have been some articles recently about the increase of exports of US coal into Europe. Could you please give us some color on that and the impact that you see on your business?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Let me start with the exports. This is not a recent development. Central Europe has imported -- typically imports about 4 million tons of American met coal per year. What has seen a development was the thermal coal imports into Europe. This is into Western Europe. This is partially driven by the shale gas situation in North America and its impact on the economics of the thermal coal producers there. So, yes, imports from North America are a fact of life, and have been a fact of life for a while, and I think it's reasonable to expect that this trend will continue and accelerate.

Lioni Morel - ***Goldman Sachs - Analyst***

Thank you. And regarding your positioning on the cost curve and where you expect the capacity to be cut.

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Sorry. On the cost curve, if you look at the global cost curve, we are a high cost inducer. I think we are in the 90th percentile or thereabouts. This, of course, is driven by the operational nature of our business, the debt of our operations, the fragmented nature of the deposits that we are exploring.

And to add to that, what is really relevant to our customers, steel makers, is not how much does it cost and that were to produce coal ex-mine, but how much -- what is the delivered price of coal to a gate of a steel mill. And on that basis, by the time you incur a freight cost from whether it's Australia or North America or other parts of the world, we are still competitive. The relevant cost comparison really is with the local competition, most important in Poland, and there we are cheaper on the cash cost basis than our immediate competitors.

Lioni Morel - ***Goldman Sachs - Analyst***

Okay, thank you. And then I had some follow-up questions on the common side. The gearing package for the ECA facility, that's five times in December compared to nine times for September for the RCF. What is the rationale for having two different triggers for the two facilities? And on the RCFs, is there a step down from nine times to five times in December?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

The only difference between the amendments of the two facilities is that the RCF does not deal with the fourth quarter at all. And without getting too technical, this is simply because the facility disappears unless we roll over in February. And so, technically speaking, by the time you take measure of the covenant for the first quarter and the facility is no longer there and you aren't reporting anything. But otherwise, there are no differences between the two.

Lioni Morel - ***Goldman Sachs - Analyst***

And an issuer in breach of the RCF covenants in Q3 that are nine times test, is there a cross default implying that it would also be a default on the ECA?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Yes. But clearly, we are not going to come to a situation where we are in breach of a covenant. And if that becomes a meaningful probability, we will, of course, deal with it and find an appropriate solution.

Lioni Morel - ***Goldman Sachs - Analyst***

Okay, thank you. And then, just to follow-up on the previous question, on the salary reduction, could you please let us know what is the rough percentage of your staff which is unionized and what impact has already been agreed?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Can you please repeat the question? We couldn't quite hear it.

Lioni Morel *- Goldman Sachs - Analyst*

Could you please let us know what is the rough percentage of the staff which is unionized and for which the salary cuts needs to be agreed with the unions?

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

The vast majority of -- all underground staff is unionized, so this is the vast majority of the total number. And you were asking about what the size of the cut or, sorry, I just couldn't quite make it?

Lioni Morel *- Goldman Sachs - Analyst*

No, just wanted to get a sense for how much of the salary cuts effectively was already agreed given that you commented earlier that you still needed to discuss with the unions for the unionized staff.

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

Lioni, we've still got quite a way to go with this discussion. So, a relatively small percentage is already banked and the balance is in the process of discussion.

Lioni Morel *- Goldman Sachs - Analyst*

Okay. Okay, thank you.

Operator

Thank you. Thomas O'Hara of Citi has our next question. Please go ahead.

Thomas O'Hara *- Citi - Analyst*

Hi. Thank you. I think most of the questions have been answered. There was just one related to potential acquisition. Could you provide a bit color there in terms of a ballpark figure perhaps on the size of an acquisition or in terms of tonnage, and also perhaps which regions you would be looking in?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Thomas, our primary goal and our primary focus when sort of sifting through the opportunities there are available at the moment is the quality of coal that is and will be produced in the future in any particular situation. That is what really drives the process. We had started some months ago with a very long list of opportunities that simply theoretically are available and we have gone through a very --

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

Rigorous.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

-- rigorous -- thank you, Gareth -- process of quality testing and we have always taken samples, in some cases those samples to our labs in the Czech Republic or even our coke batteries in the Czech Republic, and we now have a short list of opportunities where we are taking forward.

In terms of size or value or financing and on the financing efforts, that is not what we are primarily looking at at this moment. We are trying to find the right opportunity, which has two things -- the right quality and the right price in the cost curve.

Thomas O'Hara *- Citi - Analyst*

Okay, so you don't have any sort of idea on the size in terms of volume that you would be looking for at all?

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

No. I think, Thomas, clearly, I guess, anywhere between one and five million kind of tons of coking coal would be the sweet spot for us. That's a meaningful amount to accompany our size.

Thomas O'Hara *- Citi - Analyst*

Okay, perfect. Thanks very much.

Operator

Thank you. We take our next question now from Ide Kearney from GLG. Please go ahead.

Ide Kearney *- GLG - Analyst*

Hello, and thanks for taking my questions. I have two questions and one clarification. And the first question concerns the target of the EUR100 million of short-term measures.

EUR40 million of this is coming from optimization of payables and receivables, and I think this is probably -- if you can explain to me how feasible this is because your bonds are currently trading at sort of $0.70 on the $1.00, a level which means that normally suppliers might get a bit more cautious about extending terms to you. So, how exactly do you intend to sort of squeeze that kind of money out of working capital in the next couple of months?

The second question is just on the bank line. I wanted to ask, you're selling some assets, is there (technical difficulty) a material adverse change clause in there that we should be aware of? And finally, a clarification on a comment you made earlier about the cash flows in the second quarter.

You said it would improve, and I wanted to ask if that was before or after interest expense because, obviously, you have quite a large coupon interest payment in the second quarter and in the first quarter it was much more moderate. So, if you could just sort -- if you could just tell us if it will improve before or after the payments of the bond coupon. Thanks.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Right. On the working capital, the targets, in my view, are conservative and imminently achievable, and I guess you'll just have to wait until the end of June to see whether I'm right or you're right. On the cash flow, I'm not exactly sure what you're asking. Yes, there are coupon payments in the second quarter and the cash flow improvement is -- I'm talking about net cash flow throughout this call --

Ide Kearney *- GLG - Analyst*

Okay.

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

-- so including the coupon payments.

Ide Kearney - ***GLG - Analyst***

Okay. And then finally, just on the bank lines again, because just in terms of availability and to confirm it's definitely available, that any of the announced measures don't change that?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

No, no, not at all. The RCF is available right now and subject to the terms and conditions of the loan agreement. We can drawn it down any time between now and the expiration of the facility in the Spring.

Ide Kearney - ***GLG - Analyst***

Okay. And actually, just one more thing on the working capital. Will you be selling receivables? Is that part of the plan, or can you sort of disclose anymore about how you'll get that money out?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

We have the possibility of selling receivables. We do have the appropriate lines in place, so yes, it is one of the measures that we will take if appropriate.

Ide Kearney - ***GLG - Analyst***

And you're not seeing any changes to sort of payable days at the moment? Suppliers are not getting concerned or --?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

I don't want to talk for other people, but we are not seeing any change in the terms.

Ide Kearney - ***GLG - Analyst***

Okay, thank you.

Operator

We move on to a question from Christian Hanson of ITS Asset Management. Please go ahead.

Christian Hanson - ***ITS Asset Management - Analyst***

Yes, hi. This is Christian. Thank you for taking my call. I was thinking about how you feel the pressure from the power decrease from Australia. And also, if you have some comments on the Australia dollar appreciation during the last couple of years, going back to '09, and how that influences the whole market.

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

Christian, obviously, Australia is -- I'm stating the obvious. It's the largest producer, the lowest cost producer in the world. And given the current price is -- not all Australian operations, but most of them must all in the money and in the right product and cost curve. So clearly, their margins are being cut both because -- three reasons -- Aussie dollar, increasing costs, lower price.

But most of them are still, I think, reasonably -- have reasonable margins to continue their business. There's not many of them that are going to be in the sort of 25% we talked about earlier that are not profitable in current operations. Most of those are going to be in other parts of the world.

So, I don't think it would significantly impact on existing Australian production, but what it would do is it clearly impacts on potential new production where people might be thinking of new projects and those even in Australia might well be deferred.

Christian Hanson *- ITS Asset Management - Analyst*

Okay, thank you. What are your perceptions of the global inventory status at the moment? To me, it seems like it's coming down quite rapidly, but again, I don't really have a really good feeling of this.

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

I don't think we have any better information on a global view to what you or others would have. In terms of a regional view, there is very limited excess supply of met coal, if any.

Christian Hanson *- ITS Asset Management - Analyst*

(inaudible - multiple speakers)

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

-- quite significant existing stocks of thermal, particularly in Poland. That number varies. It's not our number, but we hear any number of millions of tons of thermal coal in excess with other producers.

Christian Hanson *- ITS Asset Management - Analyst*

Okay. I have one last question. Given that we might in the future see mills close, would it be easy for you to find somebody else to buy your coking coal, or how does that work?

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

I think so. At this stage, we haven't had a problem selling coking coal. And if you consider the fact that Marek said that 4 million tons of coking coal is imported into our region, 50 million tons is imported into Europe. So our ability to sell our coking coal at prevailing prices, I think, is not something that is keeping us awake at night. The challenge, clearly, is to get improved prices.

Christian Hanson *- ITS Asset Management - Analyst*

Yes.

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

And those prices, as you well know, are largely set outside of the region.

Christian Hanson *- ITS Asset Management - Analyst*

Yes. Okay. Well, thank you.

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

Okay.

Operator

We move on to a question from Rebecca Clements of Investec. Please go ahead.

Rebecca Clements *- Investec - Analyst*

Hi. Getting to the end of the queue here, I hope. I have a few questions still. The first one is, how do the cost-cutting measures that you're taking right now compare with actions that you took back in late 2008 and 2009? Are they comparable, or have you improved your cost structure enough that this is another significant step down for you? And do you feel like you're more stretched currently than you were back during that time period to cut costs?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

That's an interesting point. The comparison between 2009 and now is something that we are looking a lot at, and I think the key difference is that 2009 was a hard but very short dip in demand for our pricing for coking coal. So we'll leave them then was rapid but temporary. We are looking at now it is a significant reshaping of the business because we don't think that this is a short-term.

We do not think that in a quarter we'll be back to whatever 200 dollars a ton of coking coal. So we are talking now about a new normal and we are taking steps that will make us cash generative in this new environment.

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

Rebecca, can I add to that? Because I think you raise a good point, and perhaps it's been missed in how we've articulated hitherto on this call. We are not looking at the same business, the same structure of the business going forward as historically. So in 2009, it was the same business, temporary measures put in place, and then reversing back to producing every last ton of steam coal, every last ton of coking coal. That's not where we come in from now.

We are saying -- and it seems we're flipping the thing over and saying, "What do we need to be today to be a profitable, cash generative business at these prices?" And assuming that continues -- and I'll come to in a minute what happens when prices go back up again. But if that continues for the foreseeable future, what does your business need to look like? That will drive, and is driving, which assets we hold and continue with, which mines we continue with, and which parts of mines we continue with, and that will drive the cost per ton and the amount of CAPEX.

So, I think a lot of this call has been how are you going to get to your CAPEX figure of EUR100 million, with, I think, the sense of being we're comparing apples with apples, but we're not. Because actually we're going to spending the CAPEX on those parts of the business that we want to continue with going forward and those where we're guiding to lower overall production numbers, because we would rather produce 8 million to 9 million tons as opposed to 11 million tons historically of profitable, much more heavily weighted metallurgical coal than we would of a thermal [mixed] coal mix of 50/50 at 11 million tons. And I think it's really important that we communicated that properly.

Rebecca Clements *- Investec - Analyst*

Okay. And just dovetailing from that, I guess the answer to my question of how long can you go on with this new sort of lower cost structure, especially if the situation remains, from a demand point of view and pricing point of view, weak going into 2014. These are permanent cost take-outs or is there a portion of these cost take-outs that we should consider somewhat temporary?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

If you're talking about the picture that we're painting for 2014 and beyond as opposed to the short-term EUR100 million cost savings, then they are permanent -- this is a permanent structure for, call it, the next five years. Who knows beyond that? But for planning purposes, it's for the current horizon.

Rebecca Clements *- Investec - Analyst*

Okay. So of that EUR100 million, should we consider that short-term or should we consider that a mix of the two?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

The EUR100 million is a mixture of CAPEX, working capital and cost cut, so you cannot really say -- you cannot go either way. What is permanent is taking EUR10.00 out of the cash costs so that we get to the EUR60.00 number for the full year 2014.

Rebecca Clements *- Investec - Analyst*

Okay. And then, regarding CAPEX, the coking business divestiture, if, in fact, you do sell that before the end of the year, I'm assuming that you would have lower CAPEX investment. What do you normally -- or what would you normally spend on that in 2013, and have you adjusted for spending less, assuming that you would sell it before year-end?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

There is a small reduction in maintenance CAPEX, but the budgeted number is about EUR7 million, so it's not a material help.

Rebecca Clements *- Investec - Analyst*

Okay. And not to beat a dead horse here, but the EUR100 million of CAPEX, that is inclusive of the EUR10 million development for Debiensko and includes the EUR60 million that you spent in the first quarter?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

That is correct, yes.

Rebecca Clements *- Investec - Analyst*

Okay. And then, to the extent that you can say, does your current operating plan for the year, do you anticipate having to actually use the RCF either as a precaution or as a necessity?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

No, we do not expect to draw down the RCF.

Rebecca Clements - ***Investec - Analyst***

Okay. And are you confident that if, in fact, conditions don't meet your plan and you need to have another conversation about perhaps getting another quarter extended or -- I guess it would affect your renewal at that point, but is it realistic that you would be able to reset covenants again?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

I think it is realistic. Let me make one more comment about the potential RCF drawdown. You may have seen that we drew down the RCF repeatedly in the course of 2012. It was outstanding over the end of the year holiday period. This was not driven by any sort of need for cash or liquidity problem, this was simply a precautionary measure in light of our opinion at the time that the Eurozone was at serious risk of some sort of major upheaval. Everybody can take a view on that situation right now.

And so going back to your question about whether we expect to draw it down, I think this is one situation where we could. But we would not -- we do not currently envision a drawdown of the RCF due to liquidity concerns.

Rebecca Clements - ***Investec - Analyst***

Okay. And in terms of mapping out the year, where would you say you think liquidity will be its most difficult? Are we seeing the most difficult times currently in the second quarter, if you expect the second half to improve?

I guess what I'm trying to gauge here is from an expectations point of view, should we expect the liquidity situation to be more difficult by the end of this second quarter and then improving in the second half? Or will we see an improvement, or should we expect an improvement in liquidity, even sort of taking into account your coupon payment due in the second quarter?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

My expectation is that you will see the liquidity further deteriorate at the end of Q2, not to such an extent as in Q1, and then you will see a rapid improvement in the second half of the year.

Rebecca Clements - ***Investec - Analyst***

Okay. So basically, if we're looking for improvements in liquidity, we shouldn't expect anything until third quarter?

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Correct, yes.

Rebecca Clements - ***Investec - Analyst***

Okay. All right, thank you very much.

Operator

Thank you. We move on to Bram Buring from Wood for our next question. Please go ahead.

Bram Buring - ***Wood - Analyst***

Yes. I have a follow-up question, please, on the CAPEX. Your last statement, regarding 2013 CAPEX was pretty clear, so I'll say take it out to 2014 within the context of your maintenance CAPEX of around EUR100 million. Does that include extending the work out to the Karvina mine, where you expect to find roughly 30 million tons of hard coking coal? Will you still be able to access those deposits according to the current timetable, which is around 2015-16?

And lastly, given that you'll probably take some thermal coal production out of the mix in this year, and certainly in the next year, what kind of sales mix would you be expecting once the Karvina mine is fully operational or fully accessed?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

Hi, Bram. On Karvina, the project rolls on as planned. The mix, as I think we said, the mix in 2014 is to be about 60% met coal. And when Karvina comes online, that will add about 700,000 tons of met coal to the mix.

Bram Buring *- Wood - Analyst*

Okay. So would we be looking, then, for an increase in absolute production figure, then, once Karvina -- once you start mining in Karvina -- in this area of Karvina?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

This is pretty far in the future, but my --

Bram Buring *- Wood - Analyst*

Sure.

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

-- guesspoint is that you will not see that. You will just see the production to rebalance towards coking coal when Karvina is operational.

Bram Buring *- Wood - Analyst*

Okay. And given the CAPEX cuts, you stick with the sort of the original targets, which I understood that you would be starting to access this field in 2015-16?

Marek Jelinek *- New World Resources Plc - Executive Director, CFO*

I think what we said in the past was that Karvina would be operational in 2017, and there is no change to that plan.

Bram Buring *- Wood - Analyst*

16-17, okay. Thank you very much.

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

Thank you.

Operator

Thank you. That will conclude today's question-and-answer session. I would now like to turn the call back over to the speakers for any additional or closing remarks.

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

Thank you. And we would like to thank everybody for this time and have a very nice rest of the day. Bye-bye.

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

Thank you, everybody.

Marek Jelinek - ***New World Resources Plc - Executive Director, CFO***

Thank you.