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NWR.L - Q2 2013 New World Resources Plc Earnings Conference Call

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## PRESENTATION

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

Okay, good morning, ladies and gentlemen, and thank you very much for joining us on today's call to discuss our interim results. The revenue of our performance for the first half of this year will be provided to you by the Executive Chairman, Gareth Penny, followed by more details on the financial performance presented by the CFO, Marek Jelinek.

After than, Gareth and Marek will both take you through an update on the business optimization steps, since it was announced in May at the Q1 results.

As always, we are happy to take your questions at the end of the presentation, and we plan to spend about 30 minutes on the Q&A session. With that, I would like to now hand over to Gareth.

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

Radek, thank you very much. And before we go into the deck, a few introductory remarks from my side. I mean, it's clearly been a very challenging six months. Few, if any, would have projected at the beginning of this year the extent to which coal prices would decline further, given the declines that we had already seen towards the end of last year.

I do believe, however, that NWR is adjusting to this 'new reality', and is taking the necessary steps that are required to ensure the robustness of the company, and importantly, I think what we will do between Marek and myself is try to show the performance in Q2 versus Q1 of this year.

In general, I think our results are in line with the market, perhaps, with the exception of the impairment, and again, we'll talk about that a little more during the course of this presentation.

I think we take particular pride from the fact that we set ourselves the challenge of generating an incremental EUR100 million of liquidity. And again, as you would have seen from the figures, we are well on track to achieve that with EUR60 million already on the board in the first half, and with the EUR40 million which we expect to achieve in the second half of the year.

We will restate the targets for this year in line with what we've said before, and those remain consistent, and we want to talk a little bit as well about 2014, and how we see next year developing. So, if we can then move, Radek, through to slide 5, and start to get into a little bit of the detail.

On this slide, what you see is revenues down 29% at EUR493 million. And of course the principle driver of this has been the fact that prices have declined through this period compared to the first half of last year by 25% in the case of coking coal, and 23% in the case of thermal. And that, of course, has driven a lot of our other decisions around how much to mine, and related matters.

Cash mining costs, which we'll come back to, have gone up to EUR84 a ton, principally off the fact that production itself has declined, and so, obviously stated on a per ton basis, this is the effect. But as we show on the right-hand side, if we had had stable production in fact these euro per ton costs would now be declining.

We remain focused on the fact that what we want to achieve for this year, is to keep costs per ton in line, more or less, with what we achieved last year, so somewhere between EUR70 and EUR75 a ton, and of course we remain with the target to get our overall costs by the end of next year down to EUR60 a ton, which we think will make this a competitive business.

I'm pleased to note that our mining admin costs have come down 16% to EUR93 million. Of course, the consequence of the revenue reduction is a negative EBITDA at EUR40 million, and I've already mentioned the impairment of EUR307 million, which we think is a prudent thing to do, given the current state of the market.

The underlying basic loss per A share is EUR0.56. The net debt of the business is EUR653 million. And I think particularly pleasing is to see our cash balance at EUR176 million. Of course, we were focused on the fact that in the first three months of the year, we had negative cash flow of EUR70-odd-million, but importantly that has improved to EUR20 million of negative cash flow in the second quarter of the year. And we will have a little bit more to say about how we see the third and fourth quarter in a minute or two.

If we move to slide six on operational matters, I'll come back to lost time injury, but a very pleasing improvement there. The coal production for the first half of the year was 4.3 million tons, and external sales 4.6 million, so we've reduced our inventories, again, I think important. I should probably note that of the 4.3 million tons, 54% was met coal and 46% was thermal, which of course plays to our objective to get this business to a 60% met producer and a 40% thermal.

External sales mix, 49% coking, 51% thermal, and you see here the figures for coke production at 340 kilotons.

I should also note that steel production in our area was down 2% year-on-year, and world steel capacity utilization at something like 79%. So, we remain in a situation where, in terms of steel production, a challenging environment, and of course that flows through to the impact on our own mining operations.

If we turn to page seven, to slide seven, here you see the very important achievement in terms of safety as measured by the LTIFR. Our longer term objective, as you know, is to get to 5. So to see a figure here of 5.65 it's showing very important directional process, and it continues even in these difficult times to be our number one priority in terms of the safety of our people.

And so with that, let me pass over to Marek to take into a little more detail.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Thank you very much, Gareth, and thank you everybody for joining us this morning.

Let's first start looking at the key P&L items. This is slide nine for those of you have the slide in front of you. There's a headline figure of EUR493 million in revenues, dramatically impacted by the weak coal price environment.

Cost of sales slightly up, 3% up. However, this is largely driven by the sell down of low-quality inventory, coal inventory at a loss. If you desegregate the total cost of sale number into its components, you will see every other component, including the materials and energy services and personnel, every of those components is down significantly, but it's offset by the loss that we made on the sell down of the inventory.

Selling and admin expenses are down 14% to EUR111 million. You will continue to see the same trend in the second half of the year. Admin expenses were principally driven by lower personnel, where selling expenses that mostly comprised transportation costs were down as a result of lower volumes sold in the first half of this year.

All these positive developments, however, were not enough to offset the negative impact of the pricing environment. EBITDA is still negative, and this is exactly why we initiated the EUR100 million package earlier this year, in May in fact, and we'll be talking to how we are doing on delivering that EUR100 million later in this session.

We have recorded an impairment of fixed assets in the period of EUR307 million. This is simply an accounting operation that aims at aligning the fair market value of our fixed assets with their carrying value, or their book value. Just to be absolutely clear on this, this is a non-cash accounting entry, even though the EUR307 million does go through directly to the net income line, it is a non-cash expense.

Finally, at the bottom of the P&L, we recorded a net income tax benefit of EUR82 million, and that left the underlying loss for the period of EUR145 million. Importantly, at the bottom of this slide nine, you can see that in the second quarter of 2013, we have seen positive cash flow from operations of EUR16 million. That is a significant reversal of the trend from what we have seen in Q1, and it is a testament to the work that's being done in terms of cost cutting and cash flow preservation in our operation.

And the last point here on this slide, you can see that CAPEX for Q2 is at EUR25 million, significantly down from the EUR60 million that we've seen in the first quarter, and indeed it is now at a run rate that we expect for the rest of the year.

Moving on to page 10 to touch on the pricing environment, no surprise when I say that both the met coal, thermal coal, and coke prices continue to be depressed. I think it's fair to say that there was nobody in the market, say at the beginning of this year, who would have expected this sort of pricing levels. It is clearly something that's outside of our control, and we are focused on controlling the things that we can, which is costs and CAPEX, or overall generally, cash flows.

In terms of the current pricing, we are now selling coking coal at EUR92 a ton, which is down 8% on the second quarter. We are also selling thermal coal for EUR60 a ton, which is an annual price, renewal contract.

Please do note, however, that that EUR60 does not include the sell down of inventory, which we initiated earlier this year, and which will continue for the rest of the year. You will see that the overall blended thermal product price will be lower than EUR60 because the inventories are being sold at a discount.

And finally, the coke price at the moment is EUR232 a ton, which is about 3% down on the previous quarter.

Moving on to the key drivers in the EBITDA development between the first half of last year and first half of this year. Clearly, the largest items are prices, and you can see on page 11, just coking coal and thermal coal has eliminated about EUR110 million off EBITDA. On the positive side all the way to the right side of the chart, in dark green, you can see that the OPEX development has been positive, and it actually saved about EUR57 million in the period.

Moving on to an analysis of the coal segment in isolation, coking coal revenues were down 42%, which is driven by a combination of a 23% decline in sales volumes, and a 25% decline in coking coal prices.

Thermal coal revenues are down 10%, which is a product of a 23% reduction in price, and a 17% increase in volumes. That volume increase was helped by the sell down of inventory in the period, which amounted to 380,000 tons.

Cash mining unit costs were up 22% to EUR84/t, which is purely due to the 26% decline in production on a stable production basis, the applied mining unit costs would actually be down by 10%.

Our mining plan for the rest of the year implies increase in production in the second half of 2013, which will have positive impact on the mining unit costs. We continue to target flat unit cost development year-on-year for the full year 2013. And finally, the segment's, the coal segment's selling and admin costs were down 16%, which is a trend that you should continue to see in the second half of the year.

Moving on to analysis of the coke segment, coke revenues are down 21%, which is driven by a 20% reduction in the average coke price, and only a 2% decline in sales volumes. Cash conversion costs remain unchanged year-on-year, despite the slight 3% drop in production.

And finally, the coal purchase charges are down 25%, and this combines with flat selling and admin expenses, the impact of lower realized coal prices was more than offset, resulting in a 45% increase in the coke segment EBITDA to EUR9 million for the first half of the year.

Moving on to our financial position. This is now on slide 14. You can see some material improvements in the net debt development. We generated net cash flow from operations of EUR22 million, interest and tax was EUR28 million, and CAPEX was EUR85 million. Again on the CAPEX number, please note that EUR25 million of that was the run rate in Q2, and EUR60 million was the Q1 number. The Q1 number was influenced by some spillover off 2012 CAPEX into 2013.

Looking at the cash development during the second quarter. This is the bottom left-hand chart. You can see a positive net operating cash flow in the second quarter and a very significant slow down in CAPEX, and the scheduled repayment of the ECA loan facility. The repayment amounted to EUR7 million, so the current outstanding is now EUR69 million.

Net debt at the end of June was at EUR653 million, which includes EUR176 million of available cash. Last note on the financial position, as you can see in the bottom right-hand side chart, our nearest meaningful debt maturity is in 2018, so there's no immediate refinancing or repayment concern.

And finally, the targets for the full year 2013, we continue to target total coal production of 9 million to 10 million tons, which again, implies an increase in production in the second half of the year, and we continue to target coke production of 700,000 tons.

We expect external coal sales volumes between 8.5 million and 9.5 million tons with the expected mix of 50% coking, and 50% thermal coal.

We will continue our efforts in reducing the thermal coal inventory. We have sold 380,000 tons in the period to June 2013, and we continue to target a total of 500,000 tons for the rest of the year. We plan to sell 600,000 tons of coke, and just as a reminder, our Q3 average prices are EUR92 a ton of coking coal, and EUR232 a ton of coke.

An average price of EUR60 a ton for thermal coal is locked in until the end of 2013. That price, however, excludes the impact of the low-priced sell down of our inventories. Again, we expect to sell additional about 120,000 tons in the second half of the year.

In terms of the unit mining costs, we continue to target flat unit mining costs for the full year 2013 relative to the full year 2012, and we continue to target a 2013 CAPEX of about EUR100 million.

With that, I'd like to hand over back to Gareth to discuss an update of the optimization efforts.





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

Marek, thank you very much. And what we want to do now in this next section is focus on, as Radek mentioned at the beginning of this presentation, providing an update on our short-term measures, and how we're getting on against the target that we set ourselves of EUR100 million of incremental liquidity. And then we also want to talk about how we see things against longer-term challenges and some of the structural issues in the business.

So, Marek, let's look firstly, I think, at the temporary measures.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Thanks you, Gareth. So on slide 17, this is a somewhat busy slide, but I think it contains all of useful and interesting information, so please try to bear with me for a couple of minutes. The upper half of the slide shows the level of delivery on the EUR100 million package broken down into its components.

So first, in terms of the EUR25 million target in OPEX savings, we have now delivered 40% with the biggest saving coming from personnel cash cost saving, with the remaining EUR7 million is currently under negotiation. And I want to make it clear that this is subject to a satisfactory negotiation with the trade unions.

In terms of CAPEX, we have now delivered one-half of the expected saving of EUR20 million, so EUR10 million is in the bag, so to speak. EUR10 million remains to be delivered in the second half of the year.

And finally on working capital, we have sold down a large proportion of our inventory, and we have unlocked around EUR24 million of the total expected EUR37 million working capital optimization for the year.

Now, I'd like to point out some interesting numbers at the bottom half of the slide, which principally tries to compare the developments in the Q1 2013 versus Q2 2013. And first of all, the left-most chart shows a positive trend in headcount. We have seen a 2% drop in headcount. This comprises mostly white-collar employees.

Importantly, cash mining unit costs in the coal segment are down 3% quarter-on-quarter. As I discussed previously, inventories are down very significantly, about 40% quarter-on-quarter. And to me, very importantly, we have turned the operational cash flow from negative EUR22 million in Q1 to a positive EUR16 million in Q2.

So, I'd like to see this as a manifestation of our successful ongoing implementation of the EUR100 million package. And just to reiterate, the target is EUR100 million. We have now delivered EUR60 million, and EUR40 million remains to be delivered in the second half of the year.

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

Marek, thank you very much. So if we move on to slide 18, it's the slide you've seen a number of times before, but it shows the objectives, the targets, the strategy that we set ourselves as NWR at the end of last year. And that was to become Europe's leading miner and marketer of metallurgical coal. And there would be three elements to this strategy.

Firstly, to fully optimize the current operations. Secondly, was to expand on our coking coal supply to a figure that we set ourselves of 10 million tons. And thirdly, to become the supplier of choice, this 'one-stop-shop' for European steel customers.

We're making important progress, I think, in both those two shaded red bubbles. But given what has happened in the market, understandably, the overwhelming energy and focus of the business has been to optimize the current operations by the end, or during the course of, 2014. And it's really that area that I now want to address in more detail on slide 19.

These are a number of the different work streams that we are busy with, and I think making good progress. So, Marek has already talked to the EUR100 million in temporary cash savings, and I don't need to say anything further about that. But in addition to that, we set ourselves the goal of focusing the business entirely on coal mining, and we felt as a result, we did not need the investment that we had in OKK, our coke business.

As I think you're aware, we put this up for sale earlier in the year. There were a number of parties that were interested, and we are now involved in detailed negotiations and discussions with several of these parties, and looking to conclude this process by the end of the year. But we feel that this is well on track, and we expect to have a positive outcome to this work stream, as I say, during 2013.

The second thing we've been doing is looking individually at each of the mines to ensure that they are profitable and optimized operations. And in the process of doing this, we concluded the Paskov mine, which albeit the fact that it has high-quality and desirable coal, is a high-cost producer, and not something we felt fitted within the stable of OKD mines.

And so like OKK, we put Paskov up for sale, but sadly in this instance, did not find third parties who were interested in purchasing it. And now we're moving to 'Plan B', and evaluating the options for either temporary or permanent shut down of Paskov.

Now as you can imagine, this involves a number of stakeholders. It's not just within our own gift to make certain decisions, and we're now in discussion with, as I say, various external stakeholders, as well as an internal process to come up with the right solution in terms of next steps. I should emphasize that even in the event that we decide on closure for Paskov, this would be a process, and that it would continue to produce coal through to the end of 2014. So we don't see some sort of immediate overnight shutting of this operation. There are many parts, or many panels that can be mined off that don't require further development work, and obviously this is something that we will take into consideration very carefully.

As far as the other three mines go, there are plans to optimize the coking coal production from each of these. Unsurprisingly, given the margin that we make on coking coal as opposed to thermal, that is very much part of our strategy. And so that mining mix, the 60% target that we've set ourselves, is uppermost in our minds when we look at the way in which we want to run these individual mines.

And fourthly in terms of the work stream of centralizing mine management. It's a process well underway. We will shortly close down all the centralized activities in Ostrava, and indeed in the other mines, and shift all of it to one centralized set of capabilities at the Darkov mine site, which will lead to, I think, significant efficiencies, and some savings, which are all part of our overall vision.

So on the right-hand side, what do we expect OKD to look like as we complete this process by the end of next year. Coal production between 8 million and 9 million tons, coking coal 60% or above, lower overheads, and cash mining unit costs of EUR60 per ton, CAPEX of EUR100 million, and a lost-time injury rate approaching 5.

And what I think is important is as you look at those five deliverables, those five key - 'the big 5' as we call them, the 8 million to 9 million tons, I think that is where we are in terms of the business. This year we will be between 9 and 10, as we've said.

As we focus this business on the second deliverable 60% coking coal, that is an inevitable outcome. I've already mentioned that 54% of the first half's production was in coking coal. So while sales don't reflect this at this stage, we are moving toward that, I think, progressively.

There are clearly lots of challenges in getting down to the EUR60 a ton mark, and I think Marek has talked to this. But for this year as production increases in the second half, we should be approaching the EUR70/t, and then we've got to find a further 10 million, 10 -- sorry, forgive me, EUR10 per ton in further cash savings to be achieved during the course of the balance of this year and next year.

CAPEX, we are now down at a run rate of EUR25 million a quarter. We have actually lower than that in Q3 and 4, which will bring the figure out at around 100 or a bit above that given the overflow from last year that we had in that EUR60 million figure that Marek mentioned earlier on this call.

And I think what's important, as we've said, we're on track for a lost-time injury frequency rate of 5, and I've already shown you those numbers.

So, that's just some of the background and detail that we wanted to share with you this morning. We'd be very pleased now to take questions, and so I'll pass back to Radek to coordinate.

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## QUESTIONS AND ANSWERS

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

Yes. Operator, we can now open the Q&A session.

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**Operator**

(Operator Instructions). Our first question comes from Romy Kruger from Exane BNP.

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**Romy Kruger** - *Exane BNP Paribas - Analyst*

Good morning, gentlemen. A couple of quick questions. First of all, you said you're in the process of divesting the coke business, and you're talking to several bidders. Where are you in your discussions with banks? I'm assuming the progress here would be very important on the discussions with the banks. So maybe you could give us an update here. That's my first question.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Hi, Romy. This is Marek. Just to address this quickly, we will obviously request and receive all approvals and consents that we need for selling OKK.

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**Romy Kruger** - *Exane BNP Paribas - Analyst*

Okay. Now just in terms of the covenants on your loans, where do you think you are in your discussions with banks, and how will this be impacted by the sale of the coke business?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

It's an ongoing dialogue, and clearly the sale of OKK is an item in that dialogue. There's nothing specific to update you on.

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**Romy Kruger** - *Exane BNP Paribas - Analyst*

Okay. Secondly, on the closure of the Paskov mine, the question I have in terms of discussions with the unions that obviously would have to lead, and also the discussions that you are already leading concerning the wage cuts. My question was how are these two negotiations dependent on each other, or can you lead them first one on the salary cuts, and then on the restructuring? Is it possible to separate that at all?

And also, in terms of restructuring cost, I was wondering if you think that you could re-assign some workers from the Paskov mine to the other operations, or if you have any kind of indication of restructuring cost.

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

Romy, why don't you do all your questions, and then we'll answer them.

**Romy Kruger** - *Exane BNP Paribas - Analyst*

Okay. Very well. Then the next question is how would the closure of Paskov affect your mix in terms -- with regards to the 60% that you are targeting next year? If you close the mine at the end of the year, what is the mix for 2015?

And also, just could you clarify the CAPEX target for the full year. I mean I'm understanding it's lower than EUR25 million per quarter in H2. And finally, cash cost, let's just assume that basically over the course of next year, given that you haven't closed Paskov yet, it's going to stay on a similar level as this year? Thank you.

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

Romy, okay, so let me -- firstly, on the Paskov, I think we can separate the two. The discussions we've had with the unions so far have been constructive. There is no need to link them. I think the decisions taken on Paskov are entirely independent of the discussion of wages, so I don't think those need to be one and the same.

As far as how it will affect the mix, the intention is that we have a 60% metallurgical coal mix, even despite Paskov. I mean obviously in the beginning Paskov does contribute to that but our objective is actually to get to 60% even without it.

Clearly, 2014 is a year of transition, so we will have to see exactly how that process works, and that's why I think when we have said a... to fully optimize our current operations, we've deliberately said by the end of 2014.

In terms of CAPEX, our objective is to get to an annual run rate of around EUR100 million. We feel we can run the business like that. You see that we are now on the quarterly basis at that run rate. I think as you're well aware in previous years the CAPEX spend has been way above this, and that was reflected in the first quarter, because obviously it takes time to switch these things off, and as Marek has said, there was a certain overflow from the first year -- from last year.

In Q3 and 4, we actually will spend below the 25, which will bring us back to a figure that will probably be a bit above the 100, but not very significantly. So maybe it's around 110, and thereafter, we will settle down to on average 25. But it's not always on a quarterly basis that you obviously spend exactly that amount. But that is certainly our objective, and something that we feel we can achieve. And Marek, maybe you want to answer the point on cash costs.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

So, Romy, the question is how do we get from 70 to 60, yes?

**Romy Kruger** - *Exane BNP Paribas - Analyst*

What is the assumption that you should assume for next year given that Paskov will probably be running most of the year?

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Yes, we are, even with Paskov in operation, because the -- I think the most likely scenario no matter what is the ultimate fate of Paskov, it is going to be in operation for a substantial part of 2014, if not for the full year 2014. We will still get to the EUR60 a ton because it's not just about the cost of extracting coal in Paskov, it's also about the operating costs involved in developing new coal panels, and clearly that activity will have to stop nearly completely by the beginning of 2014 at Paskov.

So even though Paskov's unit costs overall are very high, they're roughly twice the OKD average, they are going to come down as a result of the discontinuation of development activity there.

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**Romy Kruger** - *Exane BNP Paribas - Analyst*

Okay. Thank you. In terms of restructuring costs, any idea? Also in terms of re-assigning workers to other mines?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

The shut down of Paskov, if we just laid off all the workers and simply closed the mine down, would have cost about EUR50 million, of which EUR30 million is social related costs, and EUR20 million is the technical activities. Clearly, we are developing scenarios where a substantial part of the workforce does get transferred to other mines within OKD, and various other initiatives that are designed to bring the cost impact of that restructuring down.

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**Romy Kruger** - *Exane BNP Paribas - Analyst*

Okay. Thank you.

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**Operator**

We have now one question from Leonie Morel from Goldman Sachs.

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**Leonie Morel** - *Goldman Sachs - Analyst*

Hello. Thank you taking my questions. My first question is on the impairment. Could you please let us know if some of that impairment is with regards to Debiensko, and if you have any intentions to eventually sell the Debiensko project? Shall I go through all of my questions at first?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Yes, Leonie.

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**Leonie Morel** - *Goldman Sachs - Analyst*

My second question was on the liquidity, if you could please give us an update on the liquidity in the current quarter? And also, whether you drawn on the RCF since the end of Q2? And then lastly, on the discussion you will be having on the -- with the banks regarding the expected breach of the covenant in September, could you please give us an update on what you expect in terms of timing for these negotiations? Thank you.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Alright, so to start with the impairment, yes, about EUR9 million of the number is impairment of the Debiensko fixed assets. I'd like to stress that this is purely an accounting initiative. This is just good housekeeping where we aim to align the fair market value of our fixed assets with their -- or rather the book value of our fixed assets with their fair market value. We are not attempting to sell Debiensko. Clearly in this market environment, we are not in a hurry to spend significant amount of capital on the mine but we are equally not at all giving up on the project. This has, as you know, a very substantial amount of high-quality coking coal in the ground, and is going to be extracted at some point in the future when the market has recovered. So that's the Debiensko impairment.

In terms of liquidity, we continue to deliver on the EUR100 million target, and you will see the actual numbers when we release the Q3 figures.

The next question was on RCF. It remains undrawn, and in terms of the ongoing discussion with the banks, all I want to say that it's an ongoing discussion, and whenever there is anything reportable, we will report it.

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**Leonie Morel** - *Goldman Sachs - Analyst*

Okay. Thank you.

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**Operator**

We have now one question from Navann Ty from Bank of America.

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**Navann Ty** - *Bank of America/Merrill Lynch - Analyst*

Good morning all, this is Navann Ty from Bank of America. I have a few remaining questions, please. I understand there is no update on covenant negotiations, but can you please comment on your discussion with our key shareholder? This is my first question, and I have two more, please. On CAPEX, so you're now expected to spend EUR15 million to EUR25 million in H2, so can you please remind us if that includes Debiensko, or if the EUR10 million has been spent in H1? And finally, is the previous announcement of reduction in admin and technical headcount is in the EUR1 million achieve, or is it to be done in H2? And that's my three questions. Thank you.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

On the CAPEX target that includes EUR10 million to be spent in Poland. I'm not sure that I understood the question on the headcount. Can you please repeat that?

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**Navann Ty** - *Bank of America/Merrill Lynch - Analyst*

Yes, there was a previous announcement of a reduction in headcount, and I was wondering if it was in the EUR1 million achieved in H1, or is it to be done in the second half?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

I really don't know what --

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

Maybe let me answer just very quickly. In terms of the -- I think Marek has already spoken to the covenant point, but in terms of our key shareholder, I mean obviously they remain positive towards the business. I don't think there's anything additional to be said on that score.

In terms of the CAPEX question as I understand it, you're saying is any part of the Debiensko EUR10 million to be spent still in the second half of the year. And the answer is yes, some. I don't think we have that granular detail in the room, but of the EUR10 million, it will be spent over the course of the year on the project, there is a project team, and there continues to be work done on that project.

And then lastly, we'll have to take -- we'll have to look up exactly in terms of the admin, this EUR1 million figure. It's not a big amount. But I don't know, Marek, if you can answer that.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Sorry, I was slow understanding your question. Only a tiny, tiny portion of that headcount reduction is included in the EUR 1 million. So most of that will come in the second half of the year. Most of the financial impact will be recognized in the second half of the year.

**Navann Ty** - *Bank of America/Merrill Lynch - Analyst*

Okay.

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

Does that answer your questions Navann?

**Navann Ty** - *Bank of America/Merrill Lynch - Analyst*

Yes, that's fine. Thank you very much.

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

Thank you.

**Operator**

Our next question comes from Maggie O'Neal from Deutsche Bank. Mrs. O'Neal, your line is open.

**Maggie O'Neal** - *Deutsche Bank - Analyst*

Good morning. I was wondering if you could provide some more color around the discussions that you're having with the unions, and regarding summer bonuses, other payment reduction measures. But my first question also in terms of negotiating a new revolving credit facility, given that the current one matures in 2014; has discussions around that been happening in conjunction with the waiver negotiations, and what is the status?

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

Maggie, maybe on the first one, Marek can take the second. We are in discussions with the unions. The principle focus of those discussions actually is next year, and we have an existing agreement with the unions for 2013, and so most of the time and energy now is clearly around making sure that the wages that are paid to our staff are commensurate with a successful and viable company.

So that's the discussion we're having there. We are talking to them about whether we pay the remainder of the bonus that is unpaid, and we've asked them to forgo this, but we haven't completed those discussions as of yet. And on the RCF, I'll hand you to Marek.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Yes, on the RCF, clearly this is one of the topics of debate. I don't want to be specific at all on that. Once there is a development, we will, of course, update the market in due course.

**Maggie O'Neal** - *Deutsche Bank - Analyst*

Okay, thanks.

**Operator**

Our next question comes from Lisa Barash from UBS.

**Lisa Barash** - *UBS - Analyst*

Hi, I have two questions, please. My first one is, could you please discuss your current expectation for coking coal prices in the fourth quarter of this year? And then my second question is, you mentioned in the quarterly report, the press release, you expect to receive substantial proceeds from the sale of OKK. I was wondering if you could please some guidance, or definition around what you mean by 'substantial proceeds'.

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

Lisa, on coal prices, obviously it's extremely difficult to predict these. I mean who would have said at the beginning of this year that coal prices would decline as they have. I mean the market consensus, as we did our budget, and as we met in January, was that premium high-quality coking coal prices, for example, would go up from around $170/t, $172/t, to $193/t.

That was what the market was saying. And we did our budgeting in line with consensus, and what you've then seen, as I'm sure you are aware, is that far from $172/t going to $193/t, it went to $133/t.

So that was the low point in terms of that particular measurement. Happily, that number has now gone from $133/t to $145/t, just in the last few weeks, and I think that's reflecting itself in the positive movement you've seen in the NWR share price, and the strengthening of the bonds, and the like.

This is very much a moving target, and we are hopeful that in Q4 we will see at least a return to Q2 prices, and something of a strengthening thereafter. But it's far too early to say that with any confidence, and obviously we haven't even begun to start our discussions or negotiations with our customers. So, I'm afraid very difficult to give you any kind of real guidance.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

On the -- on the, Lisa, proceeds for OKK, obviously not going to tell you what the number is. Those negotiations are going on literally as we speak. I would just point you to the performance of coke segment. It created EUR6 million EBITDA in the first half of 2012, and EUR9 million EBITDA in the first half of 2013. I'm sure you can take a view on the multiple.

**Lisa Barash** - *UBS - Analyst*

Okay. Thank you.

**Operator**

We have now one question from Ben Defay from JPMorgan.

**Ben Defay** - *JPMorgan - Analyst*

Hi, good morning. Thanks for taking my question. I have a follow up question on net working capital. You had a pretty good performance in the second quarter, especially in terms of the accounts receivable, which declined by EUR31 million, while at the same time accounts payable went up by EUR1.5 million.

I was wondering if you could talk a little bit about how you managed to achieve such a performance, and more importantly, what gives you confidence this is sustainable, and you can actually squeeze out another EUR13 million from accounts receivables and payables in the second half of the year? Thank you.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Hi, Ben. This is a mixture of -- if you just look at, I think, the inventory development is of this. We are simply selling inventory. We sold 380,000 in H1, and we'll sell another 120,000 in H2. On the receivables and payables this is a combination of renegotiating the terms of those receivables and payables with the counter parties, as well as an accelerated collection of receivables through selling some of the receivables. So this is going to be ongoing in the second half of the year.

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**Ben Defay** - *JPMorgan - Analyst*

Thanks.

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**Operator**

Next question comes from Bram Buring from Wood.

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**Bram Buring** - *Wood & Co. - Analyst*

Yes, good morning, guys. I have to say most of my questions have been answered, but I would ask, please, with regards to the low-quality coal, perhaps you could say how much you've been able to sell in the third quarter so far?

With regards to thermal coal prices for the rest of the year, I do remember you saying that a portion of that was going to be sold on a spot basis. Have you sold any on that basis yet in the first half, and will you in the second half?

And finally, with regards to coal prices, I know that that was apparently the key variable when figuring impairments and the impairment test at the end of the second quarter. Could you comment on what kind of prices, or price ranges, you were looking at for coal when doing those impairment tests?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Hi, Bram.

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**Bram Buring** - *Wood & Co. - Analyst*

Hi.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Thanks for the questions. Starting at the end with the impairment, we have simply taken the current analyst consensus for prices going forward I think we had a 5-year outlook, and a sort of long-term number that we simply plugged in.

In terms of spot sales of thermal coal, you talk about sort of genuine spot sales of coal that is produced in a particular period. There's very, very little of that. It's not material at all. I think you may have been referring rather to the prices at which we sell down the thermal coal inventory that was on stock already from last year, and this is sold at very heavily discounted prices that are a fraction of what we normally sell at.

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**Bram Buring** - *Wood & Co. - Analyst*

I was referring to earlier presentations, I believe it was like roughly 15% of the coal you had planned originally to sell on a spot basis. Perhaps I'm misreading something. So, everything going to be sold on the contract basis.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Yes, other than the 500,000 tons of inventory.

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**Bram Buring** - *Wood & Co. - Analyst*

Yes, and the sale of middling so far in the third quarter?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

We will show you the normal trading update when we come back.

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**Bram Buring** - *Wood & Co. - Analyst*

Okay. And again, regarding that 5-year outlook, consensus price that you were referring to, could you put a number to that, please?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

I will have to get back to you on that, Bram. I don't remember that number from the top of my head, and it's not a single number. It's a development number for 5 years.

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**Bram Buring** - *Wood & Co. - Analyst*

Range, I'm sure. Okay. Thanks.

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**Operator**

Ladies, and gentlemen for your information we have about 10 minutes left for today's conference. We now will take one question from John Stipanovich from Citigroup.

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

Hi, there. Thanks. Most of my questions have been answered, but going back to the revolver. Why haven't you drawn on it at this point, which is something you've done in the past? Is there anything technically to prevent you from drawing that right now? That's my first question. And last question is just, at this point are you in any discussions with financial advisors?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

On the revolver, it's just an operational daily decision whether to draw it down or not. As you have seen, we have made very substantial progress in protecting liquidity. The cash burn is down to EUR17 million in the second quarter, and there's a positive operating cash flow. So that's, I think all that needs to be said about that.

In terms of any discussion with any advisors, we obviously are at any time engaged with a number of various professional advisors in various fields. There's nothing specific to update you on.

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

Okay, thank you.

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**Operator**

Next question comes from Michael Boam from Royal Bank of Scotland.

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

Hi, the line seems very bad. Given that you've talked about increasing production in the second half, does this mean you expect to be increasing sales in the second half as well?

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

Michael, yes, I mean the -- we were targeting 5 million in production in the second half, so to bring you back to the 9 to 10 million range for the year, and we've reinstated that.

So, the 4.3 million would move up somewhere north of 5 million, and that's just a function of the mining side, and the mining plan. Obviously, we would want to sell as much of that as possible. We sold 4.6 million, so a bit above the 4.3 we mined in the first quarter -- in the first half. And in the second half, we would hope to do something similar.

We said that we would sell between 8.5 and 9.5 if you recall, and I think we'll still be in that range, but hopefully at the top end of it.

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

So the sales gap between this and last year on the coking coal volume side should narrow.

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

That is correct in the second half.

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

And secondly, did you give an update on your current cash position or not?

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

I think Marek did, but Marek can you update Michael on where we are with our cash?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

The cash position at the end of June is EUR176 million, and we'll update you on further months as we report the third quarter.

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

Okay, Michael, can you hear that?

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

No, no, I didn't, sorry.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Okay, is this better Michael? Hello?

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

Hello?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Michael, can you hear me?

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

Yes, just about.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Okay. Sorry about that. I don't know why that is. At the end of June available cash was EUR176 million, and you will, of course, see the liquidity development together with the Q3 announcement later in the year.

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

Okay, thank you.

**Operator**

Our next question comes from Mark Wade from HSBC.

**Mark Wade** - *HSBC - Analyst*

Good morning, gents. A couple of questions from me. Discussions with you before, you had talked about a second half flat cash broad assumption. Can you make any comments on that for cash at the end of the year?

In terms of, obviously you're not going to provide full year guidance here, but in your own minds, I understand about it's difficult to have any conviction in terms of pricing towards the end of the year. But in your own mind, do you have a narrow earnings range, which you believe is reasonable to achieve?

Obviously, we've got an extraordinary width -- breadth of earnings estimates out there. In your own mind, have you narrowed the range, and if you have it, even if you don't know what the figures -- can't tell us what the figures are, what is that sort of range of earnings estimates in your own mind? Lastly on OKK, I understand about making already assumptions on the multiple, but it's not just about the multiple, it's also about the financing - finance-ability of that. In terms of the substantial proceeds, have you nailed down a narrow range of proceeds and the way that that will be financed - financed and that is giving you the confidence over the ability to achieve substantial proceeds by year end?

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

On the expected cash flow in the second half of the year, yes we did guide earlier to a flat cash flow, or zero cash flow for the second half of the year. That, however, was prior to the downward development of the coking coal price, which is now 8% down on the previous quarter. And so, we will see a negative cash flow for the second half of the year as a result of this.

In terms of the earnings, we do not provide guidance on particular P&L items, and will not start doing so. As you know, the single most important element of that is the coal price. I just don't see any point in putting out EBITDA or profit numbers when the key driver is uncertain.

And finally on OKK, I'm not going to discuss the numbers or dates. All I can tell you is that we have -- we are negotiating the particular terms of the transaction with multiple potential buyers, and on that basis we think there is a good probability that we will close the transaction this year.

**Mark Wade** - *HSBC - Analyst*

Okay. Thanks. I mean, I understand about you don't want to sort of give guidance, and that's not your sort of what you want, but in your own mind in what you see in as we sort of approach the end of August, in your management expectations, what is the sort of breadths of scenarios, earnings scenarios for you at this point? To what extent has it narrowed with recent developments in pricing?

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

I don't know how to answer that. Obviously, the range of possible outcomes is narrowing as we approach the end of the year, and as we now only have one quarter of uncertain prices. So, of course, that range is narrower, but I don't want to discuss what is the percentage of that range, or whatever else.

**Mark Wade** - *HSBC - Analyst*

Thank you.

**Operator**

We take now our last four questions. Please only two questions per person. Our next question comes from Ide Kearney from GLG Partners.

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

Hi. I've just got two quick questions for you. The first one is just to understand the guidance on the EUR60 per ton cost that you hope to achieve. How much of development costs included in your OPEX? And the reason I'm asking this is if you're sort of -- if you're migrating workers away from Paskov, I mean, the cost per ton should actually increase at the other mines and not decrease. And that's the first question. And the second question, and I know you've been reluctant to answer this, but I have to ask it in a different way.

You have changed the going concern language in the presentation, and you explicitly link the survival of the company to getting significant proceeds from the sale of OKK in the circumstance that you have to repay the ECA, which you know/we don't know whether you'll have to repay that or not. So, and can you give us an indication of what would be the sort of significant proceeds that you sort of are thinking about when you put that statement into the half yearly report? Thanks.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

I'll start from the second question. I really will not give you a number in terms of the proceeds of the sale of OKK. I would also encourage you to read the going concern language in the OFR again. I don't think there is any link at all between the survival of the company - to borrow your words - and the sale of OKK. I think what it says is the exact opposite that even absent any of those upsides, the company believes that it has sufficient liquidity for the near future.

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

If you sell - yes I read it and maybe I did misread it - but it said if you got significant proceeds from OKK.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Please read it again.

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

Okay.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

We do not see our -- again, first of all, we are not debating a survival here, but we don't think that we are critically dependent on the sale of OKK. We will sell OKK if we reach satisfactory set of terms with a buyer, but we are very happy to walk away from that transaction if we fail to agree anything, and that is not critical for our performance in the rest of the year or 2014.

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

Okay, and then on the development costs in the OPEX?

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Yes, so, you are saying you feel that transferring people from Paskov --

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

It would seem that the cost per ton would go up on the remaining mines if you're transferring people around. I mean unless you sort of -- unless you can cut costs in another way - I mean, I just want to understand the kind of thinking behind that.

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

It's not -- maybe the one missing bit is that we are actually not adding headcount to other mines. We are substituting payroll employees and contractors. So the headcount, the overall headcount, will go down anyway. But we are -- the aim is to limit the costs associated with decommissioning Paskov by transferring some of the employees to other mines. But that does not mean that the headcount rises in other mining operations.

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

Okay. Got it. Okay. Thank you.

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

Thanks, Ide.

**Operator**

Our next question comes from Mikhael Botbol from MB Asset Management.

**Mikhael Botbol** - *MB Asset Management - Analyst*

Hi, hello. I have two questions The first one is regarding the write down that you have which is EUR307 million, of which EUR143 million corresponds to Paskov, and I don't understand why is it that high? And on my second question, it's regarding your going concern issues. And I would like to understand better if you are currently thinking of the potential financial restructuring by, within the next 12 months?

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Alright on the impairment, you were asking -- you were asking about why is the number so high, is the question?

**Mikhael Botbol** - *MB Asset Management - Analyst*

Why is the number so high regarding to Paskov only, compared to the total?

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Because we are writing down the fixed asset of Paskov to -- not to zero entirely - but essentially to zero. There's a small leftover in the value based on what we expect is the sort of liquidation value of those assets. So while we are simply marking down the fixed assets in the rest of the operation, we have marked down the Paskov fixed assets to very close to zero. That's why it might optically look like a huge number in Paskov, and relatively small number in the rest. Does that make sense?

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**Mikhael Botbol** - *MB Asset Management - Analyst*

Yes, perfect. And regarding the restructuring?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Yes, look, we have updated you and the market on our efforts in terms of preserving liquidity. Liquidity is our key concern at the moment - I think we are doing very well on that. That's all that is to report.

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**Mikhael Botbol** - *MB Asset Management - Analyst*

Okay, so let me ask you a further question then. The cash flow that you think are going to be basically flat from now until months at year end. Does that include the potential EUR50 million cost for Paskov closing, or does that include also the potential proceeds from the sale of the coking mine?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

We are not including any proceeds from any sales in our cash flow forecast. That's simply an upside that might or might not occur.

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**Mikhael Botbol** - *MB Asset Management - Analyst*

Are you taking any losses on the Paskov sale/on Paskov closing.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

No, not in 2013, because even if we end up -- I discussed earlier in the call that the total number is about EUR50 million, even if we end up paying for the entire EUR50 million, it's going to occur in 2014, not in this year.

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**Mikhael Botbol** - *MB Asset Management - Analyst*

Excellent. Thanks.

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**Operator**

Our last question comes from Ileana Balboa from APG Asset Management.

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**Ileana Balboa** - *APG Asset Management - Analyst*

Hi, thank you, good morning, can you hear me?

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Yes, we can.

**Ileana Balboa** - *APG Asset Management - Analyst*

Hi. Well, I just have one question, and it's about your cash mining unit costs. Clearly, we have two numbers, an 84, which is the actual number, and 62 under like a stable production. So my question is, when the two numbers will catch up, when the 82 will be really a 62. Like, hearing that Paskov will take quite some time to close, I could assume this is more like end of 2014 event when the actual cash cost will come closer to the 60?

**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Yes, so we are targeting the EUR60 a ton as a -- the target is to achieve this by the end of 2014. That is true. So the target for 2013 is 70.

**Ileana Balboa** - *APG Asset Management - Analyst*

Okay. Okay, thank you.

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

Ileana, that number will improve in the second half, because it's a function obviously, the cost divided by the number of tons, and given that the tons in the first half have been lower than we're planning in the second, that number should self-correct with all the other efforts as well but significantly through the second half of the year towards the cost per ton figure that we had last year. And then, clearly, the next challenge is to get from that figure down to a EUR60 per ton figure through the course of 2014.

**Ileana Balboa** - *APG Asset Management - Analyst*

Yes, I just want to get a feel of when we're going to see these like actual 10% cost savings flowing through the cash flow of the company. It seems like it's going to be more towards 2014.

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

I think that is correct.

Can I then summarize, I think we've taken many questions. Thank you for all of them. I mean clearly this has been a challenging time for the business. I think management has taken a number of steps, which are already producing results. I think most notably you've seen the impact on cash enhancement. We are confident we can deliver the remaining EUR40 million that we said.

We're confident that we can achieve the guidance figures that we've shown for the year as a whole. I mean, clearly, the most significant moving part is the coal pricing Q4, and that is going to have a material impact, and as we've already said on this call, we cannot give any certainty around that.

In terms of the longer term of the business, we are still focused on our overall strategy of becoming Europe's leading miner and marketer of choice. We think if we achieve the optimization of the existing business, these 'big 5' that I talked about earlier, that will be an important part.

I might just mention, as well, that we have strengthened our team with some, I think, exceptional individuals. We have already a strong and dedicated team in NWR and OKD, and I think it's nice to see some new elements to that team, and I think collectively together, we're a very focused workforce on achieving what needs to be done in difficult times.

So we look forward to talking to you again at the end of the third quarter, and updating you on progress across these different initiatives. Thank you very much for your time, and goodbye.

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

Thank you all again for joining the call, and just a reminder, if you have any follow up questions, please contact our Investor Relations Department. Thank you. Bye, bye.

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**Marek Jelinek** - *New World Resources Plc - Executive Director and Chief Financial Officer of NWR*

Thank you, bye.

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