THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NWR.L - Q3 2013 New World Resources Plc Earnings Conference Call

EVENT DATE/TIME: NOVEMBER 06, 2013 / 10:00AM GMT

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Ben Defay *JPMorgan - Analyst*

Michael Boam *Claren Road - Analyst*

Juan Carrion *GMP Securities - Analyst*

Alex Field *Credit Suisse - Analyst*

Bartek Kubicki *RCB - Analyst*

Romy Kruger *Exane BNP Paribas - Analyst*

Leonie Morel *Goldman Sachs - Analyst*

Christian Hanson *INT Asset Management - Analyst*

John Stipanovich *Citi - Analyst*

Julien Raffelsbauer *BNP Paribas - Analyst*

Andrei Rodzianko *Black River AM - Analyst*

Elena Belbo *APG Asset Management - Analyst*

Antonello Di Meo *Barclays Capital - Analyst*

Robert Slater *Silver Rock Financial - Analyst*

Ide Kearney *GLG Partners - Analyst*

PRESENTATION

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

Thank you, and good morning, everyone, and welcome to our results presentation. Today we have with us Marek Jelinek, the Executive Director and CFO of NWR, who will walk you through the presentation slides, which I hope all of you can now access. I'd like to remind you to hold onto all of your questions you might have until the end of the presentation, and we have reserved about a half an hour for the Q&A session. With that, I would like to hand over to Marek.

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

Thank you, Radek, and thank you very much, everyone, for joining us this morning. I will start with a brief summary of the key highlights of the reporting period before we go on to a more detailed discussion of the financial performance in the first nine months of 2013.

Just one note before we start, I'd like to remind you that we are reporting financial results from continuing operations as we are in an advanced stage of the disposal of OKK our coke business, which is now reported as discontinued operations. So, with that, moving on to slide five for the financial summary.

We have seen a 31% decline in revenues from continuing operations, which is mainly driven by a 26% decline in coking coal prices. Cash mining unit costs have increased by 17% to EUR81 a ton, which is due to a 25% drop in production year-on-year, i.e., on a stable production basis the revised unit cost number would be about 12% lower than in the prior period, and you will see that all major cost categories have declined very significantly.

We continued in particular to see a positive trend in our administrative and selling expenses, where those were down 20% for the nine month period to September. Our cost-cutting measures were not enough to fully offset the market, and we are hence reporting a negative EBITDA from continuing operations of EUR50 million, which is more or less unchanged since the interim results in June, where the third quarter EBITDA in isolation was basically break-even. And it also important to note that in the third quarter of 2013 was the bottom of our coking coal prices throughout the year.

Stripping out the impact of the asset impairment charge, the underlying loss per A share from continuing operations is 72 eurocents per share. Net debt at the end of September was EUR672 million, which includes a cash balance of EUR157 million.

We also announced earlier in the year the sale of OKK, our coke business, for gross proceeds of EUR95 million. The transaction is well on track and we expect to close before the end of the year. The transaction does require a shareholder approval as this is a Class 1 transaction. We are in the process of preparing the shareholder circular, which is a part of the approval process. In this circular, we will be talking about our working capital projections. And as you will have seen in the OFR published earlier today, we talk about uncertainty that may cast doubt as to our ability to continue as a going concern, and this uncertainty will also be in the circular that will be published in due course.

In terms of our bank facilities, we have announced earlier in the year that we have reached an agreement with the RCF lenders, which will allow us to keep the RCF -- the Revolving Credit Facility -- in place. And we are looking to extend the facility beyond its current expiration in February 2014.

And we also are in advanced stage of talks with the lenders of the Export Credit Facility, where the aim is to achieve a prolongation of the covenant holiday, and we will update the market once those talks are finalized. In terms of the current state of those two facilities, the RCF is fully undrawn and the ECA has EUR71 million outstanding as of the end of September.

Moving on to an operational summary on slide six. Coal production was at 6.5 million tons and sales at 7.2 million. The coal mix at the end of September was 48% coking coal. And in terms of the discontinued operations, the coke segment, we produced 503,000 tons of coke and sold 440,000 tons. And just a brief snapshot of the steel market, it continues to be subdued. Steel production in our customer markets is down 2% on the prior year and the global steel capacity utilization ratio remains at around 79%.

Moving on to safety, on slide seven, we continue to win the regional leadership position of less than seven lost time injuries per million hours worked for the January through September period and we remain on track to achieving our target of lost time injury frequency rate below five by 2015. Even though those are positive numbers, health and safety does remain the highest priority and we will continue to promote what we call a 'safety-first culture' among employees through ongoing education and training.

Moving on to slide eight, for an update on where we see the full year 2013 going. We expect to produce approximately 9 million tons of coal and sell approximately 9.5 million tons, with the sales split equally between coking coal and thermal coal. This is well on track and I can say, for example that in October we have had the strongest month so far this year with respect to production.

Looking at the prices, we are currently in this fourth quarter selling coking coal at EUR101.00 a ton, which represents an 11% increase on the third quarter pricing. And we expect a full year average 2013 thermal coal price of around EUR60.00 a ton. This applies to the contracted sales of thermal coal. As most of you will know, we have been aggressively selling down lower qualities of thermal coal from inventory and this is at discount prices, and that will also impact the overall average price of thermal [coal].

In terms of costs, as a result of the lower than originally expected production, which, again, the production target is 9 million tons, the cash mining unit costs are going to be in the range of EUR75.00 to EUR80.00 a ton for the calendar year 2013. And finally, we maintain our target of CAPEX in the continuing operations of around EUR100 million.

Moving on to a more detailed discussion of the financial performance of the business for the period under review, on slide 10, starting with the P&L line items, revenues from continuing operations was EUR634 million, with the most significant driver being coal prices. Cost of sales are up 2% to EUR664 million, which is a combination of the impact of the sell-down of inventories, which outweighs the -- or outweighed -- the benefits of our cost-cutting measures. Assuming away the negative impact in the change of inventories, cost of sales were down approximately 13%.

Selling and administrative expenses from continuing operations continued to decline, mainly driven by lower personnel costs, while selling expenses reflect lower transportation costs as a result of the lower volumes of coal that we sold in the period.

Again, EBITDA from continuing operations was negative EUR50 million. Below the EBITDA line, we recorded an impairment charge of EUR310 million. This was in the second quarter and relates entirely to the coal segment, and is a direct result of the prevailing market conditions and lower pricing for both coking coal and thermal coal. And just to be absolutely clear, this is an impairment of assets, a non-cash charge. Excluding this impairment charge, the operating loss from continuing operations was at EUR173 million for the period.

We also recorded an income tax benefit of EUR92 million and an underlying loss for the period from continuing operations of EUR195 million. A loss from discontinued operations of EUR80 million is a combination of a -- (technical difficulty) -- [EUR 6 million profit] of the business itself and an 86 million loss recognized on the sale of the -- (technical difficulty) [coke segment]

Moving on to a quick look at the pricing environment, on slide 11. Coking coal prices across all our blends remain under pressure and we have seen an improvement in the seaborne spot market and international contract prices. This has manifested itself in a fourth quarter uptick in coking coal prices of 11%, from EUR91.00 to EUR101.00. But this, even though its obviously a welcomed development, this is still around 19% lower than the average coking coal price for the full year 2012.

Again, our contracted thermal coal price is EUR60.00 a ton. And in terms of the discontinued coke segment, the price of coke in the fourth quarter is flat on the previous quarter at EUR231.00 a ton.

Of course, against this difficult pricing environment it has been very important to continue driving through the cost-cutting and structural changes in our mining business, and I will talk to the rate of delivery on those optimization measures in a few moments.

But for now, let's look at the key drivers behind the EBITDA development between the three quarters of this year versus the prior year. The negative EUR50 million EBITDA was mainly caused by the lower price of coking coal as well as the overall coal volume and mix. And the EUR107 million difference resulting from the sell-down of inventories during the period which compares to a build-up of inventory in the year before. These developments overshadowed our positive year-on-year OPEX development, which allowed us to save approximately EUR97 million in EBITDA terms, compared to the same period in the prior year.

Moving on to slide 13 for a more detailed look at the coal segment. Our coking coal revenue was down 40% year-on-year, driven by the decline in coking coal prices. In terms of thermal coal, thermal coal revenues were down 14% year-on-year to EUR211 million, which is mostly driven by 23% decline in pricing. Inventory levels at the end of September were less than half of what they were at the same time last year, and this is really due to the successful aggressive sell-down of thermal coal inventories throughout this year.

Our cash mining unit costs on a stable production basis are down 12%. But again, due to the lower production, this, of course, inflates the costs expressed on a unit basis. And finally, selling and administrative costs were down 20% to EUR128 million, which is a trend that we very much expect to continue in the last quarter of the year.

For a quick look at the discontinued coke segment, on slide 14, we have seen a 20% decline in coke prices and a 2% increase in sales volumes, which combine for a revenue decline of 18% year-on-year --(technical difficulty). While the conversion costs in the coke segment and overheads remained broadly unchanged, the lower cost of input coal has offset the drop in revenues and, as a result, we have seen a positive EBITDA in the coke segment of EUR11 million.

Looking at our financial position, on slide 15, we generated a gross cash flow from operations of EUR25 million, interest and tax was EUR39 million, and CAPEX, including the discontinued segment, was EUR102 million, with net debt ending at EUR672 million at the end of September. In terms of the cash development in the third quarter alone, cash flow from operations of EUR3 million, we've spent EUR17 million on CAPEX. And let me pause here and note that if you follow the CAPEX development on a quarterly basis throughout this year you see a dramatic deceleration in spending. In the first quarter, we spent EUR60 million - that, however, included some spillover from the prior year - but it was EUR60 million in the first quarter, EUR25 million in the second quarter, and EUR17 million in the third quarter. So I think this demonstrates our ability to manage CAPEX quite effectively.

Cash at the end of the period was at EUR157 million. And in terms of the outstanding debt, I touched upon earlier on the RCF and ECA facilities, the first scheduled meaningful maturity is in 2018 when the 2018 Note matures. And I'd like to point out here that we are in the process of negotiating an amendment to the ECA facility. I am confident that we will achieve an agreement, but there is an uncertainty as to that achievement, and the worst case scenario is that the facility would have to be repaid in February next year. Again, I don't see that as a probable scenario, but I think it's important for everyone to know that.

Next, I'd like to talk to the delivery at our optimization steps. This relates to the EUR100 million liquidity package that we announced earlier in the year and I'm very happy to say that of that EUR100 million we now have EUR85 million delivered, and we are very much on track to deliver the entire EUR 100 million.

So, looking at the individuals items of that EUR100 million; in terms of OPEX savings, we are now at EUR14 million of delivery in terms of OPEX savings and we have EUR5 million still to go. In terms of personnel, that is delivered. And on the other two line items of contractors and administrative and material cost savings, we are well on track. In terms of CAPEX, we have now delivered two-thirds of the expected saving of EUR18 million and EUR6 million is still to go in the fourth quarter. And looking at working capital, we have generated EUR59 million of cash from working capital, including the sell-down of inventories as well as receivables and payables optimization. The remaining EUR5 million to reach the full-year target is well on track.

So, in summary, all of the EUR100 million of expected liquidity package, EUR85 is delivered, and we are very much on track to deliver the balance towards EUR100 million by the end of the year.

Moving on to slide 18, I'd like to spend a few moments talking about how we see ourselves in 2014.

We have talked earlier in this year about our broader strategy and we have some key pillars for the vision of the business to become Europe's leading miner and marketer of coking coal by 2017. During the course of the year, we accelerated the first pillar of that three-pronged strategy, which is to optimize our current business by the end of 2014. This was much needed move, and, as you can see, we are delivering on that pillar, as I just talked to, for example, in terms of the liquidity package.

So, what is the business going to look like in 2014? We see ourselves as a Company with next year a production capacity of 8 to 9 million tons of coal. This is achieved mainly through the elimination of uncompetitive parts of our current mining operations, the most notable one being the Paskov mine, which is being prepared for idling.

This is accompanied by taking aggressive measures to address our cost base and we'll achieve our desired outcome of moving significantly down the global cost curve as is shown here on slide 18. We achieve to -- we aim to achieve a run rate of cash mining unit costs of approximately EUR60.00 a ton by the end of 2014, and phasing-out the high-cost Paskov mine is a very important element of that.

Further, as you know, our largest cost item is personnel, and we continue to negotiate with the trade unions regarding a new collective agreement for -- which will cover the period from 2014 to 2018. And we hope to achieve the -- or complete the negotiations by the end of the year.

The implementation of our selective mining plan -- (technical difficulty) -- the coking coal output will also drive a shift towards a higher proportion of met coal in our total sales mix. And in this respect, just to be absolutely clear, the Paskov mine is scheduled to close at the end of 2014, so we do expect it to continue producing for the vast majority of 2014, which means that we will have its coking coal available for sale, but it will also have an impact on the average unit cost per ton.

Looking at CAPEX next year, as you know, historically we have been a relatively high CAPEX business, partly driven by the relatively costly CAPEX programs that were instrumental in achieving our levels of productivity and, very importantly, the comparatively very good safety measures. Going forward, we intend to keep CAPEX below EUR100 million per year, which, again, is a critical part of putting the business on a cash generative path, even in the current coal pricing environment.

Safety, I think our target is well known. We aim to achieve a lost time injury frequency rate of below five. And again, this is a very important element of our strategy.

So, in a summary, by the end of 2014 we expect to be a business that produces between 8 and 9 million tons of coal at a cash mining unit cost of approximately EUR60.00 a ton. 60% of our coal mix is going to be coking coal and CAPEX is going to be below EUR100 million.

To conclude this presentation, I would just like to remind everyone of our broader strategic intentions, as illustrated on slide 19.

You can again see the summary of the targets at the bottom of the slide. We believe these are the right parameters to sustain our current mining operations and, very importantly, to be the right and solid platform for future growth.

So, by 2017, we aim to be a business with -- that supplies approximately 10 million tons of coking coal to European customers, and this will be achieved through a combination of mining projects and new marketing initiatives, and we will engage in the seaborne coking coal import market.

The ultimate mission of the business is really to become a 'one-stop shop' for European steel customers, whereby we would aim to supply a full range of coking coal qualities to both our existing customers as well as new customers as we aim to expand the customer base.

That much for the summary of today's results, and I'd like to now open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from Ben Defay from JPMorgan. Please go ahead, your line is now open.

Ben Defay - *JPMorgan - Analyst*

Yes. Good morning, everyone. Thanks for taking my questions. Firstly, you've been very successful again this quarter in reducing net working capital by extracting cash both out of receivables and payables, with notably payables averaging 67 days during the quarter versus 57 days during the prior quarter. Can you talk a little bit more on how you achieved this performance and about what gives you confidence you can squeeze out another EUR5 million from payables in the fourth quarter? And also, do you expect that to be sustainable in 2014 as it should be starting some reversal?

And secondly, when is the employee vote regarding the 10% salary reduction taking place? Thank you. Hello?

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

Ben, thank you for the questions. In terms of the union vote, it's going on right now and it will -- the results will be available on Friday. So, we will take a view as to the sort of further negotiation strategy after we know what the result is.

In terms of working capital, I think there are two ways to look at it, or, I like to look at it two ways. We are working on this EUR100 million liquidity [package] this year, where the working capital initiatives are a very important part of that. But I think there's also an opportunity to extract further value out of working capital - if you just benchmark our receivables and payables outstanding, I think there is a scope for further improvement. So, my view would be that it's not just additional EUR5 million that we can extract in this current quarter, but that there actually is a little bit more potential going forward. So, that's on working capital in general.

As a part of the working capital initiative, we are engaged in factoring of some of the receivables, which we are simply now rolling on a monthly basis, and at some point when our liquidity is more robust, we will slowly unwind that program. But in terms of sort of normal working capital levels, I do still think that there's the potential for improvement. So, I don't think the EUR5 million target for this is optimistic, I actually think it's quite conservative.

Ben Defay - *JPMorgan - Analyst*

Okay, thanks.

Operator

Our next question comes from Michael Boam of Claren Road. Please go ahead.

Michael Boam - *Claren Road - Analyst*

Hi. I have two questions, please. Can you tell me what the -- for continuing operations, what the -- your calculation of the cash cost per ton produced was for the quarter? And secondly, did I hear you just say that you actually have a factoring facility outstanding at the moment? If that is the case, can you tell us what the balance on that is, please?

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

Hi, Michael.

Michael Boam - *Claren Road - Analyst*

Hi.

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

Good to hear you. In terms of the factoring facility, the outstanding is approximately EUR 30 million, three zero. And your other question was about mining unit costs in --

---

Michael Boam - *Claren Road - Analyst*

-- the third quarter, for continuing operations.

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

Right. Radek will send you that number right after the call. Is that okay?

THOMSON REUTERS

Michael Boam - *Claren Road - Analyst*

That's fine.

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

Thank you.

Michael Boam - *Claren Road - Analyst*

Thank you.

Operator

Our next question comes from Juan Carrion from GMP Securities. Please go ahead.

Juan Carrion - *GMP Securities - Analyst*

Hi. I just have, I guess, two broad questions, one in terms of your guidance or rough guidance you provided for 2014. The way we should look at the Company based on the production and so forth that you provided, what do you think is the range, I guess, we assume whatever pricing you want to say, flat pricing for coal, what's the range for EBITDA you think the Company can generate, I guess, as sort of a baseline?

And also, in line with that, do you have an estimate in terms of -- at the cost end of production levels that you provided, do you expect to be generating free cash flow in 2014? And I guess, separately, a separate question but somewhat related, I know you also just talked about in terms of your discussions in terms of the facilities - they are ongoing - obviously, looking at where the bond prices are and the market is clearly expecting a restructuring of the debt, of the 2018s and 2021s, is that restructuring, is that a process in terms of the talks of advisors?

And is that part of the discussions with the process for the facilities, or is basically the facilities step one and then you will deal with the expected restructuring of the bonds subsequent to completion of the discussions with the facilities? Thank you.

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

Thanks for the questions. There clearly are a lot of rumors around a potential restructuring, and I have nothing to add to those, I do not wish to comment on them. We are focused on -- (technical difficulty) -- which is our current concern, and in that context we are also negotiating with -- we negotiated with the RCF lenders and are now negotiating with the ECA lenders and that's the full story.

In terms of the financial parameters of the business going forward, we do not generally provide specific EBITDA guidance but you asked also about free cash flow, we would expect to be free cash flow positive in 2014, assuming prices stay where they are.

Juan Carrion - *GMP Securities - Analyst*

Sorry, just a quick follow-up. And not so much in terms of trying to get guidance in terms of specifically for 2014, but more just trying to say, as we look at the Company going forward, if you kind of stay on that production just -- can you at least give us like a range of what you think the normalized EBITDA generation of the Company should be, whether it's not specific to 2014, but just longer-term?

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

I really don't want to get into that. I'm not going to surprise you by saying that this is dramatically driven by coal prices, and so it's -- there's no point in sort of putting one number out there. I really don't want to speculate on what our EBITDA is going to be going forward.

Juan Carrion - *GMP Securities - Analyst*

Okay, thank you very much.

Operator

And our next question comes from Alex Field from Credit Suisse. Please go ahead, your line is open.

Alex Field - *Credit Suisse - Analyst*

Hi, there. Just, first off, did I hear correctly that it's EUR30 million roughly on the factoring line?

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

Correct.

Alex Field - *Credit Suisse - Analyst*

Okay. Second off, I just wanted to understand a bit better on the thermal inventory that you've been sort of liquidating at below your average sort of thermal price of EUR60.00. Is that pretty much EBITDA neutral? Are you pretty much just getting cash in but what you're booking on revenues is roughly equal to your cost on that?

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

Yes, that's a very good assumption. We are -- basically, the cash that we extract from the inventory roughly equals the loss that we make on it.

Alex Field - *Credit Suisse - Analyst*

Okay, okay. And then, your mix guidance for sort of within coking coal for Q4 seems to anticipate some improvement over what you've done historically. I think normally it's been sort of 50/50 semi-soft versus hard coking coal, you're kind of pointing towards more like 60/40 for 60% hard coking coal in Q4. How are you achieving that? And does that have to do with the selective mining strategy? And do you think that that's something that can be maintained?

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

The comment referred to the fourth quarter --(technical difficulty)-- we expect an uptick in the higher quality coking coal. But this is not as a result of a smart strategy. This is really -- the product mix, if you look at sort of short-term developments, for example, quarter-by-quarter, it does fluctuate, and it really fluctuates depending on what's underground.

Alex Field - *Credit Suisse - Analyst*

Okay. And finally, I guess you're not willing to give any kind of specific EBITDA guidance, but given you're expecting more cost savings and improved mix, it seems -- is it unreasonable to assume that you're going to have a positive EBITDA in Q4 this year?

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

I really don't want to give EBITDA guidance for the fourth quarter, but you see what the prices are, 11% up, and costs are going down.

Alex Field - *Credit Suisse - Analyst*

Okay, that's it for me. Thanks.

Operator

Our next question --

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

Thank you.

Operator

-- comes from Bartek Kubicki of RCB. Please go ahead, your line is now open.

Bartek Kubicki - *RCB - Analyst*

Coking coal share in the sales mix of 60%, does it match the production as well, so you would have 60% coking coal production in 2014? And then, after closing the Paskov mine, what is the expected share of the coking coal production in the coal mix? But I'm talking about production, not sales.

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

Yes, 60% -- 60% coking coal.

Bartek Kubicki - *RCB - Analyst*

Production?

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

Yes, well, in the long run you can assume production equals sales, so it's the same thing.

Bartek Kubicki - *RCB - Analyst*

Okay. And after closing Paskov, because we would take out around 1 million tons of coking coal, then it should significantly drop? So, you still expect to have 60%?

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

Yes. So, the ongoing optimization of the Czech mining are doing two things. They are looking at the individual parts of mines; one, that are very high cost; and two, those that are very low coking coal -- have very low proportion of coking coal in their production. And both of these types of operations are going to be discontinued. And so, as a result, while bringing production down, you are simultaneously bringing the proportion of coking coal up. And the Paskov mine is just one sort of example of this, where clearly Paskov has vast majority of coking coal, but also it has an unsustainable cost base, and so that's why it has to go.

Bartek Kubicki - *RCB - Analyst*

Sure. But I wondered, how much is it like sustainable to have 60/40? Why would you not do things like this before, just to drop on thermal coal production?

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

We traditionally felt that thermal coal is simply a product which generates a margin but looking at the current state of the thermal coal market, particularly in Central Europe -- looking at, for example, the huge quantities of thermal coal that are making it through Europe right now, partly as a result of the shale gas development in North America, we do no -- we no longer believe -- or we no longer see thermal coal as a margin generating product, we really see it as a by-product of coking coal [production]. But because of the nature of the deposit that we are working on, we do not have the freedom to choose to produce 100% coking coal. There is always going to be some proportion of coking -- of thermal coal in our mix, and we are just looking towards pushing that proportion as low as possible.

Bartek Kubicki - *RCB - Analyst*

Sure. And regarding closing the Paskov mine, I understand you need a consent from the government. At what stage are you in terms of discussions?

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

Your understanding is not correct. We are going to close down the Paskov mine at the end of 2014. We, of course, want to close it in a way that's environmentally and socially responsible, and to that effect, we are in dialogue with the government but this is an ongoing dialogue, which I cannot comment on.

Bartek Kubicki - *RCB - Analyst*

Okay. And maybe one more thing, just to confirm. So, you have actually revised upward versus, let's say, your previous estimates your mining cash cost for -- unit mining cash cost for 2013?

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

Yes.

Bartek Kubicki - *RCB - Analyst*

Okay, thank you very much.

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

That's driven by -- remember the original guidance was 9 million to 10 million tons, and because we are now very close to the end of the year we can update the guidance to say it's going to be nine. As a result, that automatically translates into higher unit costs, even though the individual line items in those unit costs are all very significantly dropping.

Bartek Kubicki - *RCB - Analyst*

I understand. Thank you very much.

Operator

Our next question comes from Romy Kruger of Exane BNP Paribas. Please go ahead, your line is open.

Romy Kruger - *Exane BNP Paribas - Analyst*

Good morning, gentlemen. I have three questions, please. First of all, I'd like to come back on the cash cost guidance next year. So, as I understand it, your target is EUR60.00 per ton by the end of the year.

And I was just wondering, compared to the production range that you are providing, which is 8 million tons to 9 million tons, should we think about it in terms of -- it's closer to 8 million tons, let's say, it would vary somewhere between EUR70.00 and EUR60.00 per ton for the average of the year, or is your production guidance really more related to the fact how fast you can close certain shafts? In conclusion, does lower production not necessarily mean that you would be at the higher range of the cash cost? That's my first question.

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

Thank you for that, Romy. The reason why we are targeting EUR60.00 a ton at the end of the year is because throughout 2014 the Paskov mine will still be in operation, and that is necessarily going to inflate the unit costs. So, the EUR60.00 per ton is a target after Paskov is out of the picture. Does that answer your question?

Romy Kruger - *Exane BNP Paribas - Analyst*

Yes. And then, the range of 8 to 9 million tons, is that dependent on the timing of the Paskov closure or of the --

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

No, no, no, that's not dependent on the Paskov closure. The fact that there's a range at the moment is really due to the fact that we are right now working through the budgeting for next year and we simply don't have -- the budget is not finalized, so we don't have a more precise number.

Romy Kruger - *Exane BNP Paribas - Analyst*

Okay. But whatever the outcome, is it fair to assume that your cash cost would still be at the higher end if production is lower?

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

Yes. So, if you're asking just about the mechanics of, yes, lower production means higher unit costs. Yes.

Romy Kruger - *Exane BNP Paribas - Analyst*

Okay. So, it doesn't mean that you're basically closing a few shafts faster?

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

No. No, no, no, no, no. That's -- no. No, that's not the case.

Romy Kruger - *Exane BNP Paribas - Analyst*

Okay. Thank you. And the second question, just to double-check, I think your restructuring, you're talking about EUR41 million now. Is there any upside risk to that? Because I remember the first estimates were a bit higher.

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

So, you want me -- I lost you a bit. EUR41 million? What are you referring to?

Romy Kruger - *Exane BNP Paribas - Analyst*

The restructuring costs for the closure of Paskov is quantified --

---

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

Ah, the --

Romy Kruger - *Exane BNP Paribas - Analyst*

(inaudible) million. It does seem a little bit lower than your previous estimates.

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

I'm not sure where you've seen that. The estimated cost of closure is EUR50 million.

Romy Kruger - *Exane BNP Paribas - Analyst*

Okay. I'll check -- I'll come back to you with the (inaudible).

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

Okay, thank you.

Romy Kruger - *Exane BNP Paribas - Analyst*

And then, just one last question on your coke division. So, you had a revaluation, which led to an EUR86 million loss. Is there any further risk of impairment given that your, I think, book value for the coke division was closer to EUR220 million?

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

No, I don't think so.

Romy Kruger - *Exane BNP Paribas - Analyst*

Okay, thank you.

Operator

(Operator Instructions). We will take our next question from Leonie Morel of Goldman Sachs. Please go ahead, your line is now open.

Leonie Morel - *Goldman Sachs - Analyst*

Good morning and thank you for taking my questions. My first question would be regarding the sale of the coke business. Do you have any intentions regarding the profit and, in particular, would you contemplate applying any amount towards the ECA facility in the context of the ongoing negotiations?

And then my next question would be whether any financial advisors have been appointed by the Company or by the shareholders. Thank you.

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

Thanks for the questions. In terms of the OKK proceeds, we intend to comply with the treatment of proceeds from a disposal of a subsidiary as stipulated by the relevant financial documents. And what that means is we intend to reinvest the proceeds in our core business, i.e. in the coal operations. We do not envisage any other use at this moment.

And the financial advisors; as you would imagine we work with a range of financial advisors in the normal course of business. There's nothing more specific that I can update the market on.

Leonie Morel - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Our next question comes from Christian Hanson of INT Asset Management. Please go ahead.

Christian Hanson - *INT Asset Management - Analyst*

Good morning. Can you give me some color on negotiation with unions in regards to wages? What I'm thinking about in particular is a perhaps upcoming strike and the effect on the cash flow given we should see a strike in the very near future.

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

The negotiations with the unions is ongoing and it's very intense. There is actually currently a proposal on the table that the union members are voting on as we speak. We do believe that we will achieve an agreement with the unions, our target is to get there by the end of the year. But clearly, there is an uncertainty about the outcome and there is a possibility of a strike. I don't think that's a likely scenario, but it's a risk, of course.

Christian Hanson - *INT Asset Management - Analyst*

But would you then save wages during a strike, or how does that work in the Czech Republic?

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

Well, it's very difficult to quantify the impact of the strike, because it very much depends on what form that it take. It can be a range from sort of demonstrative stoppage for work for an hour all the way to people -- thousands of people not showing up for work. And, of course, the impact of that of those two scenarios is dramatically different.

Christian Hanson - *INT Asset Management - Analyst*

Okay. So, I also have another question in regards to the Paskov shutdown and negotiations with the government. They are not able to dictate that you could not close down the mine, right? That is correctly understand -- understood by me?

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

Yes, that's correct.

Christian Hanson - *INT Asset Management - Analyst*

Okay. So, yes, it's more of environmental thing and stuff like that?

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

It's environmental and it's really the social aspect of it. There's about --

Christian Hanson - *INT Asset Management - Analyst*

Yes, yes, yes, yes. Okay.

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

-- about 2,500 employees as Paskov --.

Christian Hanson - *INT Asset Management - Analyst*

Yes.

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

-- and, as I said, I cannot comment in detail --

Christian Hanson - *INT Asset Management - Analyst*

Yes, I understand. And it is unfortunate, of course. Well, thank you. That answers my questions.

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

Thank you.

Operator

Our next question comes from John Stipanovich of Citi. Please go ahead, your line is open.

John Stipanovich - *Citi - Analyst*

Hi, there. Just another question about the unit costs. You kind of answered that the target is EUR60.00 per ton at the end of the year, after Paskov is closed. So, do you have any guidance for what unit costs will -- the range of potential unit costs over next year will be, including the Paskov mine? And then also, if we think about the decline from kind of EUR75.00 to EUR80.00 per ton now, going to EUR60.00 per ton, how much of that is the closure of Paskov?

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

Right. So, in terms of the targets for actual cash costs next year, I said earlier, in response to another question, we are in the process of completing our budget for next year and we will update the market in due course with a proper cost guidance for 2014. What we are discussing today are sort of broad brush -- is a broad brush view of how we see 2014. And once we have completed the budgeting cycle, we will issue a normal guidance. That's on the cash costs. And sorry, what was the second question?

John Stipanovich - *Citi - Analyst*

Whenever we think about your target of getting to EUR60.00 per ton, how much of that is Paskov closure?

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

Yes, it's about EUR5.00 per ton.

John Stipanovich - *Citi - Analyst*

EUR5.00 per ton. Okay, fine. Thanks for that clarification. Just one last clarification. On the factoring, how much capacity do you have under your factoring?

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

Well, we can increase the size of it. I don't think it's necessary in the near future. I think it will stay where it is.

John Stipanovich - *Citi - Analyst*

Okay, thank you.

Operator

Our next question comes from Julien Raffelsbauer of BNP Paribas. Please go ahead.

Julien Raffelsbauer - *BNP Paribas - Analyst*

Yes. Good morning. Regarding the -- in your statement, you put twice that you think you've got enough liquidity until October 14. How did you pick that date? Is it just because you need to show -- you want to show that you've got enough liquidity for the next 12 months to be -- to show that going concern, or is it because you have, in your cash flow forecast, you look at typically coupon payment of November the 1st, EUR20 million, and you expect this to be significant item? What do you think of this October 14 deadline?

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

You've answered that yourself. Your first theory is correct. This is just a technical statement that covers a period (inaudible)..

Julien Raffelsbauer - *BNP Paribas - Analyst*

Oh, okay. That's clear. And the second thing is if I take your guidance of free cash flow -- being free cash flow neutral for 2014, as well with your CAPEX of EUR100 million and your cash interest expenses of EUR60 million, I go roughly to an EBITDA of EUR160 million. Is there any other major cash inflows that you take into account when giving your guidance about being free cash flow neutral in 2014? (Inaudible) free cash flow positive, I think it is.

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

We don't assume any sort of extraordinary cash inflows. It's just normal course of business producing and selling costs.

Julien Raffelsbauer - *BNP Paribas - Analyst*

Okay. That was very clear. Thanks a lot.

Operator

Our next question is from Andrei Rodzianko of Black River. Please go ahead, your line is open, sir.

Andrei Rodzianko - *Black River AM - Analyst*

Thank you. Good morning, Marek. Two questions from me. On the guidance of free cash flow positive for 2014, is that -- does that include the closing costs of Paskov in that assumption? And the second question is, when we think about your volumes beyond 2014, should we think about the 8 million to 9 million tons range as a kind of, the right range, or should we be subtracting a bit of that because of the Paskov mine being offline in future years?

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

Hi, Andrei. Thanks for the questions. In terms of the free cash flow outlook for next year, that does not include the cost of Paskov simply because most of -- the vast majority of the shutdown costs are actually going to be incurred beyond 2014 as the operations will stop at the end of 2014. And in terms of the longer-term volume outlook, we do see ourselves indeed as an 8 million to 9 million tons Company -- 8 million to 9 million tons Company, so the same range.

Andrei Rodzianko - *Black River AM - Analyst*

Thank you.

Operator

Our next question comes from Elena Belbo of APG Asset Management. Please go ahead.

Elena Belbo - *APG Asset Management - Analyst*

Hi, good morning. I just have a quick question regarding your slide 18, about cash mining unit costs. You put there that you want to go from EUR100.00 to EUR60.00, moving down the global cash cost curve. But have you considered, like, for example, big players like BHP and Rio all have very similar cost-cutting programs, so what makes you believe that you actually will move down the global cash cost and that you will move together with the whole curve down? Meaning that the profitability of the business could actually don't improve?

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

Right. That's an interesting question. Thank you for that. Clearly, everybody in our business is cutting costs right now and I think it's very likely that the entire curve is going to shift. But we are looking at an absolute target of EUR60.00 a ton, which is what we will achieve at the end of next year after Paskov has closed.

Elena Belbo - *APG Asset Management - Analyst*

I think basically my question is, of course, it will be very hard to estimate exactly how the new curve will look after all the cost-cutting programs, but you are confident that EUR60.00 per ton will make you a profitable business going forward? That's the idea?

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

Yes. That is correct, yes.

Elena Belbo - *APG Asset Management - Analyst*

Thank you.

Operator

And our next question comes from Antonello Di Meo of Barclays. Please go ahead, your line is now open.

Antonello Di Meo - *Barclays Capital - Analyst*

Hello. Good morning, sir. Sorry to bother you on the cash mining costs again, but I'm trying to reconcile a bit of math here. We are currently running in Q4 2013 at something around EUR75.00 to EUR80.00 per ton from what I understand. And you say that the target by the end of 2014 is EUR60.00 per ton. You also mentioned, if I'm not mistaken, but I might be, that the effect of the Paskov mine closure is only EUR5.00 per share? Did I hear correctly?

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

Yes, that's correct. Yes it's about EUR 5 per ton.

Antonello Di Meo - *Barclays Capital - Analyst*

That means that there is another EUR10.00 to EUR15.00 per ton of decrease in the cash mining unit costs that is coming from elsewhere. Would you mind to elaborate where that elsewhere is?

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

There isn't any sort of silver bullet. The single largest cost item is personnel, and so a lot of the contribution will come from personnel expenses. But if you look at the P&L for January through to September, look at any cost item and you will see a dramatic decline, which is going to continue. So, there isn't like one change that we'll implement and will be done with it. This is a broad initiative across all cost categories, and I think --

---

Antonello Di Meo - *Barclays Capital - Analyst*

-- at the moment, cash costs are going up.

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

Yes, because production is going down.

Antonello Di Meo - *Barclays Capital - Analyst*

Yes. So you assume that either the -- in order to reverse the trend, you would need the production to go up?

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

No, this is just mechanics. Our -- if you look at the components of the cash costs and look at their absolute Euro numbers, you see a very significant decline, which is still continuing, will continue in the fourth quarter, and will also continue next year. Now, when you sum up those components and divide them by production, you simply get a number, which is a unit cash cost. The reason why it's relatively high now is that we are producing less than we originally expected, but it's not - this is just mechanics of calculating the unit cost number.

Antonello Di Meo - *Barclays Capital - Analyst*

Okay. So, you're saying it's -- there is no specific item in the cost structure other than the Paskov mine that is going to go down to justify --

---

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

-- Correct. The Paskov closure is the only sort of one-off initiative that is going to make a significant impact on the unit costs. The other one, of course, is the negotiations with the unions, where naturally, since 50% of our OPEX is labor-related, that's where a lot of our efforts have to focus.

Antonello Di Meo - *Barclays Capital - Analyst*

Okay. Going, then, to the cash flow for 2014, even assuming -- obviously, we cannot make an assumption on the coking coal prices and thermal coal prices going up, so just staying where they are in terms of Q4 2013 throughout 2014, and taking a linear average for the cash mining unit cost going down from the current EUR75.00, EUR80.00 to the EUR60.00 per ton, that gets me -- obviously, you're not going to talk about EBITDA, but that gets me, in a good case, an EBITDA of EUR100 million - EUR120 million. Now, with CAPEX being at EUR100 million and interest expense being at EUR60 million plus, how do I get to that positive cash flow for 2014? Am I missing something?

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

Look, as I discussed or as I said repeatedly on this call, we don't wish to get into discussions on EBITDA or specific guidance on individual line items. We will give you, at the beginning of next year, a proper guidance on all the relevant items and you can then take your own coal price assumptions, and the numbers that you're asking about are going to be very easy to calculate.

Antonello Di Meo - *Barclays Capital - Analyst*

Okay, but -- so then, just to be clear, are you assuming stable coal prices for 2014 when you state that cash flow is positive next year?

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

Sorry, can you repeat that, please?

Antonello Di Meo - *Barclays Capital - Analyst*

Yes. When you make the statement that cash flow will be positive next year, excluding the closure of the Paskov mine, are you assuming -- what assumption are you making on the coal prices, coking and thermal coal?

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

Unchanged from today.

Antonello Di Meo - *Barclays Capital - Analyst*

Unchanged. Okay, fine. Thank you very much for your time.

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

Thank you.

Operator

We will take our next question from Robert Slater of Silver Rock Financial. Please go ahead, your line is open.

Robert Slater - *Silver Rock Financial - Analyst*

Hi. Thanks for the call. I just wanted to talk about the Revolving Credit Facility for a minute. Could you give us a rough idea of what you're hoping to achieve in the negotiations? And I'm sure you won't want to comment too specifically, but if you could give us an idea of what a good outcome would be, from your perspective. And then also, how do you think about timing of that negotiation being completed, and when that facility might become available again to the Company?

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

Thanks for the question. What we aim to achieve is to extend the RCF beyond -- its current maturity is February 2014, so the aim is to extend the existence of the facility, and I think the plan is to get there early next year.

Robert Slater - *Silver Rock Financial - Analyst*

Any sense on how long of an extension you're looking for or what's possible? And I guess we'd also -- some guidance on capacity would be helpful.

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

I would like to see an extension of certainly more than one year, but this is yet to be agreed. And also, we are yet to agree the size.

Robert Slater - *Silver Rock Financial - Analyst*

Okay, thank you.

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

Are you still there? Okay.

Operator

Our final question comes from Ide Kearney of GLG Partners. Please go ahead.

Ide Kearney - *GLG Partners - Analyst*

Hello, hi. I have a couple of questions, but they're all pretty short ones. The first one is on the ECA negotiations. Obviously, the deadline for that facility is quite soon. So I just wondered, you say you're in advanced discussions, what exactly are the terms that are being discussed in terms of margin or priority, or what exactly has caused this kind of a delay?

The second thing is I just wondered if you could tell me what the -- or remind me, rather, what the factoring balance was at the end of the second quarter. Those two first, and then I have another question to follow-up.

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

In terms of the ECA, I don't see where we are as being in delay. I think we actually are progressing very, very rapidly and I think I can say that the discussions are very constructive. And we will update the market with the full relevant set of terms once the agreement was reached.

Ide Kearney - *GLG Partners - Analyst*

Are they looking for increased margin from you, or are you expecting the same sort of terms then?

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

All elements of the facility are subject to discussion, so I don't want to negotiate with the lenders over a conference call. We will give you the update once the agreement has been reached. And sorry, you had a second question, which now escapes me.

Ide Kearney - *GLG Partners - Analyst*

I also asked about the factoring line that you discussed. You said you have a EUR30 million. What was it at the end of the second quarter?

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

It wasn't materially different.

Ide Kearney - *GLG Partners - Analyst*

It was the same, okay. And then, I have another question to ask, and I understand the sort of reluctance about giving guidance, but I just wanted to get a sense from you, when you look at next year and you give this guidance of cash flow that will be kind of positive or neutral, on the working capital, can you give a range of expectation for that? Because it looks to me as if you're probably expecting an inflow of some description in there. Would that be -- I'm not looking for exact numbers but in the range of what you can say, are you assuming that you'll have an inflow from working capital next year as well?

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

I do, but I cannot give you even a range right now because, again, the budgeting process is in full swing right now, so I don't have the exact numbers available.

Ide Kearney - *GLG Partners - Analyst*

Okay. Okay, thank you very much.

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

Thank you.

Operator

As we have no further questions in the queue, I'd like to hand back to our speakers for any additional or closing remarks.

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

Okay, thank you very much all of you for your participation. And if you have any further questions, please contact the Investor Relations Department. Thank you and have a nice day.
