Operating and financial review

In accordance with the Indenture dated 18 May 2007 in relation to 7.375% Senior Notes due 2015 (the "Indenture").
Please refer to www.newworldresources.eu for more information.

Corporate information

The Company is a public limited liability company with its registered office at Jachthavenweg 109h, 1081 KM, Amsterdam, Netherlands. The Company is the sole producer of hard coal in the Czech Republic and a leading producer of hard coal in Central Europe on the basis of revenues and volume, and serves customers in the Czech Republic, Poland, Austria, Slovakia, Hungary and Germany. The Company is primarily focused on hard coal mining and coke production.

The Company operates four mines and two coking facilities in the Czech Republic and serves several large Central and Eastern European steel and energy producers. Its key customers are Arcelor Mittal Steel, US Steel, DALKIA, Moravia Steel, Voestalpine and ČEZ. The majority of coal and coke sales are based on long-term framework agreements, which are re-priced mainly on an annual basis.

The Company's hard coal mining business is conducted through OKD, a wholly-owned subsidiary of the Company. OKD produces coking coal, which accounted for 55 per cent of the tonnage of coal sold to third parties for the year ended 31 December 2008, and which is used in steel production, and high quality thermal coal, which is used in power generation. Thermal coal, which accounted for approximately 45 per cent of the tonnage of the Company's external coal sales for the year ended 31 December 2008, is used by utilities, heating plants and industrial companies to produce steam and electricity.

The Company's largest business in terms of revenue is the production of coking coal, which accounted for EUR 859,718 thousand in external sales during the period. Additionally, net coke sales totalled EUR 332,506 thousand during the period and thermal coal sales totalled EUR 352,295 thousand in external sales during the period.

Financial results overview

Revenues

The Company's revenues increased by 49 per cent, from EUR 1,367,098 thousand in the year ended 31 December 2007 to EUR 2,041,128 thousand in the year ended 31 December 2008. This increase is mainly attributable to the increase in revenues from coal and coke sales, which was driven by higher commodity prices, and an increase in electricity trading with third parties conducted mainly by Czech-Karbon.

Operating expenses

Total operating expenses increased by EUR 400,721 thousand or 35 per cent in the year ended 31 December 2008 as compared to the year 2007. The increase is mainly due to a EUR 140,063 thousand increase in costs of electric energy purchased for electricity trading, a EUR 30,911 thousand increase in consumption of energy for coal and coke production and due to an EUR 95,527 thousand increase in personnel costs excluding employee benefits expenses.

EBITDA

EBITDA increased by EUR 346,498 thousand from EUR 350,509 thousand in the year ended 31 December 2007 to EUR 697,007 thousand in the year ended 31 December 2008. This is mainly due to an increase in operating result of EUR 323,028 thousand, as the higher revenues more than compensated for the increase in operating expenses.

Non-IFRS measures

This report contains references to certain non-IFRS measures, including EBITDA, Restricted Group EBITDA and Unrestricted Group EBITDA (as defined in the Indenture).

The Company defines EBITDA as net profit after tax from continuing operations before minority interest, income tax, net financial costs, depreciation and amortisation, impairment of property, plant and equipment ("PPE") and gains/loss from sale of PPE. While the amounts included in EBITDA are derived from the Company's consolidated financial statements, it is not a financial measure determined in accordance with IFRS. Accordingly, EBITDA should not be considered as an alternative to net income or operating income as an indication of the Company's performance or as an alternative to cash flows as a measure of the Company's liquidity. The Company currently uses EBITDA in its business operations to, among other things, evaluate the performance of its operations, develop budgets, and measure its performance against those budgets. The Company finds it a useful tool to assist in evaluating performance because it excludes interest, taxes and other non-cash charges.

The Company presents EBITDA for the Restricted Group and the Unrestricted Group to provide investors a basis for evaluating the performance of the Restricted Group, which is comprised of subsidiaries subject to the restrictive covenants of the Indenture. The Restricted Group EBITDA excludes the results of operations of all Unrestricted Subsidiaries. The Company has computed the Unrestricted Group EBITDA using the same formula as for EBITDA, based on the financial statements for Unrestricted Subsidiaries.

OKD Rekultivace a.s. ("Rekultivace") was the only consolidated subsidiary defined as Unrestricted Subsidiary under the Indenture and generally is not bound by the restrictive covenants in the Indenture applicable to the Company. Rekultivace was distributed to the holder of the B shares on 30 September 2008.

The Company defines net debt as total debt less cash and cash equivalents. Total debt includes issued bonds, long-term interest bearing loans and borrowings, including current portion, plus short-term interest bearing loans and borrowings. Total debt is based on gross amount of debt less related expenses. Interest bearing loans, bond issues, and borrowings are measured at amortised cost.

Exchange rates

The following table presents the FX rates used:

	Year ended 31 December	
(CZK/EUR)	2008	2007
Average exchange rate	24.946	27.762
Balance sheet exchange rate	26.875	26.620

The Czech Koruna appreciated (based on the average exchange rate) by 11.29 per cent between the year ended 31 December 2007 and the year ended 31 December 2008. This discussion does not eliminate the effects resulting from the conversion of amounts from CZK into EUR on the comparability of financial information of the Group in different periods. This can lead to an over- or understatement of change in revenue and expenses from period to period when compared to the change in revenues in CZK. The financial information and described trends could differ considerably if the financial information was presented in CZK.

Throughout the discussion of the operating results, the financial results and performance compared to the prior period, both in Euros and percentage terms, are given in Euros. The Company may also, where deemed significant, present variances in terms of constant foreign exchange rates, marked ex-FX, which exclude the effect of currency translation differences and is a non-IFRS financial measure.

Financial performance

Revenues of the Group increased by 49 per cent to EUR 2,041,128 thousand in the year ended 31 December 2008. The increase is mainly attributable to an increase in prices, as shown in the table below:

	Year ended 31 December			Change
Average sales prices per tonne (EUR)	2008 EUR	2007 EUR	y-y EUR	y/y %
Coking coal	137	86	51	59%
Thermal coal	69	48	21	44%
Coke	302	178	124	70%

Total production of coal in 2008 decreased by 2 per cent compared to total production in 2007. Sales from production decreased by 2 per cent, whilst net sales, or external sales were down by 6 per cent, due to significantly decreased sell-off from inventories.

Coal performance indicators (kt)	Year 2008 kt	Year 2007 kt	Change kt	Change %
Coal production	12,663	12,897	(234)	(2%)
Sales to OKK	(1,094)	(1,047)	(47)	4%
Internal consumption	(41)	(71)	30	(42%)
Sales from production	**11,528**	**11,779**	**(251)**	**(2%)**
Additional sales from inventory sell-out/(Inventory increase)	(140)	284	(424)	(149%)
Total net sales	**11,388**	**12,063**	**(675)**	**(6%)**
of which				
Coking coal	6,293	6,781	(488)	(7%)
Thermal coal	5,095	5,282	(187)	(4%)

Coke production remained fairly stable in 2008, when compared to the year 2007, while coke sales decreased by 13 per cent, mainly due to a drop of sales in the last quarter of the year 2008.

Coke performance indicators (kt)	Year 2008 kt	Year 2007 kt	Change kt	Change %
Coke production	1,296	1,340	(44)	(3%)
Coke sale	1,103	1,262	(159)	(13%)

	Year ended 31 December				Change
Revenues	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %	ex-FX %
External coking coal sales (EXW)	859,718	579,800	279,918	48%	33%
External thermal coal sales (EXW)	352,295	253,495	98,800	39%	25%
External coke sales (EXW)	332,506	224,629	107,877	48%	33%
Coal and coke transport by OKD	107,034	111,425	(4,391)	(4%)	(14%)
Sale of coke by-products	22,384	24,939	(2,555)	(10%)	(19%)
Electricity trading	226,994	78,637	148,357	189%	159%
OKD other sales	83,150	56,284	26,866	48%	(5%)
Reclamation works	20,952	17,876	3,076	17%	5%
Other	36,095	20,013	16,082	80%	62%
Total	**2,041,128**	**1,367,098**	**674,030**	**49%**	**33%**

Czech Karbon, the electricity trading unit, has seen a significant increase in revenues to third parties. Correspondingly, the costs of electricity sold, presented in the income statement item Consumption of material and energy, also increased significantly.

	Year ended 31 December				Change
Consumption of material and energy	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %	ex-FX %
Mining material	117,209	90,811	26,398	29%	16%
Spare parts	40,134	34,020	6,114	18%	6%
Polish coal consumption for coking	54,323	52,674	1,649	3%	(7%)
Energy for coal mining (OKD)	95,375	67,299	28,076	42%	27%
Energy for coking (OKK)	14,696	11,860	2,836	24%	11%
Electricity trading	212,341	72,278	140,063	194%	164%
Other consumption of material and energy	45,706	35,035	10,671	30%	17%
Total	**579,784**	**363,977**	**215,807**	**59%**	**43%**

Due to the strong increases in electricity prices in the Czech Republic, the total cost of energy increased by 39 per cent. The increase in mining material and spare parts consumption reflects the price increase of steel used in mining equipment and higher costs relating to changing geological conditions. The increase in the line item "Polish coal consumption for coking" is due to higher coking coal prices, which is consequently reflected in the selling price of coke.

Czech Karbon, the entity that buys electricity for the Group and also sells electricity to third parties in the Czech market, increased significantly the volume of electricity trading with third parties, which is reflected in the revenues line as well as in the consumption of material and energy of the Group correspondingly.

	Year ended 31 December				Change
Service expenses	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %	ex-FX %
Coal and coke transport costs	107,931	114,108	(6,177)	(5%)	(15%)
Contractors	85,904	70,558	15,346	22%	9%
Maintenance for OKD and OKK	42,536	31,141	11,395	37%	23%
Advisory expenses on holding level	17,244	19,278	(2,034)	(11%)	(20%)
Reclamation works	12,148	4,616	7,532	163%	136%
Other service expenses	85,995	66,732	19,263	29%	16%
Total	**351,758**	**306,433**	**45,325**	**15%**	**3%**

	Year ended 31 December			Change
Contractors headcount	2008	2007	y-y	y/y %
Total	**3,501**	**3,576**	**(75)**	**(2%)**
– of which OKD mining	3,002	3,068	(66)	(2%)

The increase in service expenses is mainly attributable to the increase in maintenance works at OKD and OKK and to a 22 per cent increase in expenses for contractors. This increase is due to the increase of costs per shift by 26 per cent, partly offset by a decrease in the headcount. The increase in maintenance costs in the year ended 31 December 2008 is due to more extensive maintenance works at the mines compared to the year 2007.

	Year ended 31 December				Change
	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %	ex-FX %
Personnel expenses	(433,743)	(338,216)	(95,527)	28%	15%

	Year ended 31 December			Change
Employees headcount	2008	2007	y-y	y/y %
Own employees*	17,738	18,360	(622)	(3%)
– of which OKD mining	10,374	10,663	(289)	(3%)

*including members of Boards of Directors.

Personnel expenses including employee benefits increased by 28 per cent. The increase reflects an increase in average wages agreed with the Group's trade unions, which is based on the overall trends in the Czech Republic, and bonuses and extra payments to the employees of the Group. The personnel expenses for the year ended 31 December 2008 also include the costs for share-based payments to Directors and employees in the amount of EUR 16,295 thousand.

	Year ended 31 December				Change
	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %	ex-FX %
Other operating income	4,065	3,758	307	8%	(3%)
Other operating expenses	(27,689)	(8,289)	(19,400)	234%	200%
Net other operating income	**(23,624)**	**(4,531)**	**(19,093)**	**421%**	**369%**

Other operating income and expenses reflect, from time to time, insurance costs and payments, mining damage and indemnity, and related provisions and their release. These items should be analysed together. Other expenses are often balanced by corresponding revenues. Since the amounts are relatively low, they are sensitive to one-time effects and seasonal fluctuations. The increase in net other operating expenses in the year 2008 is mainly due to a use of provisions for the closure of Dukla mine in the amount of EUR 9,488 thousand in the year ended 31 December 2007 compared to EUR 3,669 thousand used in 2008, increase in compensations for mining damages cost by EUR 6,558 thousand to EUR 16,421 thousand, and donations to OKD Foundation.

The following table compares EBITDA for the year 2007 and 2008.

	Year ended 31 December				Change
	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %	ex-FX %
EBITDA	697,007	350,509	346,498	99%	79%

The Company's EBITDA for the full year 2008 was EUR 697,007 thousand, which is EUR 350,509 thousand higher than in 2007 and represents a 99 per cent increase.

The following table provides EBITDA for the year 2008 for Restricted and Unrestricted Subsidiaries. Unrestricted Subsidiaries represented less than 1 per cent of the Company's EBITDA. The amount shown for unrestricted subsidiaries relates to Rekultivace, which was the only consolidated subsidiary defined as an Unrestricted Subsidiary under the Indenture. Rekultivace was distributed to RPG Industries SE ("RPGI") on 30 September 2008.

	Consolidated Group EUR '000	Restricted Subsidiaries EUR '000	Unrestricted Subsidiaries EUR '000
EBITDA	697,007	694,538	2,469
%	100.0%	99.6%	0.4%

As EBITDA is a non-IFRS measure, the following table provides a reconciliation of EBITDA to IFRS line items of the income statement.

	Year ended 31 December 2008 EUR '000	Year ended 31 December 2007 EUR '000
Net profit after tax from continuing operations	351,639	190,671
Income tax	120,516	48,976
Net financial expenses	58,389	(32,131)
Depreciation and amortisation	168,515	166,257
Reversal of impairment of property, plant and equipment	–	(21,959)
Gains/Losses from sale of PPE	(2,052)	(1,305)
EBITDA	**697,007**	**350,509**

	Year ended 31 December			Change	
	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %	ex-FX %
Depreciation	(158,350)	(156,931)	(1,419)	1%	(9%)

The increase in depreciation of 1 per cent is primarily due to an increase in the value of property, plant and equipment, which represents the base for depreciation, as calculated in EUR. After elimination of the exchange rate impact on the historical costs, depreciation would decrease by 9 per cent. This decrease is due to lower values of new equipment, as compared to the original gross values of the replaced equipment used under IFRS.

	Year ended 31 December			Change
Financial result	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %
Financial revenue	112,754	142,621	(29,867)	(21%)
Financial expense	(171,990)	(110,477)	(61,513)	56%
Financial result	**(59,236)**	**32,144**	**(91,380)**	**(284%)**

Financial income decreased by 21 per cent to EUR 112,754 thousand in the year ended 31 December 2008. The decrease is mainly due to a lower gain from foreign currency translation. Financial expense increased by EUR 61,513 thousand to EUR 171,990 thousand. The main reason for the increase in financial expense was the impact of the revaluation of the Company's financial derivative instruments.

Income tax

The effective income tax rate of the Group increased from 20 per cent to 26 per cent. The effective income tax rate calculated on the current part of the tax expense decreased from 33 per cent to 27 per cent mainly due to a decrease in corporate income tax rate from 24 per cent to 21 per cent in the Czech Republic and to a decrease in non-deductible expenses in the Group. The total effective income tax rate in 2007 was reduced by a decrease in deferred tax liability due to the decline in future nominal income tax rate in the Czech Republic.

Earnings per share (“EPS”)

Adjusted earnings per share for the Company increased by 76 per cent. The adjusted earnings per A share amounted to EUR 1.30 per A share for the year ended 31 December 2008.

				Year ended 31 December	
Earnings per share (EUR)	2008 A shares	2008 B shares	2008 C shares	2008 Company	2007 Company
Basic EPS	1.33	746.70		1.36	0.79
Number of shares*	258,981,995	10,000	0.24	258,991,996	250,054,275
Adjusted EPS	1.30	746.70		1.33	0.74
Adjusted number of shares**	263,799,259	10,000	0	263,809,259	263,809,259
Diluted EPS	1.33	746.70		1.36	0.79
Diluted number of shares	258,981,995	10,000	0.24	258,991,996	250,054,275
Basic EPS from continuing operations	1.33	746.70	0.00	1.36	0.76
Diluted EPS from continuing operations	1.33	746.70	0.00	1.36	0.76
Basic EPS from discontinued operations	0.00	0.00	0.00	0.00	0.03
Diluted EPS from discontinued operations	0.00	0.00	0.00	0.00	0.03

* Restated for the stock split of 2.5 that occurred on 5 May 2008.
** Adjusted for the A shares issued by the Company in the Initial Public Offering, for the A shares granted to the five Independent Non-Executive Directors and for the conversion of one A share into a C share in May 2008.

Cash flow

The following table compares the main cash flow categories for the year ended 31 December 2008 to the same period of 2007.

	Year ended 31 December			Change	
	2008 EUR '000	2007 EUR '000	y-y EUR '000	y/y %	ex-FX %
Net operating cash flow	523,127	257,570	265,557	103%	74%
Net investing cash flow	(260,341)	(75,631)	(184,710)	244%	209%
Net financing cash flow	(57,152)	(729,067)	671,915	(92%)	(93%)
Effect of currency translation	(899)	7,910	(8,809)	(111%)	(111%)
Total cash flow	204,735	(539,218)	743,953	(138%)	(130%)

Net operating cash flow for the year 2008 was EUR 523,127 thousand, compared with EUR 257,570 thousand in the year 2007. This increase in net operating cash flow was mainly attributable to higher revenues due to higher achieved prices of coal and coke.

Net investing cash flow is negative, since capital expenditure (CAPEX) is higher than the proceeds from the sale of long-term assets. CAPEX increased by EUR 202,382 thousand to EUR 285,094 thousand in the year ended 31 December 2008, mainly related to the POP 2010 equipment.

The cash flow used in financing activities was mainly influenced by dividends paid, bonds issued and IPO proceeds. The Company paid dividends in the total amount of EUR 1,076,760 thousand during 2007, dividends in the total amount of EUR 86,672 thousand in March 2008, a dividend in the amount of EUR 75,000 thousand in May 2008 (the C share dividend), an interim dividend in the amount of EUR 73,864 thousand in October 2008. The Group also paid regular instalments on Facility 1 of the Syndicated Loan in February and August 2007 and February and August 2008. The amount of the regular instalment in February 2008 was EUR 32,315 thousand (split between EUR 23,445 thousand and CZK 224,754 thousand). The amount in August 2008 was EUR 32,831 thousand (split between EUR 23,445 thousand and CZK 224,754 thousand). In May 2008 the Company received proceeds from its IPO in the net amount of EUR 217,188 thousand.

The following table provides a cash flow overview for the year ended 31 December 2008 for Restricted and Unrestricted Subsidiaries.

	Consolidated Group EUR '000	Restricted Subsidiaries EUR '000	Unrestricted Subsidiaries EUR '000
Cash flow			
Net operating cash flow	523,127	521,519	1,610
Net investing cash flow*	(260,341)	(254,082)	(6,261)
Net financing cash flow	(57,152)	(57,151)	(1)
Effect of currency translation	(899)	(928)	29
Total cash flow	**204,735**	**209,358**	**(4,623)**

*This line includes mainly the cash held by Rekultivace, the only Unrestricted Subsidiary, which was distributed from the Group on 30 September 2008.

Liquidity and capital resources

The liquidity requirements of the Company arise primarily from working capital requirements, interest and principal payments on Senior Secured Facilities and the Company's 7.375 per cent Senior Notes, dividend payments, the need to fund capital expenditures and, on a selective basis, acquisitions.

The Company completed a successful Initial Public Offering in May 2008 to raise additional financing of its activities. The Company offered 13,500,000 new shares while existing shareholders offered 81,965,345 existing shares (including the Over-Allotment Option) in the IPO. The net proceeds from the primary offer amounted to EUR 217,188 thousand (calculated as gross proceeds from the primary offering reduced by the underwriting fee and by the portion of advisory fees attributed to the primary offer).

NWR is a holding company and will rely on dividends or other distributions from subsidiaries, inter-company loans or other capital contributions to fund its liquidity requirements. The dividends, distributions or other payments from subsidiaries are expected to be funded by cash from their operations. The Group continuously reviews its cash flow and operations, and believes that the cash generated from its operations and borrowing capacity will be sufficient to meet its working capital requirements, anticipated capital expenditures (other than major capital improvements, acquisitions or mining development projects), scheduled debt payments and distributions. To augment the existing cash and liquidity resources, the Company continues to evaluate a range of transactions, including debt financings.

The Group unwound its EUR/CZK hedges that were in place for OKD for the period 2009-2013. For 2008, there were no changes to the existing hedging structures. All of these hedges were initiated in 2006 and time had come to adjust these to the changes in the group organisation. At the same time, the changed environment resulting from recent turmoil in financial markets has shown the need for NWR to reassess its position with regard to the developments in the financial and foreign exchange markets. New hedging structures will be initiated in the first half of 2009 following the guidelines of hedging 70 per cent of foreign currency exposure for the Group.

The Company paid out an A-share dividend in the amount of EUR 73,864 thousand, EUR 0.28 per share. The dividend was paid in EUR, CZK, GBP and PLN based on the currency elections of the shareholders on 23 October 2008.

As at 31 December 2008 the Company's net debt was EUR 368,866 thousand.

Unrestricted cash in hand amounted to EUR 679 million.

The Indenture also imposes restrictions on the Company's ability to pay dividends. Generally the Company may not pay dividends or make other restricted payments, which exceed, in the aggregate, 50 per cent of consolidated net income since 1 April 2007 (as such amounts are accrued on a quarterly basis) plus the net proceeds from the primary part of the IPO and certain other adjustments (the "restricted payment build-up capacity"). The purchase price for investments in entities other than majority owned subsidiaries would constitute restricted payments.

The restricted payment basket as defined by the Indenture amounts as of 25 March 2009 to approximately EUR 233 million.

Unrestricted Subsidiaries and non-core real estate
Rekultivace was the only consolidated subsidiary defined as Unrestricted Subsidiary under the Indenture and generally was not bound by the restrictive covenants in the Indenture applicable to the Company. While the Company has disposed of a significant amount of non-core real estate as part of its previous restructuring, it has identified additional non-core real estate and transferred these properties outside the Company on 30 September 2008.

The Unrestricted Subsidiary did not affect the financial performance of the Company significantly. The contribution to the operating profit of the Group during the year ended 31 December 2008 was less than 1 per cent. It represented less 1 per cent of the Company's total revenues and less than 1 per cent of total EBITDA for the year ended 31 December 2008.

Divisions and segments
Introduction
In 2007 the Group adopted IFRS 8 – Operating Segments. This standard requires an entity to report information about operating segments which is separately available and which is regularly evaluated by the so called "chief operating decision maker" ("CODM").

Real Estate Division and Mining Division
In 2007 the Company separated the real estate of the Group into a new division in order to provide higher transparency to the mining and real estate assets. The Group began operating two segments determined by differences in their assets and products and services produced and provided. The segments were represented by the Mining Division ("MD") and the Real Estate Division ("RED"), established internally by the Divisional Policy Statements as of 31 December 2007, 23:59. The segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a separate strategic division that offers different products and services. The MD relates to coal extraction, production of coke and related operations and businesses. The RED solely provides inter-divisional service i.e. provides real estate to MD (see below). In connection to the newly operated segments MD and RED, no legal entity was established. The Company issued B shares to track the financial performance of the RED.

Electricity trading
In 2008, electricity trading activities incurred robust growth in sales volume. The management of the Group decided to present and follow the financial performance of the electricity trading business separately. Consequently, the Mining Division is currently represented by two segments, one representing the coal and coke business and the other representing the electricity trading business. The comparable information for the year 2007 was adjusted and is presented correspondingly.

Discontinued segments
In the past, the Group also operated the transport segment (represented by OKD, Doprava, akciová společnost ("Doprava")) and the gas and electricity segment (represented by Green Gas International B.V.). The transport segment provided transportation and related services and the gas segment related to gas extraction and related electricity production activities. The entities representing transport and gas and electricity segments were distributed as a dividend in kind to the Company's shareholder on 28 June 2007 and are excluded from consolidation as from that date. These entities are presented as discontinued operations in the financial information.

Relationship between the RED and the MD
As of 1 January 2008, the divisions are operated separately for accounting and reporting purposes to reflect the results of operations and the financial position of each division and to provide relevant information to the holders of the A and B shares, the CODM for the two reportable segments is the Board.

The RED comprised of the shares and corresponding investments in the subsidiaries Rekultivace and Garáže Ostrava, a.s., all of the assets and liabilities in the IMGE internal business unit of OKD and all real estate assets owned by the Group at the time of the establishment of the divisions ("Real Estate Assets"). IMGE was an internal business unit of OKD specialised in land reclamation works, attributed with all real estate of OKD that was not being used for its mining and related operations. As the RED was established as of 31 December 2007, 23:59, the segment did not have any revenues or expenses in the year ended 31 December 2007.

On 30 September 2008, the first distribution of assets of the Real Estate Division to RPGI, the sole holder of the B shares, was effected. The assets included the shares and corresponding investments in the subsidiaries RPG Rekultivace, a.s. (the sole holder of the share in Rekultivace), RPG Garáže, a.s. (the sole holder of the share in Garáže Ostrava, a.s.), all of the assets and liabilities in the IMGE internal business unit of OKD (spun-off for the purpose of the distribution to special purpose entities named Dukla Industrial Zone, a.s. and RPG RE Property, a.s.) and certain promissory notes received for the sale of real estate assets in the nominal value of CZK 42,597 thousand (EUR 1,731 thousand). The impact of the dividend in kind on the consolidated equity of the Company was EUR 82,595 thousand.

In order to ensure fair treatment to all types of shareholders the Company has prepared and adopted the Divisional Policy Statements, approved by RPGI. The fundamental and overriding principles are that the MD has the right to maintain:
— the undisturbed continuation of its mining, coking and related operations that are currently, or which are expected by the Board to be in the future, conducted using certain Real Estate Assets; and
— unrestricted access to the Real Estate Assets in connection with such mining, coking and related operations.

Based on these overriding rules the MD is provided with unrestricted access to all Real Estate Assets necessary for its mining, coking and related operations for the time period, until these operations cease to exist. The Real Estate Assets include two groups of assets – buildings, constructions and similar real estate assets ("Buildings") and land.

Disclosures on Buildings

The RED provides Buildings to the MD based on the fundamental and overriding principles. The management considers this relation between the divisions as a kind of leasing relationship, where the RED provides property to the MD against remuneration. Following this approach, for Buildings the following criteria for identifying the relation between the divisions as financial leasing are met:
— the lease term is for the major part of the economic life of the asset, and
— the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The Buildings are recorded at the carrying amount in the balance sheet of the MD. Commencing 1 January 2008, the MD depreciates the Buildings. The deferred tax assets, liabilities and their impacts on the financial result of the Group related to the Real Estate Assets are divided between the divisions correspondingly to the allocation of the assets.

The Company did not revaluate the Real Estate Assets for the purpose of presentation in the segment reporting. The assets are presented in the segment reporting at book values. These values also represent the basis for depreciation. Under IFRS, finance lease assets shall be valued at the present value of minimum lease payments, which would also be the basis for depreciation under standard finance lease conditions. The RED does not charge lease payments to the MD for the access to the Real Estate Assets. Therefore the Group decided to apply the book values for the allocation of the Real Estate Assets value between the divisions. The value of Buildings provided to the MD at 31 December 2008 is EUR 322,168 thousand.

When the demand for unrestricted access to certain Real Estate Assets by the MD terminates, the overriding rules do not apply anymore and the Real Estate Assets are transferred back from the MD to the RED. This transfer becomes effective when the assets are not used for mining, coking and related operations anymore. Since the respective Buildings meet the criteria mentioned above, they will generally be fully depreciated at the moment, when mining, coking and related operations stop in the future. Therefore the transfer should include only fully depreciated assets with a zero book value. IAS 16 assumes some residual value of assets, which should be equal to its estimated market value at the end of its useful life. However the Company is unable to make a reliable estimate of such residual value due to the character of the assets.

The Divisional Policy Statements determine the annual fee paid for Real Estate Assets provided by the RED to the MD (the "CAP") to be EUR 3,600 thousand per year in 2008. The annual fee paid by the MD to the RED represents the financing costs on the Buildings provided. The CAP is accounted for as financial expense in the MD and as financial revenue in the RED.

There is no consideration required from the MD to repay the present value of the Buildings provided in compliance with the Divisional Policy Statement. Therefore the respective amount i.e. the book value of the Buildings provided to the MD as at 31 December 2008 is presented in the equity of the MD.

Disclosures on land

Land is provided to the MD without any consideration. However the IFRS criteria for financial leasing cannot be met for land. IFRS do not provide a specific guideline for the presentation of such relationships. The Company decided to present this relationship in the segment analysis as a right to use land by the MD granted by the RED. The right is depleted over the expected lifetime of mining, coking and related businesses using a linear amortisation method. The management determined the value of the right being the book value of land at 31 December 2007 i.e. the date when the divisions were established. The residual amount of the right as of 31 December 2008 and 31 December 2007 was EUR 16,344 thousand and EUR 18,196 thousand respectively.

Deferred revenue corresponding to the amount of the right to use is presented in the balance sheet of the RED. The deferred revenue will be released into revenues over the period correspondingly to the depletion of the right to use the land.

The revenues and expenses of the Real Estate Division consist mainly of the financial performance of the IMGE internal business unit of OKD and Rekultivace, which were allocated to the Real Estate Division at the date, when the divisions were set up. The financial income of the Real Estate Division also includes the fee that the Real Estate Division charges to the Mining Division for the use of the real estate provided according to the Divisional Policy Statements. The expenses include depreciation, change in deferred tax, a part of the costs relating to the spin-off and distribution of the assets of the Real Estate Division and other expenses related to the assets allocated to the Real Estate Division.

Business segments	Mining Division segment				Real Estate Division segment	Inter-segment eliminations & adjustments	
	Coal & Coke sub-segment	Electricity trading sub-segment	Sub-segment eliminations & adjustments	Total			Total
							Continuing operations
	1/1/2008 - 31/12/2008 EUR '000	1/1/2008 - 31/12/2008 EUR '000	1/1/2008 - 31/12/2008 EUR '000	1/1/2008 - 31/12/2008 EUR '000	1/1/2008 - 31/12/2008 EUR '000	1/1/2008 - 31/12/2008 EUR '000	1/1/2008 - 31/12/2008 EUR '000
Segment revenues							
Continuing operations							
Sales to third party	1,792,521	226,994	–	2,019,515	21,613	–	2,041,128
Sub-segment sales	650	60,129	(60,779)	–	–	–	–
Inter-segment sales	1,924	49	–	1,973	4,544	(6,517)	–
Sales to discontinued operations	–	–	–	–	–	–	–
Discontinued operations							
Sales – discontinued operations	–	–	–	–	–	–	–
Total revenues	**1,795,095**	**287,172**	**(60,779)**	**2,021,488**	**26,157**	**(6,517)**	**2,041,128**
Segment result	514,427	13,434	–	527,861	2,683	–	530,544
Assets & liabilities as at 31/12/2008							
Segment assets	2,205,749	41,947	(3,572)	2,244,124	29,970	(24,556)	2,249,538
Segment liabilities	1,581,264	30,979	(3,572)	1,607,424	19,099	(24,556)	1,603,214

Disclosures on main financial assets allocated to the RED and not provided for mining, coking and related operations

	Mining Division 31/12/2008 EUR '000	Real Estate Division 31/12/2008 EUR '000	eliminations & adjustments 31/12/2008 EUR '000	Total 31/12/2008 EUR '000
Land	1,588	19,298		20,886
Buildings and constructions	669,415	966		670,381
Plant and equipment	313,284	–		313,284
Other assets	4,682	–		4,682
Construction in progress	78,820	–		78,820
Rights to use land of Real Estate Division	16,344	–	(16,344)	–
Mining licences	167,553	–		167,553
Other financial investments	–	–		–
Long-term receivables	11,173	–		11,173
Deferred tax asset	154	–		154
Restricted cash	25,861	–		25,861
Total non-current assets	**1,288,874**	**20,264**	**(16,344)**	**1,292,794**
Inventories	66,060	–		66,060
Accounts receivable and prepayments	203,402	5,732	(7,463)	201,671
Derivatives	39	–		39
Income tax receivable	7,804	–	(749)	7,055
Cash and cash equivalents	674,921	3,974		678,895
Restricted cash	3,024	–		3,024
Total current assets	**955,250**	**9,706**	**(8,212)**	**956,744**
Total assets	**2,244,124**	**29,970**	**(24,556)**	**2,249,538**
Provisions	103,962	–		103,962
Long-term loans	661,961	–		661,961
Bond issued	290,425	–		290,425
Employee benefits	88,188	–		88,188
Deferred revenue	5,593	15,566	(15,565)	5,594
Deferred tax liability	105,385	–		105,385
Other long-term liabilities	752	–		752
	1,256,266	**15,566**	**(15,565)**	**1,256,267**
Short-term provisions	5,569	–		5,569
Accounts payable and accruals	227,615	2,607	(8,242)	221,980
Accrued interest payable on bond	2,766	–		2,766
Derivatives	9,012	–		9,012
Income tax payable	11,713	926	(749)	11,890
Current portion of long-term loans	66,835	–		66,835
Short-term loans	28,540	–		28,540
Cash-settled share-based payments payable	355	–		355
	352,405	**3,533**	**(8,991)**	**346,947**
Total liabilities	**1,608,671**	**19,099**	**(24,556)**	**1,603,214**

Subsequent events

The Company declared the pay out of a dividend in the amount of EUR 0.18 per A share on 24 February 2009. The dividend will be paid to the holders of the A shares in May 2009.

In March 2009, the Regional Court in Ostrava declared Moravia Energo, a.s. bankrupt. Moravia Energo, a.s. is a customer purchasing electricity from the Group. The Group estimates a negative impact on profit before tax resulting from the bankruptcy below EUR 2 million.

Off-balance sheet arrangements

In the ordinary course of business, the Company is party to certain off-balance sheet arrangements. These arrangements include assets related to the construction and related geological survey work at Frenštát. These assets are maintained by OKD but are not reflected in its books. The assets were booked as costs and have not been utilised. The original cost of these assets, spent in the years 1980 to 1989, was CZK 921 million (equivalent of EUR 34 million translated with the exchange rate at 31 December 2008), of which CZK 815 million (EUR 30 million) was the value of assets located in the mine and CZK 106 million (EUR 4 million) is the value of assets located on the surface. Liabilities related to these arrangements are not reflected in the Company's balance sheets and management does not expect that these off-balance sheet arrangements will have material adverse effects on the Company's financial condition, results of operations or cash flows.

Other commitments

Contingent liabilities

Contingent liabilities include clean up liabilities related to a decommissioned coking plant owned by OKK, and the Group's involvement in several litigation proceedings. It is not possible to estimate the exact potential exposure related to such proceedings, as the monetary value of some of the claims have not been specified and the likelihood of success in such proceedings cannot be assessed at this time. However, based on advice of counsel, management believes that the current litigation and claims will not have a significant impact on the Group's financial position. A summary of the main litigation proceedings will be included in the annual financial statements.

The Group is liable for all environmental damage caused by mining activities since the original privatisation. These future costs can be broadly split into two categories – restoration and mining damages. Restoration liabilities are liabilities to restore the land to the condition it was in prior to the mining activities or as stated in the exploration project. Mining damages are liabilities to reimburse all immediate danger caused by mining activities to third party assets.

Provisions for restoration costs are recognised as the net present value of the estimated costs. Restoration costs represent a part of the acquisition cost of fixed assets and such assets are amortised over the useful life of the mines using the sum of the digits method. The provision is compounded every year to reflect the current price level. In addition, the Group analyses the accuracy of the estimated provision annually. Any change in the estimate of restoration costs is recognised within fixed assets and is depreciated over the remaining useful life of the mines.

Contractual obligations

The Group is subject to commitments resulting from its indebtedness. These result mainly from the loans drawn by the Group and notes issued. The following table includes contractual obligations resulting from the Senior Facilities Agreement and the Senior Notes due 2015.

	Oct – Dec 2008 EUR '000	2009 EUR '000	2010-2011 EUR '000	After 2011 EUR '000
Senior Notes due 2015	–	–	–	300,000
Senior Facilities	–	65,449	98,174	562,475
Total	–	65,449	98,174	862,475

Interest has to be paid semi-annually on the Senior Notes.

The Company may choose the interest period under the Senior Facilities agreement. The interest rate can be fixed for six months maximum with a maximum payment period of three months. The interest rate is based on EURIBOR for the EUR part and PRIBOR for the CZK part of the loan with a margin between 0.65 per cent and 1.35 per cent p.a. based on the financial situation of the Group.

The Group has contractual obligations to acquire property, plant and equipment in the total amount of EUR 266 million, of which EUR 158 million result from the POP 2010 programme. OKK, a subsidiary of the Company, has contractual obligations in the amount of EUR 65 million relating to the overhaul of one of its coking batteries.

The Group is also subject to contractual obligations under lease contracts in the total amount of EUR 15 million, of which EUR 3 million are short-term obligations.

The restricted payment basket as defined by the Indenture amounts currently to EUR 233,377 thousand.

25 March 2009