

**Notes to the consolidated financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the year ended 31 December 2008**

**1 General information**

**a) Corporate information**

New World Resources N.V. (the "Company") is a public limited liability company incorporated under the laws of the Netherlands on 29 December 2005. The registered office of the Company is at Jachthavenweg 109h, 1081 KM Amsterdam, The Netherlands.

The objectives of the Company are to act as a holding and finance company.

RPG Industries SE ("RPGI"), a European public limited company whose corporate seat is in Nicosia, Cyprus, is the major shareholder of the Company, holding approximately 64% of the Company's A Shares and all of its B Shares. The financial information of the Company is included in the consolidated financial statements of RPGI. Approximately 36% of the A Shares of the Company are listed on stock exchanges in London, Warsaw and Prague. New World Resources B.V. was converted to New World Resources N.V. before it issued shares on the stock exchanges. The ultimate parent of the Company is RPG Partners Limited.

These financial statements were approved by the board of directors and authorised for issue on 25 March 2009.

**b) The Group**

The consolidated financial statements include New World Resources N.V. and the following subsidiaries (together "the Group") as at 31 December 2008:

Consolidated subsidiaries	% Equity = voting	Nature of Activity
<b>Entities directly owned by the Company:</b>		
OKD, a.s.	100%	Coal mining
OKD, OKK, a.s.	100%	Coke production
"KARBONIA PL" Sp. z o.o.	100%	Coal mining and electricity sales
NWR Energetyka PL Sp. z o.o.	100%	Electricity sales
NWR Energy, a.s.	100%	Electricity production
<b>Entities directly owned by NWR Energy, a.s.:</b>		
CZECH-KARBON s.r.o.	100%	Electricity trading
<b>Entities directly owned by OKD, a.s.:</b>		
OKD, HBZS, a.s.	100%	Emergency services, waste processing

All of the Company's consolidated subsidiaries are incorporated in the Czech Republic, with the exception of "KARBONIA PL", Sp. z o.o. and NWR Energetyka PL sp. z o.o., which are incorporated in Poland.

See paragraph e) below for changes in the Group during the presented period.

As of 31 December 2007 the consolidated financial statements include New World Resources B.V. and the following subsidiaries (together "the Group"):

Consolidated subsidiaries	% Equity = voting	Nature of Activity
<b>Entities directly owned by the Company:</b>		
OKD, a.s.	100%	Coal mining
RPG RE Property, a.s.	100%	Real estate management
Dukla Industrial Zone, a.s.	100%	Real estate management
NWR Coking, a.s.	100%	Holding company
<b>Entities directly owned by NWR Coking, a.s.:</b>		
OKD, OKK, a.s.	100%	Coke production
<b>Entities directly owned by OKD, a.s.:</b>		
OKD, BASTRO, a.s.	100%	Engineering
OKD, HBZS, a.s.	100%	Emergency services, waste processing
CZECH-KARBON s.r.o.	100%	Electricity trading
OKD, Rekultivace, a.s.	100%	Restoration activities
"KARBONIA PL", Sp. z o.o.	100%	Electricity sales

## 1 General information (continued)

### c) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements also comply with the requirements of Book 2 Title 9 of the Netherlands Civil Code.

### d) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for derivative and other financial instruments, which are stated at their fair value. They are presented in Euro (EUR) and rounded to the nearest thousand. Financial statements of operations with functional currency other than EUR were translated to the Group presentation currency (EUR). Functional currency of the Company is EUR. Functional currency of "KARBONIA PL" Sp. z o.o. and NWR Energetyka PL Sp. z o.o. is Polish Zloty (PLN). Functional currency of the remaining consolidated companies is Czech Crown (CZK). For details refer to Note 2d(ii). The accounting policies have been applied consistently by the Group entities.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 12 – Property, plant and equipment;  
 Note 20 – Financial instruments;  
 Note 26 – Provisions;  
 Note 28 – Employee benefits;  
 Note 29 – Share-based payments; and  
 Note 32 – Contingent assets and liabilities.

### e) Changes in the consolidated group

#### (i) Business combination involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the Group entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

In the absence of more specific guidance, the Group entities consistently applied the book value measurement method to all common control transactions. Differences between consideration paid and carrying value of acquired net assets is recognised as a change in consolidated equity.

On 28 August 2007, the board of directors of OKD approved the spin-off of the 100% share in OKK and certain land with effective date 1 July 2007 into a newly incorporated entity NWR Coking, a.s. The Company, acting as the sole shareholder, has approved the project of the spin-off from OKD on 29 October 2007. As of 30 April 2008, OKK merged with NWR Coking, a.s. with effective date for the merger of 1 January 2008 and OKK being the legal successor. The control at the Company level did not change.

Ownership interest transfer agreement between OKD as a seller of its 100% share in "KARBONIA PL" Sp. z o.o. and the Company as a buyer was signed on 16 January 2008. The sale was executed on 25 January 2008. "KARBONIA PL" Sp. z o.o. remains under the control of the Company.

# Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

## 1 General information (continued)

### e) Changes in the consolidated group (continued)

#### (i) Business combination involving entities under common control (continued)

With effective date of 1 January 2008 the 100% share in OKD, Rekultivace, a.s., the 49% share in Garáže Ostrava, a.s. and OKD's internal business unit IMGE were spun-off from OKD into four legal entities (RPG RE Property, a.s., Dukla Industrial Zone, a.s., RPG Rekultivace, a.s. and RPG Garáže, a.s.) 100% owned by the Company. The Company as the sole shareholder approved the project of the spin-off from OKD, a.s., acting as the sole shareholder of the new entities on 30 June 2008. The control at the Company level did not change because of the spin-off. On 30 September 2008, the Company distributed these four entities together with certain promissory notes received from sale of real estate assets not used for its mining activities to the holder of B shares (see below).

The Company established two special purpose vehicles, NWR Energy, a.s. and NWR Energetyka PL Sp. z o.o. in the second quarter of 2008. OKD's internal business unit Energetika, operating the energy assets of OKD, and the 100% share in CZECH-KARBON, s.r.o. were spun-off from OKD into NWR Energy, a.s. with effective date 1 July 2008. The purpose of NWR Energy, a.s. is to manage and operate these energy assets. The purpose of NWR Energetyka PL Sp. z o.o. is to manage and operate energy assets, which are anticipated to be spun-off from "KARBONIA PL" Sp. z o.o. in April 2009. The entities do not perform any other activities than those related to this purpose. The control at the Company level did not change.

#### (ii) Entities incorporated in 2008

RPG Rekultivace, a.s. and RPG Garáže, a.s. were established in 2008 as new entities by spin-off of certain assets from OKD. These two new entities carry part of spun-off assets from OKD. The purpose of RPG Rekultivace, a.s. is to hold the shares of OKD, Rekultivace, a.s.. The purpose of RPG Garáže, a.s. is to hold the shares of Garáže Ostrava, a.s.

#### (iii) Distribution in kind

On 23 May 2007, New World Resources B.V. contributed its 100% share in OKD, DPB, a.s. to New World Resources Acquisitions B.V. (subsequently renamed to Green Gas International B.V.), together with EUR 12,018 thousand in cash, thus acquiring 70% share of New World Resources Acquisitions B.V.

On 28 June 2007, the Group distributed in kind to its parent company at that time, RPG Industries SE, its shares in its mine and landfill gas extraction and electricity business, Green Gas International B.V., and its transportation business, OKD, Doprava, akciová společnost ("Doprava"). The investment in these subsidiaries was excluded from the consolidated financial statements as from this date. The amount presented in the consolidated statement of changes in equity represents the net book value of the subsidiaries distributed to the owners. Both gas and electricity as well as transportation business segments are presented as discontinued operations in these financial statements. Refer to Note 9.

On 30 September 2008, the Company distributed its shares in RPG RE Property, a.s., Dukla Industrial Zone, a.s., RPG Rekultivace, a.s. (holding the shares of OKD, Rekultivace, a.s.) and RPG Garáže, a.s. (holding the shares of Garáže Ostrava, a.s.) together with certain promissory notes received from sale of real estate assets not used for its mining activities to the holder of B Shares.

#### (iv) Liquidation of OKD, Bářské stavby Ostrava, a.s. "v likvidaci" ("in liquidation")

On 23 February 2007, a court decision about the termination of the liquidation process of former subsidiary OKD, Bářské stavby Ostrava, a.s. "v likvidaci" became effective and the company was delisted from the commercial register.

#### (v) Sale of OKD, Bastro, a.s.

On 1 December 2008, OKD sold its subsidiary OKD, BASTRO, a.s. to Bucyrus DBT Europe GmbH, the German subsidiary of Bucyrus International, Inc., a mining equipment manufacturer. Net assets of disposed company amounted EUR 5,099 thousand as of 1 December 2008. The company was sold for EUR 5,946 thousand and a gain from sale of EUR 847 thousand was realised.

## 2 Summary of significant accounting policies

### a) New IFRS

#### New standards and interpretations adopted during the financial year

In 2008, the Group adopted the following new or amended International Financial Reporting Standards and IFRIC Interpretations, which were relevant for the Group:

- IAS 39 Financial instruments: Recognition and Measurement and IFRS 7 Financial instruments: Disclosures (Amendments)
- IFRS 2 Share-based Payment (Revised)

The principal effects of the changes are as follows:

#### **IAS 39 Financial instruments: Recognition and Measurement and IFRS 7 Financial instruments: Disclosures (Amendments)**

On 13 October 2008, the IASB published amendments to allow reclassifications of certain financial instruments from held for trading and available for sale categories. The Group has analysed financial instruments held for trading and available for sale and the amendment of IAS 39 and IFRS 7 did not result in any re-classification of the Group's financial instruments nor had any impact on the financial position or performance of the Group.

#### **IFRS 2 Share-based Payment (Revised)**

The Group early adopted the amendment to IFRS 2, which is effective for the annual period from 1 January 2009. The revised standard clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It did not have an impact on the financial position or performance of the Groups as no events occurred that this interpretation relates to.

#### **Improvements to IFRSs**

In May 2008, the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The Group has early adopted the following amendments to standards:

*IAS 1 Presentation of Financial Statements:* Assets and liabilities held for trading in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.

*IAS 16 Property, Plant and Equipment:* Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

*IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one – the interest expense calculated using the effective interest rate method in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change of its financial position.

*IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate "fair value less cost to sell" additional disclosures are required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". This amendment has no immediate impact on the consolidated financial statements of the Group, because the recoverable amount of its cash generating units is currently estimated using "value in use".

*IAS 38 Intangible assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the services. This amendment has no impact on the Group because it does not enter into such promotional activities.

#### **IFRIC 11 IFRS 2 – Group and Treasury Share Transactions**

As of 1 January 2008, the Group has adopted IFRIC Interpretation 11, which requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group amended its accounting policy accordingly.

# Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

## 2 Summary of significant accounting policies (continued)

### a) New IFRS (continued)

#### New IFRS Standards and Interpretations issued but not yet effective

The Group is currently assessing the potential impacts of the new and revised standards that will be effective for annual periods from 1 January 2009 or later. Most relevant to the Group's activities are IAS 1 Amendment Presentation of Financial Statements and IAS 23 Amendment Borrowing costs. The Group currently does not expect that the new standards and interpretations would have a significant effect on the Group's results and financial position.

The principal effects of these changes are as follows:

#### Amendment to IAS 1 Presentation of Financial Statements

The Group did not apply the amendment, which is effective for annual period as of 1 January 2009. The amendment will require revision of the statement of changes in equity and additional disclosures, such as statement of other comprehensive income.

#### Amendment to IAS 23 Borrowing Costs

The Group did not apply the amendment, which is effective for the annual period as of 1 January 2009. The amendment will require including borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs shall be recognised as an expense. The Company will apply the amendment prospectively for the annual period from 1 January 2009 and, as a result, a portion of the borrowing costs will be capitalised as part of the cost of qualifying assets.

#### IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (Revised)

The revised standards were issued in January 2008 and will become effective on 1 July 2009. Amended IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period of acquisition, and future reported results. The amended IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by revised IFRS 3 and IAS 27 will affect future acquisitions or loss of control and transactions with minority interests.

#### IAS 39 Financial Instruments: Recognition and Measurement

The Group did not early adopt the amendment to IAS 39, which is effective for the annual period as of 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value of changes or cash flow variability of a financial instrument as hedged item.

#### IFRIC 13 Customer Loyalty Programmes

The Group did not apply the interpretation, which is effective for the periods as of 1 July 2008. The Interpretation requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. If the cost of fulfilling the awards is expected to exceed the consideration received, the entity will have an onerous contract and a liability for the excess must be recognised.

#### IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Group did not apply the interpretation, which is effective for the periods as of 1 October 2008. The Interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation.

## 2 Summary of significant accounting policies (continued)

### b) Basis of consolidation

The financial statements include the accounts of New World Resources N.V. and its subsidiaries presented in Note 1.

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated statements from the date that control commences until the date that control ceases.

#### (ii) Transactions eliminated on consolidation

Intragroup balances and transactions and unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### c) Principles for preparation of the cash flow statement

Cash flow is presented using the indirect method. Net cash flows from operating activities are reconciled from profit before tax from continuing operations. Interest received is classified as an investing activity as it mainly relates to investments. Interest paid is classified as an operating activity as it significantly affects the net profit.

### d) Foreign currency

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to functional currency at the foreign exchange rates which approximate rates ruling at the dates the values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

#### (ii) Foreign operations

Assets and liabilities of operations with functional currency other than EUR, including goodwill and fair value adjustments arising on acquisition, are translated to EUR at the exchange rate at the reporting date; income statement items of operations with functional currency other than EUR are translated at exchange rates approximating the rates at the dates of the transactions. Equity items are translated at historical exchange rates. The exchange differences arising on the translation are recognised directly in equity. On disposal of an operation with functional currency other than EUR (in full or in part), the relevant amount of accumulated exchange differences is transferred to the income statement.

Goodwill and fair value adjustments arising from the acquisition of an operation with functional currency other than EUR are treated as assets and liabilities of the operation and are translated at the closing exchange rate.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 2 Summary of significant accounting policies (continued)

#### e) Derivative financial instruments

The Group uses derivative financial instruments (such as forward currency contracts, interest rate swap and interest rate collar contracts) to hedge its exposure to foreign exchange risk and interest risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap and interest rate collar contracts is the estimated amount that the Group would receive or pay to terminate the contract at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedges item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designed.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedges item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement.

## 2 Summary of significant accounting policies (continued)

### e) Derivative financial instruments (continued)

#### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecasted sale occurs. Where the hedged item is a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecasted transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecasted transaction or firm commitment occurs.

In the period beginning on 1 January 2008 the Group applies hedge accounting for forward exchange rate contracts used as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments. Refer to Note 20 for more details.

The Group has an interest rate swap that is used as a hedge for the cash flow exposure resulting from its Syndicated Loan. See Note 20 for more details.

#### Current versus non-current classification

Derivative instruments that are not a designated and effective hedging instrument are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond 12 months after the balance sheet date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

### f) Property, plant and equipment

#### (i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy l). Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is recognised as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

Where an item of property, plant and equipment is comprised of major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Borrowing costs are recognised as an expense when incurred.



# Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

## 2 Summary of significant accounting policies (continued)

### f) Property, plant and equipment (continued)

#### (ii) Leased assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Finance leases, which transfer to the Group substantially all the risks and benefits related to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

#### (iii) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### (iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land and assets in construction are not depreciated.

The estimated useful lives are as follows:

— Buildings	30-45 years
— Plant and equipment	4-15 years
— Other	4 years

Mining works are depreciated on a straight-line basis based on their estimated useful life.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## 2 Summary of significant accounting policies (continued)

### g) Intangible assets

#### (i) Licences

Licences represent the coal reserve licence owned by OKD, a.s. The coal reserve is the exclusive deposit and creates the mineral wealth of the Czech Republic and the licences allow OKD, a.s. to extract coal from this deposit. Licences are stated at cost less amortisation and impairment losses.

When determining fair value of the coal reserve licence in the year 2004, OKD, a.s. used an income approach, specifically the Multi-period excess earning method (MEEM), taking into account specific finite horizon of OKD, a.s. coal-mining operations. Amortisation for the period was calculated as a proportion of the coal amount actually mined in this period to the total economically exploitable coal reserves as estimated by management.

The plan used for valuation comprises the whole projected period of future OKD coal-mining operations.

#### (ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

#### (iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 1). Expenditure on internally generated goodwill and brands are recognised in the income statement as an expense as incurred.

#### (iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date.

#### (v) Emission rights

Emission rights represent the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year an equivalent of one ton of carbon dioxide (CO<sub>2</sub>). Based on the National Allocation Plan in 2008, 2007, 2006 and 2005 certain companies of the Group were granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorised person.

As at 30 April, of the following year, at latest, these companies are required to remit a number of certificates representing the number of tonnes of CO<sub>2</sub> actually emitted. If a company does not fulfil this requirement and does not remit the necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 40 per 1 ton of CO<sub>2</sub>.

Emission rights are accounted for using the net liability method (EFRAG). Under this method, emission rights allocated from the Government are measured at their nominal amount, which is nil. Purchased emission rights (acquired when the number of rights on hand is insufficient to cover the actual emissions made) are recognised as intangible assets, measured at cost and charged to income when disposed of. Emission rights are not amortised.

The Company recognises a provision equal to the fair value of emission rights that would be needed if the actual emissions made could not be settled by emission rights on hand.

#### (vi) Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to expense as incurred.

# Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

## 2 Summary of significant accounting policies (continued)

### h) Investments

Investments in equity securities held by the Group are classified as being available-for-sale.

Available-for-sale investments are recognised/de-recognised by the Group on the date it commits to purchase/sell the investments.

After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity except in the case of impairment losses. Where the fair value cannot be reliably determined, investments are stated at cost.

When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the income statement as 'Dividends received' when the right of payment has been established.

### i) Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, receivables are subsequently carried at their amortised cost using the effective interest method less any allowance for impairment (see accounting policy m).

### j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, the cost of conversion and other costs incurred in bringing them to their existing location and condition. The cost of merchandise is the acquisition cost on the weighted average basis. The cost of raw materials is the purchase cost on a weighted average basis. The cost of work-in-progress and finished goods is a standard cost based on the cost of direct materials and labour plus attributable production overheads based on a normal level of activity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and variable selling expenses.

### k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and investments in marketable securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (with original maturity of three months and less).

### l) Restricted cash

Restricted balances of cash, which are shown under non-current financial assets as restricted funds (see Note 16), relate to mining damages and restoration expenses. The non-current classification is based on the expected timing of the release of the funds of the Group.

## 2 Summary of significant accounting policies (continued)

### m) Impairment

The carrying amounts of the Group's assets, excluding inventories (see accounting policy j) and deferred tax assets (see accounting policy t), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

#### (i) Calculation of recoverable amount

The recoverable amount of receivables is calculated as the present value of expected future cash flows, discounted to their present value using the financial asset's original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### (ii) Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Any impairment loss recognised in respect of goodwill is not reversed under any situation. For other assets, impairment losses are recognised: prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exist.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and Amortisation, if no impairment loss had been recognised.

### n) Minority interest

The minority interest in the balance sheet and income statement represents the minority proportion of the net assets of the consolidated but not wholly owned subsidiaries at the year-end and a share on results for the year, which is attributable to the minority shareholders.

### o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Related gains and losses are recognised in the income statement at the settlement date.

### p) Employee benefits

The Group provides a number of different benefits to its employees – jubilee, loyalty, retirement and special miners' benefits.

The Group's obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on Czech government bonds that have maturity dates approximating the terms of the Group's obligations.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 2 Summary of significant accounting policies (continued)

#### q) Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration for their services in the form of share-based payment transactions ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. This is then capitalised or expensed as appropriate.

#### Equity-settled transactions

The cost of equity-settled transactions with employees for awards granted, is measured by reference to the fair value at the date on which they are granted. The fair value is determined based on the market price as per stock exchange and whenever appropriate using option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured as the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 29).

#### Transactions with cash-alternative

The cost of transactions with a cash-alternative is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

## 2 Summary of significant accounting policies (continued)

### r) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Restoration and mining damages provisions

The Group is liable for all environmental damage caused by mining activities. These future costs can generally be split into two categories – restoration costs and mining damages costs. Restoration costs and clean-up of land used for mining activities are liabilities to restore the land to the condition it was in prior to the mining activities or as stated in the exploration project.

Provisions for restoration costs are recognised as the net present value of the estimated outflow of economic resources to settle the obligation. Restoration costs represent a part of the acquisition cost of fixed assets and such assets are depreciated over the useful life of the mines using the sum of the digits method. Any change in the estimate of restoration costs is recognised within fixed assets and is depreciated over the remaining useful life of the mines.

The effects of changes in estimates relating to decommissioning liabilities, arising as a result of change of estimated cash flows that would be required to settle these liabilities or as a result of discount rate changes, are added to (or deducted from) the amount recognised as the related asset.

Mining damages costs are liabilities to reimburse all immediate damages caused by mining activities to third party assets. Mining damages costs are assessed by the Group for each individual exploration project. This assessment is reviewed and approved by the Czech Mining Authority.

### s) Trade and other payables

Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether or not invoiced by the supplier. Trade and other payables are stated at amortised cost.

### t) Revenue

#### (i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue is stated net of value added tax and excise duties and comprises the value of sales of own products, goods and services made in the normal course of business.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. In instances where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses incurred that are recoverable.

#### (ii) Revenues from electricity contracts

The Group concludes sale and purchase contracts for physical delivery of specified commodities (defined quantity of electricity) over the counter and through energy exchanges. These transactions are entered into and continue to be held for the ultimate purpose of physical receipt or delivery of the commodity in accordance with the Group's expected sale or purchase requirements, are designated into an own use category at inception and are not within the scope of IAS 39.

Revenues from realised electricity sales are recognised in the income statement based on actual deliveries and when the significant risks and rewards of ownership have been transferred to the buyer in line with the contract conditions, recovery of the consideration is probable, the associated costs can be estimated reliably and there is no continuing management involvement with the delivered commodity. Revenue is stated net of value added tax and excise duties and comprises the value of sales of commodity made in the normal course of business.

Gains and losses arising from changes in fair value on contracts on energy exchanges, which result in cash inflows or outflows to and from an energy exchange, are recognised on balance sheet and upon settlement in the income statement.

# Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

## 2 Summary of significant accounting policies (continued)

### t) Revenue (continued)

#### (iii) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

The Group receives operating subsidies to cover the social costs related to the closure of mines and incurred before the privatisation of OKD, a.s. in 1993. The subsidies are recognised in the income statement on the accrual basis with related expenses.

### u) Expenses

#### (i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

#### (ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy e).

Revenue is recognised as interest accrues (using the effective interest method which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). Dividend income is recognised in the income statement on the date that the dividend is declared.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

#### (iii) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

A current tax liability is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the tax laws do not permit consolidated tax returns.

A deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted in the expected period of settlement of deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### v) Segment reporting

In 2007, the Group adopted IFRS 8 – Operating Segments. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. A start-up operation can be treated as an operating segment while it has yet to earn revenues.

## 2 Summary of significant accounting policies (continued)

### w) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

### x) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

## 3 Segment information

### a) Introduction to segment information

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

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 segment (“MD”) and the Real Estate Division segment (“RED”), established internally by the Divisional Policy Statements as of 31 December 2007. 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. Except for activities of OKD, Rekultivace, a.s. and Garáže Ostrava, a.s. 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 Class shares to track the financial performance of the RED as of 31 December 2007.

As from 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 Class shares. The CODM for the two reportable segments is the board of directors of the Company.

The RED comprised of the shares and corresponding investments in the subsidiaries OKD, Rekultivace, a.s. 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, 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 RPG Industries SE, the sole holder of the B Shares, was effected. These assets included the shares and corresponding investments in the subsidiaries RPG Rekultivace, a.s. (the sole holder of the share in OKD, Rekultivace, a.s.), 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.



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 3 Segment information (continued)

#### a) Introduction to segment information (continued)

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

In the past, the Group also operated the transport segment (represented by OKD, Doprava, akciová spoločnosť) 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 comparative financial information of these financial statements (see Note 9).

In order to ensure fair treatment to all shareholders the Company has prepared and adopted the Divisional Policy Statements, approved by RPG Industries SE. 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 of directors of the Company to be in the future, conducted using certain of the 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.

The Group provides its products to customers in different geographical areas and therefore provides information on geographical segments as well.

#### b) Disclosures on Buildings

The RED provides Buildings to the MD based on the overriding rules. 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 of the Company, 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 MD will depreciate 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 revalue 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.

### **3 Segment information (continued)**

#### **b) Disclosures on Buildings (continued)**

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, adjusted for inflation in subsequent years. The annual fee paid by MD to RED represents the financing costs on the Buildings provided. From 1 January 2008 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 of 31 December 2008 is presented in the equity of the MD.

#### **c) 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 relationship. The Company decided to present this relationship in the segment analysis as a right to use land by the MD granted by RED. The right is depleted over the expected lifetime of mining, coking and related businesses using a linear Amortisation method. The management determined the original 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 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.

#### **d) Disclosures on assets allocated to the RED and not provided for mining, coking and related operations**

Real Estate Assets currently not used for mining, coking and related operations are presented in the Real Estate Division.

**Notes to the consolidated financial statements prepared in accordance with IFRS  
as adopted by the European Union**

continued

**3 Segment information (continued)**

**e) Presentation of business segments**

Business Segments	Mining division segment			Total	Real Estate division segment	Inter-segment Eliminations & Adjustments	Total
	Coal & Coke sub-segment	Electricity trading sub-segment	Eliminations & adjustments sub-segment				
	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
<b>Segment revenues</b>							
<b>Continuing operations</b>							
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	-	-	-	-	-	-	-
<b>Discontinued operations</b>							
Sales – discontinued operations	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>1,795,095</b>	<b>287,172</b>	<b>(60,779)</b>	<b>2,021,488</b>	<b>26,157</b>	<b>(6,517)</b>	<b>2,041,128</b>
<b>Segment Result</b>							
Segment result	514,427	13,434	-	527,861	2,683	-	530,544
Financial income			-	112,583	3,784	(3,613)	112,754
Financial expenses				(175,550)	(53)	3,613	(171,990)
Profit/loss on disposal of interest in subsidiaries				(2,140)	2,987	-	847
Profit before tax				462,754	9,401	-	472,155
Income tax expense				(118,583)	(1,933)	-	(120,516)
<b>Net profit</b>				<b>344,171</b>	<b>7,468</b>	<b>-</b>	<b>351,639</b>
<b>Assets and liabilities as at 31/12/2008</b>							
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)	1,608,671	19,099	(24,556)	1,603,214
<b>Other segment information:</b>							
Capital expenditures	284,497	-	-	284,497	597	-	285,094
Depreciation	157,119	4	-	157,123	1,227	-	158,350
Amortisation	11,267	-	-	11,267	-	(1,102)	10,165
Change in provisions	(4,668)	-	-	(4,668)	(54)	-	(4,722)
Reversal of impairment of assets	-	-	-	-	-	-	-
Interest income	21,712	529	-	22,241	3,739	(3,613)	22,367
Interest expense	76,170	98	-	76,268	7	(3,613)	72,662

### 3 Segment information (continued)

#### e) Presentation of business segments (continued)

Business Segments	Mining division segment				Real Estate division segment	Intersegment Eliminations & Adjustments	Total	Transport	Gas and Electricity	Total
	Coal & Coke sub-segment	Electricity trading sub-segment	Eliminations & adjustments sub-segment	Total						
	1/1/2007 – 31/12/2007 EUR '000	1/1/2007 – 31/12/2007 EUR '000	1/1/2007 – 31/12/2007 EUR '000	1/1/2007 – 31/12/2007 EUR '000	1/1/2007 – 31/12/2007 EUR '000	1/1/2007 – 31/12/2007 EUR '000	1/1/2007 – 31/12/2007 EUR '000	1/1/2007 – 30/6/2007 EUR '000	1/1/2007 – 30/6/2007 EUR '000	1/1/2007 – 30/6/2007 EUR '000
							Continuing operations		Discontinued operations	
<b>Segment revenues</b>										
<b>Continuing operations</b>										
Sales to third party	1,282,754	78,639	–	1,361,393	–	–	1,361,393			
Sub-segment sales	3,366	42,763	(46,129)	–	–	–	–			
Inter-segment sales	–	–	–	–	–	–	–			
Sales to discontinued operations	5,493	212	–	5,705	–	–	5,705			
<b>Discontinued operations</b>										
Sales – discontinued operations								60,156	12,801	72,957
<b>Total revenues</b>	<b>1,291,613</b>	<b>121,614</b>	<b>(46,129)</b>	<b>1,367,098</b>	<b>–</b>	<b>–</b>	<b>1,367,098</b>	<b>60,156</b>	<b>12,801</b>	<b>72,957</b>
<b>Segment Result</b>										
Segment result	201,999	5,517	–	207,516	–	–	207,516	5,356	1,137	6,493
Financial income				142,621	–	–	142,621	–	–	1,793
Financial expenses				(110,477)	–	–	(110,477)	–	–	(183)
Profit/loss on disposal of interest in subsidiaries				(13)	–	–	(13)	–	–	–
Profit before tax				239,647	–	–	239,647	5,356	1,137	8,103
Income tax expense				(48,976)	–	–	(48,976)	–	–	(2,282)
<b>Net profit</b>				<b>190,671</b>	<b>–</b>	<b>–</b>	<b>190,671</b>	<b>5,356</b>	<b>1,137</b>	<b>5,821</b>
<b>Assets and liabilities as at 31/12/2007</b>										
Segment assets	1,915,531	31,974	(2,774)	1,944,731	106,220	(18,196)	2,032,755	–	–	–
Segment liabilities	1,621,944	25,994	(2,774)	1,645,164	28,324	(18,196)	1,655,292	–	–	–
<b>Other segment information:</b>										
Capital expenditures	78,486	–	–	78,486	–	–	78,486	3,164	1,062	4,226
Depreciation	156,925	6	–	156,931	–	–	156,931	4,058	970	5,028
Amortisation	9,326	–	–	9,326	–	–	9,326	–	–	–
Change in provisions	(15,972)	–	1	(15,971)	–	–	(15,971)	–	–	–
Reversal of impairment of assets	21,959	–	–	21,959	–	–	21,959	–	–	–
Interest income	12,969	127	–	13,096	–	–	13,096	156	10	166
Interest expense	52,596	46	–	52,642	–	–	52,642	16	9	25

**Notes to the consolidated financial statements prepared in accordance with IFRS  
as adopted by the European Union**

continued

**3 Segment information (continued)**

**f) Detailed presentation of the Mining and the Real Estate Divisions**

As of 31 December 2008 assets and liabilities of the divisions and the reconciliation to the consolidated balance sheet is as follows:

	Mining division 31 December 2008 EUR '000	Real Estate division 31 December 2008 EUR '000	Eliminations & Adjustments 31 December 2008 EUR '000	Total 31 December 2008 EUR '000
Land	1,588	19,298		20,886
Buildings and constructions	669,415	966		670,381
Plant and equipment	313,288	–		313,288
Other assets	4,677	–		4,677
Construction in progress	78,821	–		78,821
Rights to use land of Real Estate Division	16,344	–	(16,344)	–
Mining licences	167,553	–		167,553
Long-term receivables	11,173	–		11,173
Deferred tax asset	154	–		154
Restricted cash	25,861	–		25,861
<b>Total non-current assets</b>	<b>1,288,874</b>	<b>20,264</b>	<b>(16,344)</b>	<b>1,292,794</b>
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
<b>Total current assets</b>	<b>955,250</b>	<b>9,706</b>	<b>(8,212)</b>	<b>956,744</b>
<b>Total assets</b>	<b>2,244,124</b>	<b>29,970</b>	<b>(24,556)</b>	<b>2,249,538</b>
<b>Total equity</b>	<b>635,453</b>	<b>10,871</b>		<b>646,324</b>
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
<b>Total non-current liabilities</b>	<b>1,256,266</b>	<b>15,566</b>	<b>(15,565)</b>	<b>1,256,267</b>
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
<b>Total current liabilities</b>	<b>352,405</b>	<b>3,533</b>	<b>(8,991)</b>	<b>346,947</b>
<b>Total liabilities</b>	<b>1,608,671</b>	<b>19,099</b>	<b>(24,556)</b>	<b>1,603,214</b>
<b>Total equity and liabilities</b>	<b>2,244,124</b>	<b>29,970</b>	<b>(24,556)</b>	<b>2,249,538</b>

**3 Segment information (continued)****f) Detailed presentation of the Mining and the Real Estate Divisions (continued)**

	Mining division 31 December 2007 EUR '000	Real Estate division 31 December 2007 EUR '000	Eliminations & Adjustments 31 December 2007 EUR '000	Total 31 December 2007 EUR '000
Land	–	69,242		69,242
Buildings and constructions	746,274	13,989		760,263
Plant and equipment	185,753	2,162		187,915
Other assets	776	4		780
Construction in progress	30,769	412		31,181
Rights to use land of Real Estate Division	18,196	–	(18,196)	–
Mining licences	178,683	–		178,683
Other financial investments	–	3,104		3,104
Long-term receivables	6,900	442		7,342
Deferred tax asset	1,950	488		2,438
Restricted cash	24,160	–		24,160
<b>Total non-current assets</b>	<b>1,193,461</b>	<b>89,843</b>	<b>(18,196)</b>	<b>1,265,108</b>
Inventories	32,044	417		32,461
Accounts receivable and prepayments	148,122	11,147		159,296
Derivatives	76,008	–		76,008
Income tax receivable	25,722	–		25,722
Cash and cash equivalents	469,374	4,786		474,160
<b>Total current assets</b>	<b>751,270</b>	<b>16,377</b>	<b>–</b>	<b>767,647</b>
<b>Total assets</b>	<b>1,944,731</b>	<b>106,220</b>	<b>(18,196)</b>	<b>2,032,755</b>
<b>Total equity</b>	<b>299,567</b>	<b>77,896</b>		<b>377,463</b>
Provisions	107,107	996		108,103
Long-term loans	723,856	–		723,856
Bond issued	289,316	–		289,316
Employee benefits	85,197	437		85,634
Deferred revenue	10,291	17,377	(17,369)	10,299
Deferred tax liability	104,079	441		104,520
Other long-term liabilities	99	101		200
<b>Total non-current liabilities</b>	<b>1,319,945</b>	<b>19,352</b>	<b>(17,369)</b>	<b>1,321,928</b>
Short-term provisions	8,817	359		9,176
Accounts payable and accruals	182,468	8,591	(827)	190,232
Accrued interest payable on bond	2,766	–		2,766
Derivatives	226	–		226
Income tax payable	58,424	22		58,446
Current portion of long-term loans	66,823	–		66,823
Short-term loans	5,695	–		5,695
<b>Total current liabilities</b>	<b>325,219</b>	<b>8,972</b>	<b>(827)</b>	<b>333,364</b>
<b>Total liabilities</b>	<b>1,645,164</b>	<b>28,324</b>	<b>(18,196)</b>	<b>1,655,292</b>
<b>Total equity and liabilities</b>	<b>1,944,731</b>	<b>106,220</b>	<b>(18,196)</b>	<b>2,032,755</b>

**Notes to the consolidated financial statements prepared in accordance with IFRS  
as adopted by the European Union**

continued

**3 Segment information (continued)**

**f) Detailed presentation of the Mining and the Real Estate Divisions (continued)**

Revenues and expenses of divisions for the twelve months of 2008 and reconciliation to the consolidated income statement:

	Mining division 1/1/2008 – 31/12/2008 EUR '000	Real Estate division 1/1/2008 – 31/12/2008 EUR '000	Eliminations & Adjustments 1/1/2008 – 31/12/2008 EUR '000	Total 1/1/2008 – 31/12/2008 EUR '000
Revenues	2,021,488	26,157	(6,517)	2,041,128
Change in inventories of finished goods and work-in-progress	34,303	(61)	–	34,242
Consumption of material and energy	(577,131)	(2,835)	182	(579,784)
Service expenses	(341,957)	(14,671)	4,870	(351,758)
Personnel expenses	(428,214)	(5,529)	–	(433,743)
Depreciation	(157,123)	(1,227)	–	(158,350)
Amortisation	(11,267)	–	1,102	(10,165)
Reversal of impairment of property, plant and equipment	–	–	–	–
Reversal of impairment of receivables	93	(47)	–	46
Net gain from material sold	10,459	41	–	10,500
Gain from sale of property, plant and equipment	765	1,287	–	2,052
Other operating income	4,008	149	(92)	4,065
Other operating expenses	(27,563)	(581)	455	(27,689)
Sub-total	527,861	2,683	–	530,544
Financial income	112,583	3,784	(3,613)	112,754
Financial expense	(175,550)	(53)	3,613	(171,990)
Profit/loss on disposal of interest in subsidiaries	(2,140)	2,987	–	847
Profit from continuing operations – before tax	462,754	9,401	–	472,155
Income tax expense	(118,583)	(1,933)	–	(120,516)
<b>Profit from continuing operations</b>	<b>344,171</b>	<b>7,468</b>	<b>–</b>	<b>351,639</b>

As the divisions were established as of 31 December 2007 and they are operated separately for accounting and reporting purposes since their establishment, there is no income statement to be presented for comparable period 2007.

Revenues of MD and RED include revenues from inter-segment transactions related to entities that were distributed as dividend in kind as of 30 September 2008, such transactions are eliminated in a value of EUR (5,415) thousand (2007: EUR 0 thousand).

### 3 Segment information (continued)

#### f) Detailed presentation of the Mining and the Real Estate Divisions (continued)

Other eliminations and adjustments include mainly elimination of RED revenue from release of deferred revenue in an amount of EUR (1,102) thousand (2007: EUR 0 thousand) (refer to point c)).

Amortisation adjustment of EUR 1,102 thousand (2007: EUR 0 thousand) eliminates Amortisation of right to use land, which was provided by RED to MD.

#### Divisional equity

MD equity amounts to EUR 635,453 thousand (2007: EUR 299,567 thousand), out of which share capital amounts to EUR 105,520 thousand (2007: EUR 100,096 thousand).

Restricted reserve in an amount of EUR 124,180 thousand (2007: EUR 129,990 thousand) is included in MD equity.

RED equity amounts to EUR 10,871 thousand (2007: EUR 77,896 thousand), out of which share capital amounts to EUR 4 thousand (2007: EUR 4 thousand).

#### g) Geographical information

Geographical Segments	Czech Republic 1/1/2008 – 31/12/2008 EUR '000	European Union "old 15"* 1/1/2008 – 31/12/2008 EUR '000	European Union – new countries** 1/1/2008 – 31/12/2008 EUR '000	Middle and Eastern Europe 1/1/2008 – 31/12/2008 EUR '000	Total 1/1/2008 – 31/12/2008 EUR '000
Segment revenues					
<b>External revenues</b>	<b>969,690</b>	<b>505,074</b>	<b>537,206</b>	<b>29,158</b>	<b>2,041,128</b>
– Continuing operation	969,690	505,074	537,206	29,158	2,041,128
<b>Non-current assets***</b>	<b>1,252,281</b>	<b>235</b>	<b>3,090</b>	<b>–</b>	<b>1,255,606</b>
– Continuing operation	1,252,281	235	3,090	–	1,255,606
<b>Capital expenditure</b>	<b>277,091</b>	<b>6,305</b>	<b>1,698</b>	<b>–</b>	<b>285,094</b>
– Continuing operation	277,091	6,305	1,698	–	285,094

\* Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden.

\*\* Bulgaria, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia. Czech Republic is presented separately.

\*\*\* Includes Property plant and equipment and Mining licence.

Geographical Segments	Czech Republic 1/1/2007 – 31/12/2007 EUR '000	European Union "old 15"* 1/1/2007 – 31/12/2007 EUR '000	European Union – new countries** 1/1/2007 – 31/12/2007 EUR '000	Middle and Eastern Europe 1/1/2007 – 31/12/2007 EUR '000	Total 1/1/2007 – 31/12/2007 EUR '000
Segment revenues					
<b>External revenues</b>	<b>666,237</b>	<b>379,604</b>	<b>368,359</b>	<b>25,855</b>	<b>1,440,055</b>
– Continuing operation	595,266	378,802	367,355	25,675	1,367,098
– Discontinued operation	70,971	802	1,004	180	72,957
<b>Non-current assets***</b>	<b>1,226,073</b>	<b>227</b>	<b>1,764</b>	<b>–</b>	<b>1,228,064</b>
– Continuing operation	1,226,073	227	1,764	–	1,228,064
– Discontinued operation	–	–	–	–	–
<b>Capital expenditure</b>	<b>81,594</b>	<b>264</b>	<b>854</b>	<b>–</b>	<b>82,712</b>
– Continuing operation	77,368	264	854	–	78,486
– Discontinued operation	4,226	–	–	–	4,226

\* Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden.

\*\* Bulgaria, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia. Czech Republic is presented separately.

\*\*\* Includes allocation of Property plant and equipment and Mining licence.



**Notes to the consolidated financial statements prepared in accordance with IFRS  
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continued

**3 Segment information (continued)**

**g) Geographical information (continued)**

External revenues attributed to countries on the basis of customer's registered location:

	European Union "old 15" 1/1/2008 – 31/12/2008 EUR '000	European Union "old 15" 1/1/2007 – 31/12/2007 EUR '000
Austria	317,014	231,011
Germany	156,435	103,777
Great Britain	23,189	35,799
France	5,514	3,370
Belgium	1,816	793
Italy	1,003	397
Other	103	3,655
<b>Total</b>	<b>505,074</b>	<b>378,802</b>

	European Union "new countries" 1/1/2008 – 31/12/2008 EUR '000	European Union "new countries" 1/1/2007 – 31/12/2007 EUR '000
Slovakia	277,755	190,299
Cyprus	165,621	83,079
Poland	83,063	83,383
Hungary	7,110	7,918
Slovenia	2,643	2,153
Other	1,014	523
<b>Total</b>	<b>537,206</b>	<b>367,355</b>

	Middle and Eastern Europe 1/1/2008 – 31/12/2008 EUR '000	Middle and Eastern Europe 1/1/2007 – 31/12/2007 EUR '000
Switzerland	21,508	18,444
Russia	5,533	5,309
Croatia	1,344	1,922
Other	773	–
<b>Total</b>	<b>29,158</b>	<b>25,675</b>

### 3 Segment information (continued)

#### Significant customers outside the Group

External revenue from three significant customers amounted to EUR 728,800 thousand (2007: two significant customers, revenue in total EUR 360,780 thousand), arising from sales of products of the Coal and coke sub-segment.

The split of revenues between sales of own products and merchandise and services rendered is as follows:

	01/01/2008 – 31/12/2008 EUR '000	01/01/2007 – 31/12/2007 EUR '000
Sales of own products and merchandise	1,977,767	1,305,706
Services rendered	63,361	61,392
	<b>2,041,128</b>	<b>1,367,098</b>

### 4 Personnel expenses

	01/01/2008 – 31/12/2008 EUR '000	01/01/2007 – 31/12/2007 EUR '000
Wages and salaries	286,051	235,520
Social insurance costs	95,775	79,712
Pensions	2,668	2,429
Net benefit expense ( see Note 28)	15,378	3,251
Share-based payments (see Note 29)	16,295	–
Social security and other payroll costs	17,576	17,304
	<b>433,743</b>	<b>338,216</b>

Average number of employees in the period:

	2008	2007
Managers	127	119
Staff	17,611	18,241
	<b>17,738</b>	<b>18,360</b>

Total remuneration and variable benefits received by the management were EUR 47,844 thousand (2007: EUR 12,199 thousand), out of which the social and health insurance were EUR 1,222 thousand (2007: EUR 3,465 thousand). The stated amount includes share-based payments to the management in the amount of EUR 16,295 thousand (2007: EUR 0 thousand).

Management comprises executive and non-executive members of boards of directors and supervisory boards of the Company and its subsidiaries, senior management, mine managers, mine operation managers and managers of non-mining internal business units.

Total remuneration received by the directors of the Company amounts to EUR 11,864 thousand in 2008 and EUR 374 thousand in the comparable period. The amount includes share-based payments of EUR 9,936 thousand (2007: EUR 0 thousand).

See note 29 presenting the share-based payment remuneration of the Group.

See section Remuneration report of the annual report of the Company for detailed remuneration disclosure.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 5 Other operating expenses

Other operating expenses comprise:

	1/1/2008 – 31/12/2008 EUR '000	1/1/2007 – 31/12/2007 EUR '000
Compensation for mining damages	16,421	9,863
Property taxes and government fees	8,321	6,238
Insurance	2,490	1,995
Loss on sale and write-off of receivables	152	515
Compensation of employees for injuries, loss on wages, employment related illness etc.	189	128
Change in provisions	(9,568)	(13,074)
Other*	9,684	2,624
<b>Total other operating expenses</b>	<b>27,689</b>	<b>8,289</b>

\* includes gifts and donations and variety of sundry expenses.

### 6 Own work capitalised

Own work capitalised in the amount of EUR 33,137 thousand (2007: EUR 26,491 thousand) is not recognised in the revenues.

It reduces expenses as follows:

	1/1/2008 – 31/12/2008 EUR '000	1/1/2007 – 31/12/2007 EUR '000
Consumption of material and energy	25,823	19,368
Service expenses	349	2,810
Personnel expenses	1,752	4,191
Net gain from material sold	5,213	–
Other operating expenses	–	122
<b>Total</b>	<b>33,137</b>	<b>26,491</b>

### 7 Financial income and expenses

Financial income comprise:

	1/1/2008 – 31/12/2008 EUR '000	1/1/2007 – 31/12/2007 EUR '000
Realised and unrealised foreign exchange gains	88,762	69,481
Bank interest income	22,186	13,044
Other interest income	181	52
Investment income	1,107	656
Profit on revaluation of derivative instruments	–	42,639
Gain on disposal of investment	–	16,529
Other	518	220
<b>Total financial income</b>	<b>112,754</b>	<b>142,621</b>

Financial expenses comprise:

	1/1/2008 – 31/12/2008 EUR '000	1/1/2007 – 31/12/2007 EUR '000
Realised and unrealised foreign exchange losses	62,442	50,091
Bank interest expense	45,968	36,863
Bond interest expense	22,125	13,644
Other interest expense	4,569	2,131
Loss on derivative instruments	31,757	–
Bank fees	194	2,361
Other	4,935	5,387
<b>Total financial expenses</b>	<b>171,990</b>	<b>110,477</b>

## 8 Income tax expense

The corporate income tax in 2008 and 2007 is calculated in accordance with tax regulations applied in the country of the entity's residence, (i.e. for the Czech entities at the rate of 24% in 2007, 21% in 2008, 20% in 2009 and 19% in and after 2010 is reflected in the deferred tax, Dutch entity 25.5% in 2008 and 2007, Polish entities 19% in 2008 and 2007).

Due to the fact that the Dutch entity suffered fiscal losses in this and previous periods, no corporate income tax is due in the Netherlands. No deferred tax was recognised, as it is not probable that future taxable profit will be available to utilise the benefits from the deferred tax assets.

Components of tax expense:

	1/1/2008 – 31/12/2008 EUR '000	1/1/2007 – 31/12/2007 EUR '000
Income statement:		
Current tax expense	126,563	79,150
Deferred tax expense	(6,047)	(30,174)
<b>Income tax expense</b>	<b>120,516</b>	<b>48,976</b>

Part of the deferred tax asset which is expected to be recovered is recognised on remaining impairment loss in OKD, HBZS, a.s. (both 2008 and 2007) and OKD, Bastro, a.s. (in 2007); (refer to Note 12).

Reconciliation of the statutory and effective tax rates:

	1/1/2008 – 31/12/2008 EUR '000	1/1/2007 – 31/12/2007 EUR '000
Profit before tax from continuing operations	472,155	239,647
Profit before tax from discontinued operations	–	8,103
Profit before tax	472,155	247,750
Tax at the applicable rate of 21% (2007: 24%)	99,153	59,460
Tax effect of:		
— Non-deductible expense	11,691	9,816
— Investment tax allowance	–	–
— Other tax allowable credits	(256)	(303)
— Change in deferred tax rate	65	(24,507)
— Loss on the sale of interests in subsidiaries	6	–
— Tax exempt income	(3,063)	(109)
— Change in unrecognised deferred tax asset	15,910	7,498
— Non taxable income from associates	–	(1)
Effect of the applicable tax rates other than 21% (2007: 24%) in other jurisdictions	(2,990)	(597)
Prior period income tax adjustment		
Tax expense	120,516	51,258
Effective tax rate	26%	21%
Tax expense reported in the financial statements	120,516	48,976
Income tax attributable to discontinued operations	–	2,282
Tax expense	120,516	51,258

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 8 Income tax expense (continued)

The movement in the corporate income tax receivable/(liability) is as follows:

	31/12/2008 EUR '000	31/12/2007 EUR '000
Net tax receivable/(liability) at the beginning of the period	(32,724)	(14,545)
Current tax movements – discontinued operations	–	1,966
Current tax movements – subsidiaries sold	–	12
Current tax movements – subsidiaries distributed	38	–
Current and supplementary tax charges	(126,563)	(79,150)
Tax paid (2007: continuing operations), net	157,047	60,168
Currency translation	(2,633)	(1,175)
<b>Net tax liability at the end of the period</b>	<b>(4,835)</b>	<b>(32,724)</b>
Current income tax receivable	7,055	25,722
Current income tax payable	(11,890)	(58,446)

### 9 Discontinued operations

In 2008, there are no discontinued operations.

In 2007, the Group has distributed in kind its shares in its mine and landfill gas extraction business, Green Gas International B.V. and its transportation business, OKD, Doprava, akciová společnost to its parent company RPI. The transaction was concluded on 28 June 2007.

Green Gas International B.V. sells methane gas obtained in mine gas degasification operations and was considered to be a separate business segment.

Doprava provides transport and logistic services and was considered to be a separate business segment.

The results of Green Gas International B.V. and Doprava are presented below:

	Green Gas International B.V. 1/1/2007 – 28/6/2007 EUR '000	OKD Doprava, akciová společnost 1/1/2007 – 28/6/2007 EUR '000
Revenue	12,801	60,156
Expenses	(11,664)	(54,800)
Gross profit/(loss)	1,137	5,356
Finance income/(costs)	(20)	1,630
Profit before tax from a discontinued operations	1,117	6,986
Tax expense	(279)	(2,003)
<b>Profit for the period from a discontinued operations</b>	<b>838</b>	<b>4,983</b>

The net cash flows of Green Gas International B.V. and Doprava for the period to distribution are as follows:

	Green Gas International B.V. 1/1/2007 – 28/6/2007 EUR '000	OKD Doprava, akciová společnost 1/1/2007 – 28/6/2007 EUR '000
Operating	571	4,401
Investing	(1,045)	(3,369)
Financing	234	(5,097)
Currency translation	40	269
<b>Net cash inflow/(outflow)</b>	<b>(200)</b>	<b>(3,796)</b>

For the calculation of basic and diluted earnings per share for discontinued operations we refer to Note 25.

## 10 Dividends

### Dividends in 2008:

On 27 March 2008, the Company paid a dividend of CZK 2,200,000 thousand (EUR 86,672 thousand) to RPG Industries SE. Dividend per share amounted to CZK 21.98 (EUR 0.87).

On 09 May 2008, the Company declared and paid a dividend of EUR 75,000 thousand to the C shareholder. Dividend per share amounted to EUR 75,000 thousand.

On 29 September 2008, the Company distributed in kind its shares in RPG RE Property, a.s., Dukla Industrial Zone, a.s., RPG Rekultivace, a.s., including OKD Rekultivace, a.s. and RPG Garáže, a.s. and certain promissory notes received for the sales of real estate assets to RPG Industries SE, the sole holder of the B shares.

On 23 October 2008, the Company paid out a dividend to the holders of the A shares in the equivalent of EUR 73,864 thousand split into EUR, CZK, GBP and PLN based on the currency elections of the holders of the A shares of the Company. Dividend per share amounted to EUR 0.28.

### Dividends in 2007:

On 25 January 2007, the Company paid a dividend of EUR 800,425 thousand to the shareholder (paid as EUR 572,603 thousand and CZK 6,412,733 thousand). Dividend per share amounted to EUR 8.00.

On 18 October 2007, the Company paid a dividend of EUR 276,335 thousand to the shareholder. Dividend per share amounted to EUR 2.76.

On 28 June 2007 the Company has distributed in kind to the shareholder, RPG Industries SE, its shares in its mine and landfill gas extraction business, Green Gas International B.V. (Green Gas), and its transportation business, Doprava, in the total net book value of EUR 95,948 thousand. The Company has contributed EUR 12,018 thousand to Green Gas International B.V.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 11 Related party disclosures

During the period the Group had transactions in the normal course of operations with related parties. This includes transactions with the ultimate parent company, RPG Partners Limited, entities under common control, shareholders and key management personnel of the Group (i.e. those charged with governance, including executives and persons whose responsibility is derived from the Act on Mining of the Czech Republic), and companies of which they are principal owners. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

The sales to ICS Trading AG relate mainly to coal and coke trading. The sales to RPG Byty s.r.o. relate mainly to heating, The sales to Green Gas DPB, a.s. relate mainly to extracted gas, whereas the purchases from this company relate mainly to mine and safety services. The sales to METALIMEX a.s. relate to sales of electricity and metal scrap, whereas the purchases from this company relate to transport. The purchases from OKD, Doprava, akciová společnost relate to coal transport services. The purchases from Bakala Crossroads Partners, a.s. relate to consultancy services.

Transactions with related parties included in the balance sheet and the income statement are as follows\*:

Balance sheet	31/12/2008 EUR '000	31/12/2007 EUR '000
<b>Receivables from related parties</b>		
Green Gas, DPB, a.s.	1,459	1,163
OKD, Doprava, akciová společnost	941	799
RPG Byty, s.r.o.	238	299
OKD, Rekultivace, a.s.**	56	N/A
RPG RE Commercial, s.r.o.	41	51
RPG Služby, s.r.o.	13	83
Other related parties	45	142
<b>Receivables from related parties in total</b>	<b>2,793</b>	<b>2,537</b>
<b>Payables to related parties</b>		
OKD, Doprava, akciová společnost	7,177	10,620
RPG Byty, s.r.o.	3,648	648
Green Gas, DPB, a.s.	2,700	1,861
OKD, Rekultivace, a.s.**	742	N/A
RPG RE Commercial, s.r.o.	231	197
Bakala Crossroads Partners, a.s. (RPG Advisors, a.s.)	13	278
RPG Trading, s.r.o.	–	832
Other related parties	28	152
<b>Payables to related parties in total</b>	<b>14,539</b>	<b>14,588</b>

On 19 November 2008 the related party RPG Advisors, a.s. was renamed to Bakala Crossroads Partners, a.s.

\* The table does not include share-based payment transactions and compensation of key management personnel. Compensation of key management personnel is detailed in Note 4, share-based payments are detailed in Note 29.

\*\* Includes receivables and payables from related parties from transactions originated only for the period after the entity was distributed from the Group. As of 31 December 2007 the company was still part of the consolidated Group.

## 11 Related parties disclosures (continued)

Receivables from related parties form part of the balance of accounts receivable and prepayments shown in the balance sheet. Similarly, payables to related parties form part of the balance of accounts payable and accruals.

Income statement	1/1/2008 – 31/12/2008 EUR '000	1/1/2007 – 31/12/2007 EUR '000
<b>Sales to related parties</b>		
ICS Trading AG	20,036	13,615
RPG Byty, s.r.o.	17,365	16,947
Green Gas, DPB, a.s.	6,228	4,778
OKD, Doprava, akciová společnost	3,766	3,007
RPG RE Commercial, s.r.o.	2,878	1,342
RPG Služby, s.r.o.	381	345
METALIMEX a.s.**	N/A	11,577
OKD, Rekultivace, a.s.*	301	N/A
Depos Horní Suchá, a.s.	104	671
Other related parties	1,125	114
<b>Sales to related parties in total</b>	<b>52,184</b>	<b>52,396</b>
<b>Purchases from related parties</b>		
OKD, Doprava, akciová společnost	54,327	31,511
Green Gas, DPB, a.s.	16,070	4,299
RPG RE Commercial, s.r.o.	1,765	1,555
Bakala Crossroads Partners, a.s. (RPG Advisors, a.s.)	2,686	2,611
OKD, Rekultivace, a.s.*	1,013	N/A
RPG Byty, s.r.o.	437	219
Depos Horní Suchá, a.s.	189	185
METALIMEX a.s.**	N/A	41,494
Other related parties	1,558	2,542
<b>Purchases from related parties in total</b>	<b>78,045</b>	<b>84,416</b>

\* Includes sales and purchases from related parties from transactions originated only for the period after the entity was distributed from the Group.

\*\*10% ownership of shares of METALIMEX a.s. owned by RPG Trading, s.r.o. was sold on 1 October 2007, as of this date METALIMEX a.s. is not a related party.

There were no significant transactions with other related parties.



**Notes to the consolidated financial statements prepared in accordance with IFRS  
as adopted by the European Union**

continued

**12 Property, plant and equipment**

	Land and Buildings EUR '000	Plant and Equipment EUR '000	Other assets EUR '000	Construction in Progress EUR '000	Total EUR '000
Cost:					
As of 1 January 2008	1,204,890	485,460	3,783	33,344	1,727,477
Additions	12,322	192,070	4,908	73,757	283,057
Disposal	(26,031)	(11,381)	(184)	(14)	(37,610)
Disposal of subsidiaries	(3,735)	(3,593)	(35)	(52)	(7,415)
Distribution of subsidiaries in kind	(83,540)	(5,308)	(11)	(249)	(89,108)
Transfers	12,489	9,641	–	(22,130)	–
Currency translation	(4,278)	(15,872)	(528)	(3,712)	(24,390)
<b>As of 31 December 2008</b>	<b>1,112,117</b>	<b>651,017</b>	<b>7,933</b>	<b>80,944</b>	<b>1,852,011</b>
Accumulated depreciation and impairment losses					
As of 1 January 2008	375,380	297,550	3,003	2,163	678,096
Depreciation charge for the year	94,974	61,540	323	–	156,837
Depreciation charge for the year – disposed and distributed subsidiaries	689	818	6	–	1,513
Disposals	(25,240)	(11,027)	–	–	(36,267)
Disposals of subsidiaries	(1,997)	(1,963)	(9)	–	(3,969)
Distribution of subsidiaries in kind	(15,710)	(2,906)	(7)	–	(18,623)
Reversal of impairment	–	–	–	–	–
Currency translation	(7,246)	(6,283)	(60)	(40)	(13,629)
As of 31 December 2008	420,850	337,729	3,256	2,123	763,958
<b>Net book value as of 31 December 2008</b>	<b>691,267</b>	<b>313,288</b>	<b>4,677</b>	<b>78,821</b>	<b>1,088,053</b>
<b>Net book value as of 1 January 2008</b>	<b>829,510</b>	<b>187,910</b>	<b>780</b>	<b>31,181</b>	<b>1,049,381</b>

The net book value of plant and equipment as of 31 December 2008 includes EUR 532 thousand (31 December 2007: EUR 1,118 thousand) in respect of assets held under finance leases.

Annual review of restoration provision as of 31 December 2008 did not result in any change of the value of the provision or property, plant and equipment.

As of 31 December 2007, annual review of restoration provision was performed and resulted in decrease of restoration provision as of 31 December 2007 by EUR 8,334 thousand. In accordance with IFRIC 1 carrying amount of corresponding land and buildings capitalised element was reduced by EUR 8,334 thousand as of 31 December 2007. For more details refer to Note 26.

Research and development expenditure recognised as an expense during the period amounts to EUR 66 thousand (31 December 2007: EUR 84 thousand).

**12 Property, plant and equipment (continued)**

	Land and Buildings EUR '000	Plant and Equipment EUR '000	Other assets EUR '000	Construction in Progress EUR '000	Total EUR '000
Cost:					
As of 1 January 2007	1,266,824	478,381	3,771	38,671	1,787,647
Additions	11,086	53,151	190	25,268	89,695
Disposal	(44,280)	(7,024)	(13)	(40)	(51,357)
Change in estimate of carrying amount of land and buildings capitalised element - restoration costs	(8,334)	-	-	-	(8,334)
Disposals - discontinued operations	(74,276)	(61,836)	(275)	(3,252)	(139,639)
Transfers	18,691	9,538	-	(28,229)	-
Currency translation	35,179	13,250	110	926	49,465
<b>As of 31 December 2007</b>	<b>1,204,890</b>	<b>485,460</b>	<b>3,783</b>	<b>33,344</b>	<b>1,727,477</b>
Accumulated depreciation and impairment losses					
As of 1 January 2007	357,179	262,353	2,689	1,504	623,725
Depreciation charge for the year - continuing operations	96,799	59,173	374	585	156,931
Depreciation charge for the year - discontinued operations	1,179	3,819	30	-	5,028
Disposals	(43,396)	(6,902)	(3)	-	(50,301)
Disposals - discontinued operations	(32,200)	(23,007)	(180)	-	(55,387)
Reversal of impairment	(15,098)	(6,861)	-	-	(21,959)
Currency translation	10,917	8,975	93	74	20,059
As of 31 December 2007	375,380	297,550	3,003	2,163	678,096
<b>Net book value as of 31 December 2007</b>	<b>829,510</b>	<b>187,910</b>	<b>780</b>	<b>31,181</b>	<b>1,049,381</b>
<b>Net book value as of 1 January 2007</b>	<b>909,645</b>	<b>216,028</b>	<b>1,082</b>	<b>37,167</b>	<b>1,163,922</b>

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 12 Property, plant and equipment (continued)

Accumulated impairment losses were as follows:

	31/12/2008 EUR '000	31/12/2007 EUR '000
OKD, HBZS, a.s.	6,612	6,675
OKD, Bastro, a.s.	–	1,648
	<b>6,612</b>	<b>8,323</b>

#### Accumulated impairment losses as of 31 December 2008

Impairment losses recognised in OKD, HBZS, a.s. were reassessed as of 31 December 2008 and 31 December 2007 and no indication that they may be reversed has been determined.

The share in OKD, BASTRO, a.s. was sold by OKD, a.s. on 1 December 2008. Until the date of disposal, the impairment loss was not reassessed in 2008.

#### OKD, OKK, a.s.

OKD, OKK, a.s., one of the cash generating units (“CGU”) of the Group that were impaired as of 31 December 2006, made an update of its impairment test as of 31 December 2007. The update has been made as a result of external factors positively influencing the business plan of this CGU. The major external factor influencing the business plan was the increase in coke prices in 2007. Estimated development of coke prices for the period 2008-2015 was based on actual coke prices. The recoverable value of the CGU, measured based on discounted free cash flow projections prepared in line with RPG group strategy as of 31 December 2007 resulted in a full reversal of the impairment loss that existed as at 31 December 2006. After the impairment reversal, the carrying amount of individual assets does not exceed values that would have resulted if no impairment loss had been recognised in prior years.

The recoverable amount was quantified for the CGU using the pre-tax discount rate of 9% p.a. which represents the weighted average cost of capital of the CGU.

Cash flow projections were made for the period from 2008 to 2020 in order to reflect the lifecycle of coking batteries existing at 31 December 2007. Cash flow projections for the period from 2008 to 2015 are based on detailed business plans for each year. Cash flow projections for the period from 2016 to 2020 were made by extrapolating the 2015 cash flows and applying a declining growth factor of 0.99.

As of 31 December 2008, OKD, OKK, a.s. updated its discounted cash flow analysis based on a business plan for 2009 and forecasted coking coal and coke prices for the period 2010-2015 based on historical price curves. Updated analysis did not indicate any changes to conclusions made as of 31 December 2007.

#### Construction of mine “Frenštát”

Assets relating to the construction of the mine “Frenštát” relate to geological survey work. These assets are maintained by OKD, a.s. but are not historically reflected in its books. The original cost of these assets amounts to EUR 34,266 thousand, of which EUR 30,331 thousand is the value of assets located in the mine and EUR 3,935 thousand is the value of assets located on the surface.

**13 Mining licences**

	Cost EUR '000	Accumulated Amortisation EUR '000	Net book value EUR '000
At 1 January 2008	210,081	(31,398)	178,683
Amortisation for the period	–	(10,165)	(10,165)
Currency translation	(1,994)	1,029	(965)
<b>At 31 December 2008</b>	<b>208,087</b>	<b>(40,534)</b>	<b>167,553</b>

	Cost EUR '000	Accumulated Amortisation EUR '000	Net book value EUR '000
At 1 January 2007	203,395	(20,981)	182,414
Amortisation for the period	–	(9,326)	(9,326)
Currency translation	6,686	(1,091)	5,595
<b>At 31 December 2007</b>	<b>210,081</b>	<b>(31,398)</b>	<b>178,683</b>

Amortisation for the period was calculated as a proportion of the coal quantity actually mined in this period to the total economically exploitable coal reserves. Mining licences were acquired by the Group through business combinations in September 2006.

The Group was also granted a mining licence regarding Dębieńsko in Poland in June 2008. The licence was granted for 50 years for mine construction and operations. The mining licence Dębieńsko was granted after the business combination in September 2006 and therefore is not included in the above mining licence figure.

The table below summarises all granted concessions to mining areas.

Mining area	Expiry date of permits
Darkov	No expiry date
Karviná – Doly II	No expiry date
Stonava 1	No expiry date
Doubrava	No expiry date
Karviná – Doly I	No expiry date
Lazy	No expiry date
Staříč	No expiry date
Trojanovice	No expiry date
Louky	No expiry date
Dolní Suchá	No expiry date
Petřvald I	No expiry date
Dębieńsko	Year 2058

“KARBONIA PL” Sp. z o.o. was granted exploration concessions related to mining area of closed mine Morcinek in Poland.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 14 Other financial investments

Other investments consisted of equity securities available-for-sale.

	31/12/2008 EUR '000	31/12/2007 EUR '000
Garáže Ostrava	–	3,028
Other investments available for sale	–	76
	–	3,104

These equity securities were carried at cost as they were not traded on any quoted market.

The investment in Garáže Ostrava was distributed from the Group on 30 September 2008 (see Note 1b).

### 15 Long-term receivables

	31/12/2008 EUR '000	31/12/2007 EUR '000
Long-term advances granted	10,354	6,182
Trade receivables	135	594
Other	684	566
	11,173	7,342

The maturity dates of these receivables do not exceed 5 years. Total long-term receivables are stated net of a provision of EUR 0 thousand (31 December 2007: EUR 1 thousand).

Long-term advances granted have increased because of deposits that were paid to cover settlement of increased trading transactions on European commodities markets and Prague Energy Exchange market. Deposits cover contracts that will terminate in the period 2010-2013.

### 16 Restricted cash

As of 31 December 2008 and 31 December 2007, the Company had long-term restricted cash of EUR 25,861 thousand and EUR 24,160 thousand, respectively, kept in relation to mining damages and restoration expenditures. The amount of restricted cash corresponds to mining and restoration provision created by OKD, a.s. since 1 January 2004 according to Czech legal requirements and can be used only to settle the mining damages and restoration expenditures.

As of 31 December 2008, the Company had short-term restricted cash of EUR 3,024 thousand (31 December 2007: EUR 0 thousand). Short-term restricted cash as of 31 December 2008 results from electricity trading contracts.

### 17 Inventories

	31/12/2008 EUR '000	31/12/2007 EUR '000
Raw materials and spare parts	26,336	19,045
Merchandise	20,154	2,192
Finished goods	16,478	6,116
Work-in-progress and semi-finished goods	3,092	5,108
	66,060	32,461

The inventories are disclosed net of write-downs for slow-moving and obsolete inventories of EUR 5,567 thousand (31 December 2007: EUR 1,733 thousand). Write-downs are included in consumption of material and energy.

**18 Accounts receivable and prepayments**

	31/12/2008 EUR '000	31/12/2007 EUR '000
<b>Trade and other receivables</b>		
Trade accounts and notes receivable	152,457	145,897
VAT and other tax receivables	3,881	2,239
Other receivables, estimated accounts receivables	9,457	7,540
Subtotal	165,795	155,676
<b>Advance payments</b>		
Advance payments for property, plant and equipment	26,413	22
Advance payments for financial investments	1,767	–
Other advance payments	5,616	682
Subtotal	33,796	704
<b>Prepayments and accrued revenue</b>		
Prepayments and accrued revenue	2,080	2,916
Subtotal	2,080	2,916
<b>Total accounts receivable and prepayments</b>	<b>201,671</b>	<b>159,296</b>

For terms and conditions relating to related party receivables, refer to Note 11.

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

Total receivables are stated net of a provision for impairment of trade and other receivables. Movements in the provision for impairment of trade receivables and other receivables were as follows:

	01/01/2008 – 31/12/2008 EUR '000	01/01/2007 – 31/12/2007 EUR '000
At the beginning of the period	2,281	2,703
Charge for the year	180	154
Written off amounts reversed	(84)	(546)
Unused amounts reversed	(94)	(37)
Distributed to shareholders	(119)	–
Sale of subsidiary	(180)	–
Discontinued operations	–	(10)
Other	(48)	(51)
Currency translation	4	68
<b>At the end of the period</b>	<b>1,940</b>	<b>2,281</b>

As of 31 December 2008 and 31 December 2007, the analysis of accounts receivable that were either not past due or past due but not impaired is as follows:

EUR '000	Neither past due nor impaired	Past due but not impaired					Total
		<30 days	31 – 90 days	91 – 180 days	181 – 360 days	>360 days	
31 December 2008	150,921	14,150	709	7	9	–	165,795
31 December 2007	154,117	1,492	30	15	10	12	155,676

Based on past experience, the Company believes that no impairment allowance is necessary in respect of accounts receivable and prepayments not past due.

As of 31 December 2008 receivables in nominal value of EUR 33,034 thousand (31 December 2007: EUR 2,109 thousand) were pledged as security for loans.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 19 Income tax receivable

All income tax receivables are not past due. No impairment allowance needs to be created.

### 20 Financial instruments

#### Risk management

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, high yield bonds, finance leases, trade payables and leasing contracts. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash, restricted cash and short-term deposits, which arise directly from its operations.

The most significant risks that the Group is exposed to are foreign exchange risks on sales in foreign currencies, interest rates tied to all variable interest rates, volatility risk and credit risk as an increase in secondary insolvency of key Czech and Slovak customers, which might occur especially in the steel industry.

Czech Karbon, a subsidiary of the Company, enters into purchase and sale transactions for electricity on European Energy Exchange and Prague Energy Exchange for operational purposes. The purpose of such transactions is to fix price and volume for subsequent tenders for physical delivery of electricity to end customers mainly in the Czech Republic. As the management intention is not to generate short-term profits on market price fluctuations, such a transaction on exchange is closed following a tender, i.e. it lasts for days only.

Czech Karbon is, however, exposed to commodity price risk as the value of these contracts fluctuates daily with changes in commodity market prices. Czech Karbon manages its commodity price risk exposure by entering into such exchange contracts for very short periods.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

The Group enters into derivative transactions, primarily interest rate swaps, interest rate collars and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout 2008 and 2007, the Group's policy that no speculative trading in derivatives shall be undertaken.

#### Credit Risk

Credit risk arises from the potential inability of debtors to meet their obligations as they fall due. Credit risks are addressed by top management through efficient operation of the sales and related departments to prevent excessive bad debts. At the balance sheet date there are concentrations of credit risk to steel producers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For OKD, representing the main part of the Company's receivables, the Chief Commercial Officer is responsible for the customer management database, systematic monitoring of customers, their ratings and corresponding risks.

With respect to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalents and restricted cash and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, which is stated in the table at the end of this Note. There was no impairment of financial assets other than trade receivables recognised as of 31 December 2008 and 31 December 2007.

## 20 Financial instruments (continued)

### Liquidity risk

Liquidity risk refers to the possibility of the Company being unable to meet its financial obligations, when they fall due, mainly in relation to the settlement of amounts due to suppliers, bond holders and bank loans and facilities.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments, financial assets (e.g. accounts receivables, other financial assets), financial liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, issued bonds and finance lease contracts with the aim to have sufficient liquidity to meet its due obligations under any conditions.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 31 December 2007 based on contractual undiscounted payments including accrued interest.

As of 31 December 2008	< 1 year EUR '000	1 to 5 years EUR '000	> 5 years EUR '000	Total EUR '000
Loans	95,375	661,961	–	757,336
Bond issued	2,766	–	290,425	293,191
Other long-term liabilities	–	551	201	752
Accounts payable and accruals	221,980	–	–	221,980
Derivatives	9,012	–	–	9,012

As of 31 December 2007	< 1 year EUR '000	1 to 5 years EUR '000	> 5 years EUR '000	Total EUR '000
Loans	72,518	464,683	259,173	796,374
Bond issued	2,766	–	289,316	292,082
Other long-term liabilities	–	142	58	200
Accounts payable and accruals	190,232	–	–	190,232
Derivatives	226	–	–	226

The table below provides overview of unused credit lines as of 31 December 2008:

Credit Line	Currency	Credit Line Size		Remaining Availability		Interest rate	Maturity date
		Currency '000	EUR '000	Currency '000	EUR '000		
OKD, a.s.*	CZK/EUR	500,000	18,605	–	–	1M PRIBOR + 0.65%	2010
OKD, OKK, a.s.	CZK	300,000	11,163	33,255	1,237	PRIBOR + 0.50%	2010
CZECH-KARBON s.r.o.	CZK	150,000	5,581	150,000	5,581	PRIBOR + 0.75%	2009
"KARBONIA PL" Sp. z o.o.	PLN	5,000	1,203	5,000	1,203	WIBOR + 1.5%	2009

\* OKD, a.s. could select currency and type of loan drawn, which would have impact on interest rate p.a.

Comparative information for the Group as of 31 December 2007

Credit Line	Currency	Credit Line Size		Remaining Availability		Interest rate	Maturity date
		Currency '000	EUR '000	Currency '000	EUR '000		
OKD, a.s.*	CZK/EUR	1,138,000	42,750	1,130,065	42,451	1M PRIBOR + 0.6-0.65%	2009
OKD, OKK, a.s.	CZK	300,000	11,269	300,000	11,269	PRIBOR + 0.50%	2010
CZECH-KARBON s.r.o.	CZK	150,000	5,635	96,380	3,621	PRIBOR + 0.75%	2009
"KARBONIA PL" Sp. z o.o.	PLN	5,000	1,391	5,000	1,391	WIBOR + 1.5%	2009
OKD, Rekvitvace, a.s.	CZK	70,000	2,630	20,256	761	PRIBOR + 0.75%	2009
OKD, Bastro, a.s.	CZK	170,000	6,386	72,938	2,740	PRIBOR + 0.65%	2009

\* OKD, a.s. could select currency and type of loan drawn, which would have impact on interest rate p.a.



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 20 Financial instruments (continued)

#### Market risk

Market risk arises from the possible variations in the value of assets and liabilities due to fluctuations in foreign exchange rates, interest rates and commodities (electricity). The Company has implemented policies and methods of monitoring these risks.

#### Foreign exchange rate risk

The Group has significant transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 48% of the Group's sales (2007: 44% from continued operations) are denominated in currencies other (primarily EUR) than the functional currency of the operating unit making the sale (primarily CZK), whilst most of costs are denominated in the unit's functional currency.

The Company aims to mitigate foreign currency exposure risks resulting from operations in currencies other than the functional currency by entering into forward exchange rate contracts (par forwards) with financial institutions. For the year 2008, forward contracts have been in place expiring monthly, aimed at covering 70% of the expected opened position as of 31 December 2008 (2/3 for 2007).

At the end of 2008, the Company reviewed its hedging strategy and unwound and cashed all the existing hedges maturing in 2009 until 2013 that were in place. The revaluation difference of EUR 44,373 thousand (CZK 1,192,531 thousand), prior to income tax effect, remained in equity. This amount is recognised in the income statement when the hedged item (portion of coal and coke sales) is recorded.

The new hedging strategy that is in place from 1 January 2009 concerns open exposure to currencies other than the functional currency of the Company (i.e. other than EUR) or exposure in other than functional currencies of other entities of the Group (i.e. other than CZK for Czech entities and PLN for Polish entities). Hedging will be done at the Group level to enable to hedge the net position for the Group. The aim is to minimise earnings volatility for the Group resulting from movements in foreign exchange rates.

Major foreign exchange rate risk exposure of the Company is in CZK-denominated balances (i.e. not functional currency) while major foreign exchange rate risk exposure of subsidiaries is in EUR-denominated balances (i.e. not functional currency). The Company had the following CZK-denominated balances and the consolidated subsidiaries had the following EUR-denominated balances:

	31/12/2008			31/12/2007		
	EUR denominated EUR '000	CZK denominated EUR '000	Total EUR '000	EUR denominated EUR '000	CZK denominated EUR '000	Total EUR '000
Cash & bank balances (including restricted cash)	442,310	7,270	449,580	116,367	99,363	215,730
Accounts receivable	77,547	0	77,547	61,283	2,426	63,709
Accounts payable	(23,834)	(86)	(23,920)	(23,215)	(1,698)	(24,913)
Loans	(316,034)	(96,909)	(412,943)	(362,924)	(97,238)	(460,162)
Gross balance sheet exposure	179,989	(89,725)	90,264	(208,489)	2,853	(205,636)
Financial derivatives	-	-	-	(1,260,291)	-	(1,260,291)
<b>Gross exposure</b>	<b>179,989</b>	<b>(89,725)</b>	<b>90,264</b>	<b>(1,468,780)</b>	<b>2,853</b>	<b>(1,465,927)</b>

## 20 Financial instruments (continued)

The following table demonstrates the sensitivity of weakening CZK to EUR exchange rate by 1%, with all other variables held unchanged, of the Group's profit after tax (due to changes in the fair value of monetary assets and liabilities and derivatives). The effect of depreciation (weakening) or strengthening CZK to EUR is fully included in Group's profit, i.e. there is no amount to be taken directly to equity.

	31/12/2008				31/12/2007	
	Effect on profit after tax EUR denominated EUR '000	Effect on profit after tax CZK denominated EUR '000	Total effect on profit after tax EUR denominated EUR '000	Effect on profit after tax CZK denominated EUR '000	Effect on profit after tax EUR '000	Total effect on profit after tax EUR '000
Depreciation of CZK against EUR by 1%						
Cash & bank balances (including restricted cash)	3,494	(72)	3,422	1,116	(994)	122
Accounts receivable	613	–	613	471	(24)	447
Accounts payable	(188)	1	(187)	(180)	17	(163)
Loans	(2,497)	969	(1,528)	(2,984)	972	(2,012)
Financial derivatives	–	–	–	(8,036)	–	(8,036)
<b>Total</b>	<b>1,422</b>	<b>898</b>	<b>2,320</b>	<b>(9,613)</b>	<b>(29)</b>	<b>(9,642)</b>

The strengthening CZK to EUR exchange rate by 1%, with all other variables held unchanged results in loss after tax of EUR 2,320 thousand (2007: profit after tax EUR 9,642 thousand).

### Interest rate risk

The Company aims to minimise the exposure to the risk of changes in market interest rates. This risk relates primarily to the Company's syndicated bank loan for which floating interest rates are applicable. In order to mitigate this long-term risk, the Company has entered into interest rate swaps and interest rate collars, covering approximately 76% of Syndicated Loan (in 2007 80% of Syndicated Loan).

The maturity of interest rate swaps and interest rate collars is matched to the repayments of Syndicated Loan.

There are short-term credit lines in place for subsidiaries, which are not fully drawn. For this short-term debt outstanding, which comprises approximately 2.7% of the total outstanding debt, no interest rate hedging is in place, mostly due to the immateriality and the nature of these credit lines compared to the long-term debt.

Exposure to the interest rate risk of floating rate bank loans is presented by way of sensitivity analysis. This sensitivity analysis shows effects of changes in market interest rates on Group's profit after tax as if market interest rates had been 0.25% higher respectively lower over the whole period from 1 January 2008 to 31 December 2008 with all other variables held unchanged. The interest rate sensitivity analysis is calculated from all loans and all interest rates swap contracts and interest rate collar contracts. The hypothetical effect on profit after tax amounts to EUR (827) thousand respectively EUR 827 thousand (2007: EUR (234) thousand respectively EUR 234 thousand).

The market interest rate is repriced semi-annually.

High-yield bond bears fixed rate interest rate and is stated at amortised cost therefore the change in the market interest rates and subsequent change in the fair value of the bond does not have any effect to the effective interest rate and carrying value of the bond.

The decrease in the fair value attributable to the change in the specific credit risk amounted to EUR 142,306 thousand of the total fair value adjustment of fixed interest rate high-yield bond (2007: decrease EUR 31,902 thousand). The change in fair value of the credit risk is calculated as the change triggered by factors other than changes in benchmark interest rate, which is the average yield of 8-year German Sovereign Rate, as stated in the Indenture governing the bond. Change in the fair value of own credit risk as of 31 December 2008 is mainly a result of current financial markets sentiment.

It is the Group's policy to negotiate the terms of the derivatives to match the terms of the item at risk to maximise effectiveness of the derivative. In the period beginning on 1 January 2008 the Group started to apply hedge accounting for forward exchange rate contracts used as hedges of its exposure to foreign currency risk in forecasted transactions and commitments. See Note 2. e) for the detailed application of the hedge accounting policies. For the remaining hedging instruments, hedge accounting is not applied.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 20 Financial instruments (continued)

The following derivative financial instruments were entered into to mitigate the above risks:

	31/12/2008		31/12/2007	
	Assets EUR '000	Liabilities EUR '000	Assets EUR '000	Liabilities EUR '000
<b>Fair value of derivative instruments</b>				
Forward exchange contracts CZK-EUR	–	–	62,140	–
Forward exchange contracts CZK-PLN	–	888	–	–
Interest rates swap contracts	–	7,288	13,242	–
Interest rates collar contracts	39	836	626	226
	<b>39</b>	<b>9,012</b>	<b>76,008</b>	<b>226</b>

	31/12/2008		
	Czech crown denominated contracts EUR '000	Polish zloty denominated contracts EUR '000	Euro denominated contracts EUR '000
<b>Nominal value of derivative instruments</b>			
Forward exchange contracts	–	24,372	–
Interest rates swap contracts	124,369	–	354,750
Interest rates collar contracts	14,771	–	41,250
	<b>139,140</b>	<b>24,372</b>	<b>396,000</b>

	31/12/2007		
	Czech crown denominated contracts EUR '000	Polish zloty denominated contracts EUR '000	Euro denominated contracts EUR '000
<b>Nominal value of derivative instruments</b>			
Forward exchange contracts	–	20,047	1,260,291
Interest rates swap contracts	148,390	–	419,250
Interest rates collar contracts	17,624	–	48,750
	<b>166,014</b>	<b>20,047</b>	<b>1,728,291</b>

Gains or losses arising from changes in fair value on the derivatives during the year 2007 did not qualify for hedge accounting and were taken directly to the income statement.

Starting 1 January 2008, changes in the fair value of forward exchange contracts were accounted via the hedging reserve, that is part of equity. The reserve amounts to EUR 34,328 thousand as of 31 December 2008. They are recognised in the income statement when the hedged item (portion of coal and coke sales) is recorded. The amount recognised in equity is then transferred to the income statement. The impact in the income statement during the year 2008 was EUR 24,738 thousand.

Cumulative income and expenses that have arisen from changes in fair value of derivatives as of 31 December 2007 were recognised as financial expenses and revenues reflecting the time when the relevant hedged cash flow item affected the profit or loss.

Changes in the fair value of interest rate swaps and collars were recorded directly in the income statement in 2008.

For policy on option programme see Note 29.

## 20 Financial instruments (continued)

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. From the acquisition of the Group the majority shareholders performed significant restructuring of the Group and considered the international standards of gearing in the mining industry. The management monitors the gearing.

The Group monitors capital using a gearing ratio defined as net debt divided by the EBITDA (calculated on a twelve-month rolling basis for the corresponding group).

The Company and its subsidiaries are not subject to externally imposed capital requirements.

There were no changes in the Group's approach to capital management during the year 2008.

See section Remuneration report of the annual report of the Company for the description of the stock option programme of the Group.

The Group includes interest bearing short-term and long-term loans and borrowings and issued bonds, less cash and cash equivalents, within net debt. 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/losses from sale of PPE.

	31/12/2008 EUR '000	31/12/2007 EUR '000
Interest bearing loans and borrowings		
Long-term loans	661,961	723,856
Bond issued	290,425	289,316
Current portion of long-term loans	66,835	66,823
Short-term loans	28,540	5,695
	1,047,761	1,085,690
Less Cash and cash equivalents	678,895	474,160
<b>Net debt</b>	<b>368,866</b>	<b>611,530</b>
	1/1/2008 - 31/12/2008 EUR '000	1/1/2007 - 31/12/2008 EUR '000
EBITDA:		
Profit before tax	472,155	239,647
Financial income (expenses) (including loss on disposal of interest in subsidiaries)	58,389	(32,131)
Reversal of impairment of property, plant and equipment	–	(21,959)
Gain from sale of property, plant and equipment	(2,052)	(1,305)
Depreciation	158,350	156,931
Amortisation	10,165	9,326
<b>EBITDA</b>	<b>697,007</b>	<b>350,509</b>
<b>Gearing ratio</b>	<b>0.53</b>	<b>1.75</b>

The Group's policy is to target a gearing ratio of 2.0 over the cycle (international standards of such gearing in the mining industry state the maximum at 3.5). The gearing ratio for the year ended 31 December 2008 and 31 December 2007 is calculated on an annual basis. The Company is required under the Syndicated Loan agreement to hold a gearing ratio of senior indebtedness below 2.75 and a gearing ratio of total indebtedness below 3.25. The Group is in compliance with these covenants.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 20 Financial instruments (continued)

#### Fair value

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

#### Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

#### Investments

For equity instruments for which there are no quoted market prices and which are carried at cost, the fair values cannot be estimated.

#### Receivables and Payables

The carrying amount of short-term receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

#### Share-based payments

See Note 29 for valuation of specific share-based payment transactions. Share-based payments are valued by determining whether they are liability or equity instruments. For equity instruments the fair value is assessed at the grant date based on specific valuation methods applicable for each specific instrument. Liability instruments are valued at fair value as at the end of the each reporting period.

#### Short-term loans

The carrying amount approximates fair value because of the floating interest rate and the short period to maturity of those instruments.

#### Bonds

The fair value of bonds is based upon the quoted price on the Irish Stock Exchange (stock exchange Euro MTF).

#### Long-term debt

The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values as interest reprises at a minimum each twelve months.

#### Derivatives

The fair value of derivatives is based upon mark to market valuations.

## 20 Financial instruments (continued)

Carrying amounts and the estimated fair values of financial assets and liabilities at 31 December 2008 and 31 December 2007 are as follows:

	31/12/2008		31/12/2007	
	Carrying Value EUR '000	Fair Value EUR '000	Carrying Value EUR '000	Fair Value EUR '000
<b>Financial assets</b>				
<b>Fair value through profit &amp; loss</b>				
Derivatives	39	39	76,008	76,008
<b>Loans &amp; receivables</b>				
Long-term receivables	11,173	10,330	7,342	7,305
Accounts receivable and prepayments	201,671	201,671	159,296	159,296
<b>Available for sale</b>				
Other financial investments	–	N/A	3,104	N/A
Restricted cash	28,885	28,885	24,160	24,160
Cash and cash equivalents	678,895	678,895	474,160	474,160

	31/12/2008		31/12/2007	
	Carrying Value EUR '000	Fair Value EUR '000	Carrying Value EUR '000	Fair Value EUR '000
<b>Financial liabilities</b>				
<b>Fair value through profit &amp; loss</b>				
Derivatives	9,012	9,012	226	226
<b>Other</b>				
Long-term loans	661,961	661,961	723,856	723,856
Bond issued (including accrued interest)	293,191	139,571	292,082	260,733
Other long-term liabilities	752	752	200	200
Accounts payable and accruals	221,980	221,980	190,232	190,232
Current portion of long-term loans	66,835	66,835	66,823	66,823
Short-term bank loans	28,540	28,540	5,695	5,695
Cash-settled share-based payments payable	355	355	–	–

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 21 Cash and cash equivalents

Cash and cash equivalents comprise the following balance sheet amounts:

	31/12/2008 EUR '000	31/12/2007 EUR '000
Cash in bank	677,053	469,073
Short-term deposits	1,712	4,915
Cash on hand and cash in transit	130	172
<b>Cash and cash equivalents</b>	<b>678,895</b>	<b>474,160</b>

Cash at the bank earns interest at floating rates based on daily bank deposit rates. Certain bank accounts are used for cash pooling. Short-term deposits are made for varying periods, typically one or two weeks or shorter, depending on the immediate cash requirements of the Group, and earn interest at short-term deposit rates.

### 22 Accounts payable and accruals

	31/12/2008 EUR '000	31/12/2007 EUR '000
Trade accounts and notes payable	136,257	125,390
Wages and salaries payable	23,812	24,328
Social and health insurance payable	15,747	14,505
VAT and other tax payable	10,277	7,574
Advance payments received	3,783	323
Dividends payable	1,480	1,563
Other payables and estimated accounts payable	30,577	14,327
Accrued expenses	47	2,222
	<b>221,980</b>	<b>190,232</b>

### 23 Interest-bearing loans and borrowings

Long-term loans and borrowings:

The long-term bank loan ("Syndicated Loan") is represented by facilities provided by a banking syndicate.

Long-term bank loans	Currency	Effective interest rate	Maturity	31/12/2008 EUR '000	31/12/2007 EUR '000
Bank loan – facility 1	CZK	6M PRIBOR+0.85%*	2011	40,880	58,242
Bank loan – facility 2	CZK	6M PRIBOR+1.35%	2012	81,759	81,897
Bank loan – facility 3	CZK	6M PRIBOR+1.50%	2013	86,140	86,646
Bank loan – facility 1	EUR	6M EURIBOR+0.85%*	2011	114,840	161,729
Bank loan – facility 2	EUR	6M EURIBOR+1.35%	2012	232,726	230,768
Bank loan – facility 3	EUR	6M EURIBOR+1.50%	2013	172,451	171,379
<b>Total long-term loans</b>				<b>728,796</b>	<b>790,661</b>
of which current portion**				66,835	66,823
<b>Total long-term loans</b>				<b>661,961</b>	<b>723,838</b>
Long-term liabilities from finance leases				–	18
<b>Total long-term interest-bearing loans</b>				<b>661,961</b>	<b>723,856</b>

\* The margin rate can vary between 0.65% and 1.35% p.a. with respect to the actual leverage ratio.

\*\* Includes also interest accrual for green shoe.

### 23 Interest-bearing loans and borrowings (continued)

The Syndicated Loan was secured by shares of OKD a.s. and OKD, OKK a.s.

OKD, a.s. is guarantor of green shoe option drawn by the Company in 2007.

6M PRIBOR stands for 6-month Prague interbank offered rate and was 3.750% on 31 December 2008 (31 December 2007: 4.140%).  
6M EURIBOR stands for Euro interbank offered rate and was 2.971% on 31 December 2008 (31 December 2007: 4.707%).

The total long-term bank loans exclude the current portion of long-term bank loans. These are included in short-term bank loans. All interest-bearing loans and borrowings are repriced at least once a year.

Repayment schedule for long-term bank loans and borrowings:

	31/12/2008 EUR '000	31/12/2007 EUR '000
up to 31 December 2008	–	66,823
up to 31 December 2009	66,835	60,412
up to 31 December 2010	60,945	60,412
up to 31 December 2011	30,302	29,904
up to 31 December 2012	312,889	313,937
up to 31 December 2013	257,825	259,173
	<b>728,796</b>	<b>790,661</b>

Short-term loans and borrowings:

Short-term bank loans include credit lines that finally mature in 2009 – they are operating loans with withdrawal option in the form of an overdraft or revolving that may be repaid whenever before the maturity date.

As of 31 December 2008, there is an off-balance sheet guarantee bill of exchange for short-term bank loan of EUR 18,604 thousand (2007: guarantee bill of exchange for short-term bank loan of EUR 42,750 thousand).

Short-term bank loans	Currency	Effective interest rate	Maturity	31/12/2008 EUR '000
Overdraft	CZK	1M PRIBOR+ 0.65%	31.12.2009	18,604
Overdraft	CZK	O/N PRIBOR + 0.5%	20.7.2010**	9,925
Credit cards liability	CZK	0%*	N/A	11
<b>Total short-term interest-bearing loans</b>				<b>28,540</b>

\* Credit cards.

\*\* Overdraft agreement is valid until 2010.

As of 31 December 2007:

Short-term bank loans	Currency	Effective interest rate	Maturity	31/12/2008 EUR '000
Overdraft	CZK	PRIBOR+ 0.65%	2009**	3,646
Overdraft	CZK	PRIBOR + 0.75%	2008	2,014
Credit cards liability	CZK	0%*	N/A	16
<b>Total short-term interest-bearing loans</b>				<b>5,676</b>
Short-term liabilities from finance leases				19
<b>Total short-term interest bearing loans</b>				<b>5,695</b>

\* Credit cards.

\*\* 12-months loan agreement with possibility to extension of the loan up to 2009.



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 24 Bond issued

The Company issued a high-yield bond on the Irish Stock Exchange (stock exchange Euro MTF) on 18 May 2007. The aggregate principal amount of the 7.375% Senior notes due 2015 is EUR 300,000 thousand. Issue costs of the notes were EUR 11,320 thousand. Effective interest rate is 8.184%.

### 25 Share capital and reserves

	31/12/2008 EUR '000	31/12/2007 EUR '000
Share capital	105,524	100,100
Share premium	54,971	3,679
Restricted reserve	124,180	129,990
Equity-settled share-based payments	8,037	–
Hedging reserve	34,328	–
Retained earnings	314,556	105,305
Foreign exchange translation reserve	4,728	38,389
Total	646,324	377,463
Minority interests	–	–
<b>Equity total</b>	<b>646,324</b>	<b>377,463</b>

#### Share Capital

Based on the Articles of Association of the Company the authorised share capital amounts to EUR 450,000,000. It is divided into 1,124,989,000 A shares with a nominal value of EUR 0.40 each and 11,000 B shares with a nominal value of EUR 0.40 each. As of 31 December 2008 the issued capital consists of 263,799,259 ordinary A shares with nominal value of EUR 0.40 each and 10,000 ordinary B shares with nominal value of EUR 0.40 each, of which:

- 18,000 A shares with nominal value of EUR 1 each were issued and paid-up as per 30 June 2006;
- as per 7 September 2006 the Company issued 100,000,000 new ordinary A shares with nominal value of EUR 1 each, which were paid-up;
- on 14 December 2007 the Company issued 82,000 new ordinary A shares of EUR 1 each which were paid up;
- on 21 December 2007 the Company converted 4,000 ordinary A shares into B shares (see description below);
- on 5 May 2008 the Company effected a share split converting all of its shares into new shares with nominal value of EUR 0.40 each and subsequently converted one A share into a C share, resulting in 250,239,999 A shares, 10,000 B shares and 1 C share issued and outstanding;
- on 9 May 2008 the Company issued 13,500,000 new ordinary A shares with nominal value of EUR 0.40 each. The Company offered these shares together with 69,513,344 existing A shares offered by existing shareholders in its initial public offering on the London, Prague and Warsaw stock exchange.
- On 16 May 2008 the Company issued 59,260 ordinary A shares with nominal value of EUR 0.40 each. These shares were granted to 5 independent directors, members of the Board of Directors of the Company.

#### Rights, preferences and restrictions attaching to B shares in the share capital of the Company, restrictions on the distribution of dividends and the repayment of capital

The Company separated the mining business and the real estate business into separate divisions. Each division is legally indivisible within the Group.

The amendment to the Articles of Association was approved on 21 December 2007, whereby the Company converted 4,000 ordinary (registered) shares into 4,000 B shares of EUR 1.00 each. The amendment states that the divisions are established and separately tracked with effect from 31 December 2007. An amount of EUR 90 million of the general share premium reserve and retained earnings in the amount of EUR 4,411,614 recorded in the standalone financial statements of the Company have been allocated to the Dividend Reserve B (see below) on 31 December 2007.

The Real Estate Division's financial performance and any dividends or other distributions in respect of, or attributable to, the performance or Assets of the Real Estate Division will be attributed solely to the holders of the B shares. Upon adoption of the annual accounts and on an after tax basis the amount of equity available for the pay out of dividends to the holders of the B shares ("Dividend Reserve B") shall be credited for an amount equal to the positive result relating to the Real Estate Division and shall be debited for an amount equal to the negative result. The allocation of the result of the divisions and the rules governing the pay out of dividend from the Real Estate Division relate to the period after 31 December 2007, when the Real Estate Division was established.

## 25 Share capital and reserves (continued)

### Rights, preferences and restrictions attaching to B shares in the share capital of the Company, restrictions on the distribution of dividends and the repayment of capital (continued)

The Articles of Association include provisions which state, subject to the limitations of applicable law, that the holders of B shares will be entitled to receive distributions from the Dividend Reserve B (whether in cash or in specie) when declared by the Board of Directors of the Company upon the proposal of the meeting of the holders of the B shares. A payment to the holder(s) of B shares at the expense of a Dividend Reserve B can only be made to the extent that the aggregate balance of the entitlement of all shares of that specific class held by such holder to the share premium reserves and dividend reserves is positive.

The existing distributable reserves (Dividend Reserve B) along with future retained earnings will be used in the future to allow the transfer of the Assets of the Real Estate Division via dividends or distributions (whether in cash or in specie) to the holders of the B shares. It is intended that all of the assets of the Real Estate Division will be paid out in dividends and distributions to the holders of the B shares until no assets remain in the Real Estate Division.

In addition to the foregoing, the Articles of Association of the Company provide the following rights to the (meeting of) holders of the B shares:

- Each resolution to issue B shares shall require the prior or simultaneous approval of the meeting of holders of class B shares.
- Upon issue of A shares and B shares, each holder of A shares and B shares shall have a pre-emption right in respect of the A shares and B shares to be issued, in proportion to the aggregate amount of his shares.
- Each resolution to restrict or exclude pre-emptive rights with respect to an issuance of B shares shall require the prior or simultaneous approval of the meeting of holders of class B shares.
- The meeting of holders of the B shares has the right to nominate one director at the Company's general meeting as part of the binding nomination system set out in the Articles of Association.
- Each holder of B shares has the right to request an investigation into the affairs of the Company with the Enterprise Chamber of the Court of Appeal in Amsterdam.
- The prior or simultaneous approval of the meeting of holders of class B shares shall be required for resolutions of the Board of Directors:
  - a. to acquire any real estate or other assets for the Real Estate Division or to mortgage, charge, grant a licence or otherwise encumber the assets of the Real Estate Division (or any of them); and
  - b. to finance the Real Estate Division from third party funding sources.
- The prior or simultaneous approval of the General Meeting and the meeting of holders of class B shares shall be required for resolutions of the Board of Directors to amend, rescind or suspend the part of the Divisional Policy Statements relating to the fundamental and overriding rights of the Mining Division, the payments for use of and access to Real Estate Assets by the Mining Division, the allocation of costs for overhead and support services and the principles contained in the Divisional Policy Statements, or any additions or exceptions thereto. The Board of Directors shall not seek to make any determinations to amend, rescind or suspend any other aspects of the Divisional Policy Statements, or make exceptions to them or adopt additional policies or exceptions unless there shall have been prior consultation between the Board of Directors and the meeting of holders of the B shares and the Board of Directors shall have given due consideration to any representations made.
- A proposal to amend the Articles of Association changing the authorised share capital B shall be changed requires the prior or simultaneous approval of the meeting of holders of class B shares.
- A proposal to amend the Articles of Association whereby any change would be made in the rights which vest in the holders of B shares shall require the prior approval of the meeting of holders of B shares.
- Following a liquidation of the Company, the remaining balance of assets of the Company shall be distributed in accordance with the entitlements of each class of shares under the rules agreed upon for the distribution of reserves.

Any restrictions under Dutch corporate law with respect to the reduction of share capital, distribution of dividend and/or reserves and other corporate matters also apply to the (holders of) B shares.

As of 31 December 2008 100% of the B shares are owned by RPG Industries SE.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 25 Share capital and reserves (continued)

#### Rights, preferences and restrictions attaching to A shares in the share capital of the Company, restrictions on the distribution of dividends and the repayment of capital

An amount of EUR 90 million of the general share premium reserve and retained earnings in the amount of EUR 4,411,614 recorded in the standalone financial statements of the Company has been allocated the Dividend Reserve B on 31 December 2007. The remaining part of the share premium reserve has been allocated the share premium reserve A. In case statutory reserves recorded in the standalone balance sheet of the Company as at 31 December 2007, if any, are (partially) released, the amounts thereof shall be credited to the Dividend Reserve A.

The Mining Division's financial performance and any dividends or other distributions in respect of, or attributable to, the performance or Assets of the Mining Division will be attributed solely to the holders of the A shares. Upon adoption of the annual accounts and on an after tax basis the amount of equity available for the pay out of dividends to the holders of the A shares ("Dividend Reserve A") shall be credited for an amount equal to the positive result relating to the Mining Division and shall be debited for an amount equal to the negative result. The allocation of the result of the divisions and the rules governing the pay out of dividend from the Mining Division relate to the period after 31 December 2007, when the Mining Division was established.

The Articles of Association include provisions which state, subject to the limitations of applicable law, that the holders of A shares will be entitled to receive distributions from the Dividend Reserve A when declared by the Board of Directors of the Company. A payment to the holder(s) of A shares at the expense of a Dividend Reserve A can only be made to the extent that the aggregate balance of the entitlement of all shares of that specific class held by such holder to the share premium reserves and dividend reserves is positive.

In addition to the foregoing, the Articles of Association of the Company provide the following rights to the (meeting of) holders of the A shares:

- Upon issue of A shares and B shares, each holder of A shares and B shares shall have a pre-emption right in respect of the A shares and B shares to be issued, in proportion to the aggregate amount of his shares.
- A proposal to amend the Articles of Association whereby any change would be made in the rights which vest in the holders of A shares shall require the prior approval of the meeting of holders of A shares.
- Following a liquidation of the Company, the remaining balance of assets of the Company shall be distributed in accordance with the entitlements of each class of shares under the rules agreed upon for the distribution of reserves.

Any restrictions under Dutch corporate law with respect to the reduction of share capital, distribution of dividend and/or reserves and other corporate matters also apply to the (holders of) A shares.

The total issued A shares and other issued class shares constitute the General Meeting of Shareholders. Under the Articles of Association, the Divisional Policy Statements and Dutch (corporate) law, the General Meeting of Shareholders has certain rights with respect to changes to the corporate structure, changes to the Divisional Policy Statements as well as rights relating to changes to the capital structure, repurchase of shares and significant changes in the identity or nature of the Company or its enterprise. As the issued A shares currently form a majority in the entire issued share capital of the Company, any voting in the General Meeting of Shareholders can be influenced by the holders of the A shares.

## **25 Share capital and reserves (continued)**

### **Share Premium**

On 14 December 2007, share premium was increased by EUR 3,679 thousand by converting payables to RPG Industries SE.

On 27 March 2008, the Company paid a dividend of EUR 86,672 thousand out of A Share premium.

On 5 May 2008, the Company allocated EUR 75,000 thousand to the C Share premium from the A Share premium.

On 9 May 2008, A Share premium of the Company was increased by EUR 213,678 thousand as a result of the sale of new A shares in the initial public offering of the Company. The expense relating to the proceeds from the primary initial public offering amounted to EUR 1,890 thousand. The total impact of the initial public offering on the A Share premium of the Company was EUR 211,788 thousand.

On 9 May 2008, the Company paid a dividend of EUR 75,000 thousand out of C Share premium to RPI, the sole holder of the C Share.

On 16 May 2008, the Company issued 59,260 ordinary A Shares granted to 5 independent directors of the Board of the Company. The A Share premium attributable to these shares amounted to EUR 1,176 thousand.

### **Special liquidation reserve**

During the privatisation of OKD, a.s. the special liquidation reserve was designated and classified as an equity item in its statutory accounts. In 2007 this reserve became unrestricted and therefore was transferred to retained earnings based on an amendment of the Articles of Association of OKD, a.s.

### **Restricted reserve**

In accordance with Czech regulations, joint stock companies ("a.s.") are required to establish an undistributable statutory reserve for contingencies against possible future losses and other events. Contributions must be at a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit each year thereafter, until the fund reaches at least 20% of share capital. The fund can only be used to offset losses.

### **Translation reserve**

Translation reserve includes foreign exchange rate effects of translation of the balance sheet and the income statement from the functional currency to the presentation currency.

### **Hedging reserve**

Starting 1 January 2008, changes in the fair value of forward exchange rate contracts were accounted via the hedging reserve, that is part of equity. For more details see Note 20.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 25 Share capital and reserves (continued)

#### Earnings per share

In the calculation of the average number of outstanding shares, both A and B, the 2.5 for 1 conversion of shares per 5 May 2008 is taken into account. Also the newly issued A shares at the initial public offering, 13.5 million and 59,260, are included in the calculation. Finally, the creation and the subsequent cancellation of the C share is regarded as well, to arrive at the average number of 258,991,995.60 outstanding shares during 2008. Based on this number of average outstanding shares the basic earnings per share figure is calculated.

In the calculation of the diluted earnings per A share the dilutive potential of the “NWR IPO Share Option Plan”, “NWR Stock Option Plan for Executive Directors”, “Long-term Incentive Plan” and “Share issue agreement with independent directors” is taken into account. Additional explanation on the dilutive potential is detailed in note 29 Share-based payments.

	01/01/2008 – 31/12/2008	01/01/2007 – 31/12/2007
Total net profit after tax from continuing operations	351,639	190,671
Total net profit after tax from discontinued operations	N/A	5,821
Total net profit after tax	351,639	196,492
of that:		
Total net profit after tax attributable to A shares holders	344,171	196,492
Total net profit after tax attributable to B shares holders	7,468	–
Total net profit after tax attributable to C shares holders	–	N/A
Weighted average number of shares outstanding during the period	258,991,995.60	250,054,275
of that:*		
Weighted average number of A shares outstanding during the period	258,981,995.36	250,053,974
Weighted average number of B shares outstanding during the period	10,000.00	301
Weighted average number of C shares outstanding during the period	0.24	N/A
Weighted average number of shares outstanding during the period adjusted for effect of dilution	259,519,967.63	250,054,275
of that:		
Diluted weighted average number of A shares outstanding during the period	259,509,967.39	250,053,974
Diluted weighted average number of B shares outstanding during the period	10,000.00	301
Diluted weighted average number of C shares outstanding during the period	0.24	N/A
<b>Basic earnings per A share (EUR/share)</b>	<b>1.33</b>	<b>0.79</b>
<b>Diluted earnings per A share (EUR/share)</b>	<b>1.33</b>	<b>0.79</b>
<b>Basic earnings per A share from continuing operations (EUR/share)</b>	<b>1.33</b>	<b>0.76</b>
<b>Diluted earnings per A share from continuing operations (EUR/share)</b>	<b>1.33</b>	<b>0.76</b>
<b>Basic earnings per A share from discontinued operations (EUR/share)</b>	<b>0.00</b>	<b>0.03</b>
<b>Diluted earnings per A share from discontinued operations (EUR/share)</b>	<b>0.00</b>	<b>0.03</b>
Basic earnings per B share (EUR/share)	746.80	0.00
Diluted earnings per B share (EUR/share)	746.80	0.00

\* restated for the stock split of 2.5 that occurred on 5 May 2008.

## 26 Provisions

The provision balances are as follows:

	At 1 January 2008 EUR '000	Charged EUR '000	Utilised EUR '000	Distribution of subsidiaries EUR '000	Subsidiary sold EUR '000	Unwinding of discount EUR '000	Currency translation EUR '000	At 31 December 2008 EUR '000
Restoration provision	90,209	56	(2,653)	(519)	–	4,171	(926)	90,338
Mining damage	15,841	8,787	(12,370)	–	–	–	107	12,365
Dukla Mine closure	150	–	(160)	–	–	–	10	–
Other restoration costs	1,903	1	(163)	(520)	–	–	38	1,259
<b>Total long-term provisions</b>	<b>108,103</b>	<b>8,844</b>	<b>(15,346)</b>	<b>(1,039)</b>	<b>–</b>	<b>4,171</b>	<b>(771)</b>	<b>103,962</b>
Unpaid vacation	3,222	7,314	(7,332)	(111)	(21)	–	(19)	3,053
Buy-out (family houses)	1,983	1,409	(1,392)	–	–	–	(21)	1,979
Dukla Mine closure	3,288	–	(3,509)	–	–	–	221	–
Employee redundancy	3	46	(4)	–	(46)	–	1	–
Other	680	560	(297)	(243)	(169)	–	6	537
<b>Total short-term provisions</b>	<b>9,176</b>	<b>9,329</b>	<b>(12,534)</b>	<b>(354)</b>	<b>(236)</b>	<b>–</b>	<b>188</b>	<b>5,569</b>

	At 1 January 2007 EUR '000	Charged EUR '000	Utilised EUR '000	Distribution of subsidiaries EUR '000	Unwinding of discount EUR '000	Change in the estimate EUR '000	Currency translation EUR '000	At 31 December 2007 EUR '000
Restoration provision	96,921	71	(3,150)	(435)	2,015	(8,334)	3,121	90,209
Mining damage	16,067	6,156	(6,879)	–	–	–	497	15,841
Dukla Mine closure	2,607	–	(2,438)	–	–	–	(19)	150
Other restoration costs	1,891	6	(54)	–	–	–	60	1,903
<b>Total long-term provisions</b>	<b>117,486</b>	<b>6,233</b>	<b>(12,521)</b>	<b>(435)</b>	<b>2,015</b>	<b>(8,334)</b>	<b>3,659</b>	<b>108,103</b>
Unpaid vacation	3,499	6,642	(6,253)	(764)	–	–	98	3,222
Buy-out (family houses)	1,275	1,344	(705)	–	–	–	69	1,983
Dukla Mine closure	10,302	–	(7,050)	–	–	–	36	3,288
Employee redundancy	19	–	(16)	–	–	–	–	3
Other	1,825	729	(890)	(994)	–	–	10	680
<b>Total short-term provisions</b>	<b>16,920</b>	<b>8,715</b>	<b>(14,914)</b>	<b>(1,758)</b>	<b>–</b>	<b>–</b>	<b>213</b>	<b>9,176</b>

Annual review of restoration provision as of 31 December 2008 did not result in any change of estimates.

The annual review of restoration provision performed as of 31 December 2007 resulted in a decrease of provision by EUR 8,334 thousand. The decrease of restoration provision was accounted for in accordance with IFRIC 1 with the effective date 31 December 2007 i.e. the carrying amount of property, plant and equipment was reduced by EUR 8,334 thousand. The main reason for the estimate change was the change of discount rate (using state bonds) and inflation estimate. The effect of the changed estimate on depreciation of assets and financial costs will start in 2008.

Due to the long-term nature of the restoration provision, the biggest uncertainty in estimating the provision is the costs that will be incurred. The Group has assumed that the site will be restored using technology and materials that are available currently. As of 31 December 2008 the provision has been calculated using discount rates in range between 3.8-4.1% p.a. (31 December 2007: range between 4.1 – 4.4% p.a.).

On 27 February 2006 the Board of Directors of OKD, a.s. decided to cease coal mining operations at the Dukla site, part of the Paskov Mine, as of 31 December 2006 and to begin physical liquidation of property, plant and equipment and to begin the site restoration of this site on 1 January 2007. The preparatory work to commence restoration of the Dukla site began in 2006. The site restoration and liquidation was finished in 2008. As of 31 December 2008 the Dukla Mine closure provision amounts to EUR 0 thousand (31 December 2007: EUR 3,438 thousand, related to preparation of the site for site liquidation, site restoration and social and health-related costs).

**Notes to the consolidated financial statements prepared in accordance with IFRS  
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continued

**27 Deferred revenue**

	Government grants EUR '000	Other EUR '000	Total EUR '000
At 1 January 2008	2,509	7,790	10,299
Distribution of subsidiaries	–	(3)	(3)
Sale of subsidiaries	–	(4)	(4)
Change in the period	(224)	(4,823)	(5,047)
Currency translation	(8)	357	349
<b>At 31 December 2008</b>	<b>2,277</b>	<b>3,317</b>	<b>5,594</b>

	Government grants EUR '000	Other EUR '000	Total EUR '000
At 1 January 2007	2,633	967	3,600
Distribution of subsidiaries	–	(379)	(379)
Change in the period	(202)	6,904	6,702
Currency translation	78	298	376
<b>At 31 December 2007</b>	<b>2,509</b>	<b>7,790</b>	<b>10,299</b>

The Group has received government grants to cover environmental improvements. Government grants are being amortised over the expected useful life of the assets acquired with funds from government subsidies.

The change in government grants fully represents the Amortisation of existing grants. No new grants were received in the period.

**28 Employee benefits**

The Group provides a number of different benefits to its employees – jubilee, loyalty, retirement and special miners' benefits. The Group's net obligation in respect of long-term service benefits is the amount of benefits that are payable 12 months after the balance sheet date and that the employees have earned in return for their service in the current and prior periods.

The Group's employee benefit scheme covers the legal requirements valid for the mining industry and other benefits concluded with the labour union in the general labour agreement. All benefits are unfunded. Most of them are paid annually and the amount depends on the length of working relationship with the employer or is compensating the health problems of the miners. The significant benefits are listed below.

	31/12/2008 EUR '000	31/12/2007 EUR '000
Special miners benefits	57,607	56,534
Severance payment	17,749	14,708
Loyalty benefits	11,523	12,908
Employees' jubilee	292	136
Other long-term benefits	1,017	1,348
<b>Total employee benefits</b>	<b>88,188</b>	<b>85,634</b>

Increase in employee benefits as of 31 December 2008 compared to 31 December 2007 is a cumulative result of updated assumptions that are disclosed at the end of this Note (in addition to the effect of subsidiaries sold and distributed in 2008 and currency translation).

## 28 Employee benefits (continued)

### Special miner's benefits

Length-of-service benefit for miners is paid to all employees in the mining profession once a year and is based on the length of employment relationship. The benefit is required by current legislation of the Czech Republic.

Special miner benefits are assigned to employees working underground once they achieve 100% of the highest allowable exposure to mine dust, in case of both position transfer or employment termination. Those bonuses are paid monthly, until the pension entitlement arises or the age of 60 is reached. The benefit is required by current legislation of the Czech Republic.

Health-related severance payment is based on the collective agreement of OKD, a.s. and its labour union. Entitled persons are employees whose employment relationship was dissolved owing to their inability for health reasons to continue performing their work and who are not entitled to receive other severance payment. This benefit is a one-time payment calculated as a multiple of average monthly wage in connection with years of service.

Retirement benefits are based also on a collective agreement of OKD, a.s. and its labour union and are paid to employees who terminate their employment contract upon becoming entitled to draw an old-age pension. The payment is a multiple of average monthly wage.

### Loyalty benefits

Stabilisation premiums are defined in the collective agreements of individual Group entities and belong to all current employees who are not entitled to length-of-service benefits for miners. This bonus is paid once a year and the amount is calculated based on the length of the uninterrupted service.

Length-of-service bonuses are defined in the collective labour agreements of individual Group entities and paid based on the specific provisions of collective agreements, tied to years of uninterrupted service. This benefit is designed as a one-time payment.

### Severance payments

Severance payments are based on Czech law. Entitled persons are employees whose employment relationship was dissolved owing to having achieved 100% of the highest allowable exposure to mine dust or occupational injury or incidence of occupational illness and inability to find another suitable position for them within the entity. The payment is made as a one-time disbursement.

Changes in the present value of the defined benefit obligation:

	01/01/2008 – 31/12/2008 EUR '000	01/01/2007 – 31/12/2007 EUR '000
Defined benefit obligation at the beginning of the period	85,634	89,201
Movements in the period – subsidiaries distributed	(404)	–
Movements in the period – subsidiaries disposed	(836)	–
Discontinued operations	–	(2,542)
Benefits paid	(10,507)	(7,045)
Net benefit expense	15,378	3,251
Currency translation	(1,077)	2,769
<b>Defined benefit obligation at the end of the period</b>	<b>88,188</b>	<b>85,634</b>



## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 28 Employee benefits (continued)

#### Severance payments (continued)

The following table summarises the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the balance sheet for the respective plan:

	01/01/2008 – 31/12/2008 EUR '000	01/01/2007 – 31/12/2007 EUR '000
Current service cost	5,110	4,541
Interest cost on benefit obligation	3,541	3,633
Actuarial loss/(gain)	6,727	(4,923)
<b>Net benefit expense</b>	<b>15,378</b>	<b>3,251</b>

The principal financial and demographic assumptions used in determining post-employment benefits and other long-term employee benefits are shown below:

*Discount rate* – Discount rates are derived from the linear approximation of the yield curve of the Czech government bonds as of balance sheet date. Average period of payment is considered. Discount rates used for the calculation of employee benefits as of 31 December 2008 range between 4.1% – 4.4% p.a. (as of 31 December 2007: 4.7% – 4.9% p.a.).

*Wage increase* – This assumption is relevant where the benefit depends on the future wage. In all these cases the Group estimates the steadily average wage increase of 5% per annum as of 31 December 2008 (7% per annum as of 31 December 2007).

*Mortality* – Model mortality for the relevant benefit calculation is undertaken from the statistical tables published by the Czech statistical office.

*Retirement age* – The retirement age is according the former and current Czech legislation, as follows: for retirements before 31 December 1995 the retirement age is 60 for men and 57 – 53 for women (depending on the number of children). The retirement age after the year 2013 is 63 for men and 63 – 59 for women (depending on the number of children). The retirement age between those two years mentioned above is determined by the linear approximation.

Number of employees – estimated future number of employees per each year is derived from estimated future output (production) in a particular year.

### 29 Share-based payments

#### a) Introduction to share-based payments of the Company

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. The fair value is determined by reference to the share price on the grant date. In valuing equity-settled transactions of the Company, no account is taken of any vesting conditions because no market conditions apply for vesting. At each balance sheet date before vesting the cumulative expense is calculated, representing the extent to which the vesting period has expired and of the number of equity instruments that will ultimately vest. The movement in cumulative expense compared to the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity or liability, based on the type of share-based scheme.

For cash-settled share-based payment transactions, the Company measures the liability incurred at the fair value of the liability. The Company re-measures the fair value of the liability at the date of settlement and at the end of each reporting period until the liability is settled, with any changes in fair value recognised in profit or loss for the period.

The impact of the Group's share-based remuneration schemes on the diluted earnings per share is calculated according to the requirements of IFRS 2 and IAS 33.

The Company offers independent members of the Board of Directors of the Company and certain employees of the Group share-based remuneration packages (as follows).

## 29 Share-based payments (continued)

### b) Shares granted to independent directors

The Company granted each of its 5 independent directors a number of A shares equal to an amount of EUR 200 thousand vesting on 9 May 2008 and the same amount on 9 May 2009. The Company settled the first tranche by issuing 59,260 ordinary A Shares with nominal value of EUR 0.40 each on 16 May 2008. The value of the transaction was determined by means of the market price as per 16 May 2008. Since the return is fixed in the same way as if settlement were to be made in cash for the shares vesting on 9 May 2009, the settlement is accrued for as a financial liability. The corresponding expenses are shown in the category of share-based payments personnel expense. The impact on the income statement for 2008 of granting shares to the independent directors equals EUR 1,846 thousand. This total amount is the sum of two parts: first, the vesting of the first tranche per 9 May 2008 impacted the income statement in 2008 for EUR 1,200 thousand. The expenses accrued for the second tranche granted amount to EUR 646 thousand.

There is no dilutive impact resulting from shares granted to independent directors since the fair value of the weighted average number of A shares that would have been issued at average market price would equal the fair value of the services the Company received from the independent directors. Resulting from this, the additional cost and income for the Company would be the same resulting in a zero impact on the earning per share figure.

### c) Shares and share options granted to executive directors

In 2007, based on his employment contract with the Company, executive director Miklos Salamon was granted to receive every year during a five-year period a number of A Shares equal to 0.1 per cent of the issued share capital of the Company. On 1 September 2008, the employment contract was amended. Based on the amended contract Miklos Salamon will be granted every year on 1 September with options for A Shares with exercise price of EUR 0.01 in the amount of 0.1 per cent of the issued share capital of the Company, instead of receiving A Shares. This remuneration package classifies as equity settled share-based payment transaction and is presented correspondingly in a separate equity category in the balance sheet of the Company. The first tranche of options vested on 1 September 2008, resulting in an increase of personnel expense of EUR 5,077 thousand. The increase in accrued expense for the second year of granted share options has an additional impact of EUR 3,013 thousand for the year 2008. Total recognised cost in 2008 relating to the share-based remuneration for Miklos Salamon amounts to EUR 8,090 thousand (2007 EUR 0).

The calculation of the fair value of the options per grant date was performed by using the Black-Scholes model. The value of the input variables in the model were: share price per grant date 1 September 2008 of GBP 15.63; exercise price of GBP 0.01; time to expiry of 8 years; risk-free rate of 4 per cent and a volatility of 15 per cent. The 8-year expiry period consists of a 3-year vesting period and a consecutive 5-year exercise period. The discount rate is equal to the Czech government bond rates that have maturity dates similar to the terms of the Group's obligations. The used volatility per cent age is based on the Group's management professional judgement taking into account stock prices of peer companies.

Miklos Salamon's option plan has no dilutive impact since the fair value of the weighted average number of options that would have been issued at average market price would equal the fair value of the services the Company received from Miklos Salamon.

Executive director of the Company and Chief Executive Officer of OKD, Klaus-Dieter Beck is granted a certain amount of A shares according to his employment contract with OKD. This remuneration package classifies as an equity settled share-based payment transaction with cash alternative and is presented correspondingly as a short-term liability. The agreement specifies that Klaus-Dieter Beck will be granted 250,045 A shares every year, starting as of 1 July 2007, up to a maximum total amount of 1,250,225 A shares granted.

Klaus-Dieter Beck's incentive plan has no dilutive impact since the fair value of the weighted average number of shares that would have been issued at average market price would equal the fair value of the services the Company received from Klaus-Dieter Beck.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 29 Share-based payments (continued)

#### d) Share options granted to employees of the Group

Certain employees and directors of the Group were granted options for A shares of the Company under the "NWR IPO Share Option Plan". This remuneration package classifies as equity settled. The options, which were granted on 9 May 2008, have an exercise price of GBP 13.25. The corresponding vesting period for these share options, numbering 619,878 in total, is 9 May 2008 to 9 May 2011.

Similarly to the option granted to Miklos Salamon, the fair value of the options per grant date was calculated by using the Black-Scholes model. Except for the share price and the exercise price, all the variables have the same value as used in the calculation of Miklos Salamon's options fair value. The share price used for the "NWR IPO Share Option Plan" was the offering price of the initial public offering which was GBP 13.25. The exercise price is GBP 13.25.

Due to the Company's share market price, which is currently lower than the exercise price of the options granted to certain employees under the NWR IPO Share Option Plan as of 31 December 2008, these are out-of-the-money and therefore do not have any dilutive potential regarding the calculation of the diluted earnings per share.

The following table presents the impact of the various share-based remuneration schemes on the profit of the Company.

Share-based remuneration schemes	01/01/2008 - 31/12/2008 EUR '000	01/01/2007 - 31/12/2007 EUR '000
Independent directors	1,846	–
Miklos Salamon	8,090	–
Klaus-Dieter Beck	5,764	–
Other	595	–
	<b>16,295</b>	<b>–</b>

### 30 Deferred tax

	2008 EUR '000	2007 EUR '000
<b>Deferred tax asset:</b>		
At 1 January	21,490	25,434
Deferred tax charge for the period	3,685	(295)
Impact of changed deferred tax rate	(96)	(4,289)
Deferred tax movement – distribution in kind	(384)	–
Deferred tax movement – disposed subsidiary	(960)	–
Currency translation	(280)	640
<b>At 31 December</b>	<b>23,455</b>	<b>21,490</b>

#### Deferred liability:

At 1 January	123,572	161,654
Deferred income tax related to items charged or credited directly to equity:		
Net loss on revaluation of cash flow hedges	9,167	–
Deferred tax charge for the period	(2,362)	(5,962)
Impact of changed deferred tax rate	(31)	(28,796)
Deferred tax movement – discontinued operations	–	(7,147)
Deferred tax movement – distribution in kind	(832)	–
Currency translation	(828)	3,823
<b>At 31 December</b>	<b>128,686</b>	<b>123,572</b>
<b>Deferred tax liability net</b>	<b>105,231</b>	<b>102,082</b>

out of which presented in the balance sheet

<b>Deferred tax asset</b>	<b>154</b>	<b>2,438</b>
<b>Deferred tax liability</b>	<b>105,385</b>	<b>104,520</b>

Deferred tax presented in the balance sheet is stated net of liability and asset per individual consolidated entities. Deferred tax presented in the above table is stated per individual temporary differences.

**30 Deferred tax (continued)**

	31/12/2008 EUR '000	31/12/2007 EUR '000
<b>Deferred tax asset relates to the following:</b>		
Fixed assets	154	1,399
Allowances, adjustments and provisions	6,800	3,880
Employee benefits	16,501	16,050
Tax losses carried forward	–	160
Other	–	1
	<b>23,455</b>	<b>21,490</b>

	31/12/2008 EUR '000	31/12/2007 EUR '000
<b>Deferred taxes liability relates to the following:</b>		
Fixed assets	119,597	120,624
Allowances, adjustments and provisions	522	2,934
Derivatives	8,510	–
Other	57	14
	<b>128,686</b>	<b>123,572</b>

Tax losses to be carried forward and offset against future taxable income are available in New World Resources N.V. and in 2007 also in OKD, Bastro, a.s. Due to insufficient taxable revenues of the Company, deferred tax asset is not recognised from incurred tax losses.

	31/12/2008 EUR '000
Tax losses arising in 2006	342
Tax losses arising in 2007	40,036
Tax losses arising in 2008	55,549
	<b>95,927</b>
Deferred tax at the applicable rate of 25.5% (The Netherlands)	24,461
Provision for unrecognised deferred tax asset	(24,461)
<b>Deferred tax asset recognised in respect of tax losses carried forward</b>	<b>–</b>

Amendment of Czech Income tax legislation enacted in 2007 lead to the change of the income tax rates as follows:

- 2008: 21%
- 2009: 20%
- from 2010 onwards: 19%

Deferred tax was calculated by using above the stated rates based on the expected period of settlement of the deferred tax. This resulted in reduction of deferred tax asset by EUR 96 thousand (in 2007 by EUR 4,289 thousand) and reduction of deferred tax liability by EUR 31 thousand (in 2007 by EUR 28,796 thousand).

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 31 Future commitments

The Group has the following commitments in respect of:

	2008 EUR '000	2007 EUR '000
<b>Non-cancellable operating leases</b>		
Instalments due within one year	3,047	1,744
Instalments due between two and five years	12,519	5,550
	<b>15,566</b>	<b>7,294</b>
<b>Acquisition of property, plant and equipment</b>		
From third parties	288,140*	25,731

\* see POP 2010 and COP 2010 description in Director's Report.

The majority of operating lease contracts are concluded as indefinite term and short notice period. Leased items include equipment, land and buildings. There are none with term exceeding 5 years. Operating lease expense in 2008 was EUR 3,330 thousand (2007: EUR 1,487 thousand).

### 32 Contingent assets and liabilities

The Group has the following significant contingent assets and contingent liabilities as of 31 December 2008:

#### a) Transfer of certain old mines

Until 2000, OKD had concentrated all discontinued mines into a division called Odra Mine. The main purpose of this division was to supervise reclamation works at the closed mines and to administer claims and obligations towards current and former employees of the discontinued mining units. Effective 2002 OKD sold closed mines administration. Effective 2004, OKD sold mine Barbora to DIAMO s.p. At this time DIAMO, s.p. also assumed all of OKD's obligations vis-à-vis all its former employees. Simultaneously, ČMD sold its closed mines in the Kladno area to state owned Palivový kombinát Ústí, s.p. ("PKU") in a similar transaction. By operation of law, OKD is the statutory guarantor of the obligations assumed by DIAMO and PKU existing at the time of the transfer.

#### b) Environmental issues

##### (i) OKD, a.s.:

In accordance with privatisations projects, the National Property Fund of the Czech Republic ("NPF") reimburses acquirers of privatised assets in respect of expenses incurred for the clean-up of environmental damage relating to the pre-privatisation period. In 1993, OKD, a.s. asked NPF to reimburse its expenses for cleaning-up damages in accordance with government decision No. 123 dated 17 March 1993. On 18 April 1996 contract no. 131/96 was concluded between NPF and OKD, a.s. relating to environmental issues in the area in the entity's ownership. Based on addendum to Environmental Contract No. 131/96 between the NPF (respectively Czech Ministry of Finance), OKD, a.s. and OKD, OKK, a.s. all rights and obligations concerning environmental issues were transferred to OKD OKK, a.s., as the fixed assets to which environmental issues relate, were concentrated in OKD, OKK, a.s.

##### (ii) OKD, OKK, a.s. :

The entity's assets include the grounds of the former ČSA coking plant located in Karviná-Doly. Coking operations were discontinued at 30 June 1997 and the grounds were classified by the Czech Ministry of the Environment as an old source of environmental burden. For this reason, an *Old environmental burden risk analysis* addressing the scope of contamination and restoration work was drawn up for this site in 1997-1998. Restoration works should be financed by the Czech Ministry of Finance (MF), which overtook liabilities of NPF (NPF ceased its activities). To date, no addendum to Environmental Contract No. 131/96 between the NPF (respectively Ministry of Finance) and OKD, a.s. on the updating of this risk analysis and the holding of a tender for an improvement work contractor has been executed.

The entity's assets include the grounds of the former Trojice coking plant in Slezská Ostrava. These grounds were classified as an old source of environmental burden and an *Old environmental burden risk analysis* is being drafted for it. Decontamination of the grounds is contingent on the conclusion of an addendum to Contract No. 131/96 between the NPF and OKD, a.s.

The entity operates the grounds of the Svoboda and Šverma coking plants for which risk analyses are being drafted to address post-operations improvement work. The exact time-frame, percentage share of the state in eradicating past damage and the value and duration of the contingent liabilities accrual are not yet known.

### 32 Contingent assets and liabilities (continued)

(iii) In 2007, by performing de-merger of part of assets of OKD, a.s., as of 1 July 2007, fixed assets to which environmental issues relate were concentrated in OKD, OKK, a.s. and NWR Coking, a.s.

(iv) In 2008, by performing merger of OKD, OKK, a.s. and NWR Coking, a.s., as of 1 January 2008, fixed assets to which environmental issues relate were concentrated in OKD, OKK, a.s.

#### c) Claims and litigations

Claims in connection with purchases of certain minority shares in ČMD, a. s., METALIMEX a. s. (former subsidiaries of OKD, a.s.) and OKD, a.s.:

- Petition to review the appropriateness of consideration for shares of ČMD, a. s. (court in Ostrava) – on 8 November 2008 claimant gave an appeal.
- Petition to review the appropriateness of consideration for shares of OKD, a.s. was rejected by the court in January 2009. The petitioner is expected to give an appeal.
- Petition to review the appropriateness of consideration for shares of METALIMEX a.s. – first hearing assigned on 21 January 2009 was postponed while petitioner is expected to submit appropriate evidence for his claim.
- Petition to review the appropriateness of consideration for shares of ČMD, a. s. (court in Prague) – in 2008 entitled entities were defined by court. OKD is currently preparing its opinion. Court in its decision on 6 June 2008 decided that legal successors of OKD, a.s. that ceased to exist (ID: IČ 26863154) are: OKD, a.s. (ID: IČ 26863154), Green Gas DPB, a.s., OKD, Doprava, akciová společnost, RPG Byty, s.r.o. RPG RE Commercial, s.r.o. RPG RE Land, s.r.o. and RPG Trading, s.r.o.
- Litigation between claimant OKD, a.s. and defendant Financial Directorate in Ostrava – action against decision issued by administrative body according to the Act No. 150/2002 Coll. Under action OKD, a.s. enforces cancellation of decision issued by Financial Directorate in the affairs of income tax for tax period 1 July 2006 – 31 December 2006. Litigation is still in progress.
- Mr. and Mrs Macura filed an action for damages caused by mining activity of OKD, a.s. The value of the claim is EUR 4 thousand and might be increased by additional EUR 376 thousand. Several proceedings already took place. Expert's opinion has been elaborated. During 2008 OKD tried to settle this litigation out of court, but on the basis of claimant's position this effort has failed.
- Litigation between claimant, Ing. Vilém Sikora and defendant, OKD, a.s. from February 2006 concerning action for damages of claimant's properties caused by mining activity in Karviná – Doly. Mr. Sikora claims EUR 447 thousand as compensation for the damage. In 2008 was prepared expert's report, while OKD will propose to prepare another expert's report.
- Litigation between claimants, Ing. Larisa Gerychová and Ing. Aleš Gerych and defendant, OKD, a.s. After lose of the son, who died as a result of work injury OKD, a.s. is claimed EUR 400 thousands as a compensation of non-property rights in money. OKD, a.s. refuses its responsibility and argues that all legal claims were covered arises from union contract and law. On 2 July 2008 the court has rejected the petition of claimants. The claimants gave an appeal.
- Litigation between claimants, Prague Investment Holdings (Cyprus), Prague Capital Partners Limited, Blanet-Shop, s.r.o. and defendants, OKD, a.s. and Prosper Trading, a.s. concerning action for damages at the amount of EUR 256 thousand and EUR 536 thousand. The damage was caused by acting in concert in 1997 when defendants purchased shares of company Moravskoslezské teplárny at lower price (CZK 800 per shares) than at price for which the shares would be sold when offered publicly to shareholders. In 2008 the court has rejected the petition of claimants. The claimants gave an appeal. New proceeding was not set yet.

No provision has been set up as of 31 December 2008 for the litigations. At the financial statements' preparation date, based on advice of counsel, the management of the Group believes that the litigations have no significant impact on the Group's financial position as of 31 December 2008.

#### d) Guarantee bills of exchange

As of 31 December 2008 there were following off balance sheet liabilities:

- guarantee bills of exchange for coal delivery System S.A. – Kombinát Koksochemiczny, Zabrze of EUR 2,505 thousand; and
- guarantee bill of exchange for short-term bank loan of EUR 18,604 thousand.

As of 31 December 2007 there were following off-balance sheet liabilities:

- guarantee bills of exchange for coal delivery of EUR 1,600 thousand; and
- guarantee bill of exchange for short-term bank loan of EUR 42,750 thousand.

## Notes to the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union

continued

### 33 Other material matters

#### a) Dominance agreement

Dominance agreements were concluded for indefinite period between OKD as the "Controlling person" and OKD, OKK, a.s. as the "Controlled person" and is in force for the whole year 2008. No other dominance agreements are in force in 2008.

Under this agreement, the Controlled person, to the extent permitted by law, is subject to the sole control of the Controlling person. The Controlling person is authorised to impose written instructions on the Controlled person in all matters within the remit of the statutory body, even instructions that may be disadvantageous to the Controlled person, if they are in the interest of the Controlling person or another person with which the Controlling person forms a concern. Instructions from the Controlling person may not contravene the legal regulations or the Articles of Association of the Controlled person. The dominance agreement includes the obligation of indemnification and the obligation to settle losses if, for duration of the agreement's validity, the Controlled person finishes a year with a loss according to its financial statements that have been independently audited and then approved by the sole shareholder (acting in the capacity of the General Meeting).

No direct benefits arise to the Controlling person from the dominance agreement.

#### b) Programme COP 2010

The Coking Plant Optimisation Programme (COP 2010) at OKK continues on schedule.

The refurbishment of the first section of Svoboda coke plant battery No. 8 has been completed and the start-up of the chamber took place in December 2008. The superior quality of the coke being produced in the refurbished coke battery validates the decision to upgrade the No. 8 production facility.

Preparatory works for the construction of the new No.10 coking battery at the Svoboda plant started in summer 2008 and are proceeding according to plan. The Company will continue with the project and expects it now to be finalised within the next two years.

Future commitments (see note 32) relating to acquisition of property, plant and equipment relating to COP 2010 amount to EUR 55,096 thousand.

#### c) Agreement in principle to issue tracking stock over certain real estate assets in the Company

In addition to mining assets, the Company, through OKD and other subsidiaries, is the owner of a significant portfolio of real estate on which its mines have been developed. Under Czech mining laws any real estate necessary for the mining activities of OKD must remain under OKD's ownership for the duration of all mining activities.

In order to provide higher transparency to the mining and real estate assets, the Company decided to separate the real estate of the Group into a new division and to issue a new security – B Class shares – to track the financial performance of the Real Estate Division as of 31 December 2007. Procedures and safeguards will be built-in to the provisions of the A and B shares in the Company to ensure that each shareholder class is fairly treated. From 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 provide relevant information to the holders of the A and B Class share. The chief operating decision maker for the two reportable segments is the board of directors of the Company, advised by a separate committee of the board composed of independent directors. All of the B shares were issued to RPG Industries SE. See also Note 3 and Note 25.

### 34 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.