

Business Review – Business Development

BUSINESS DEVELOPMENT

We have made encouraging progress during the year in delivering our growth strategy, and examined a number of opportunities to demonstrably create value for our shareholders.

Good progress on Dębieńsko

Detailed feasibility study commenced

World class engineering and technical team recruited

Land and infrastructure acquisition started

Hard coking coal reserves

190Mt

Exploration

Our current development projects are located in Poland, focused on opportunities that address our existing target market. Work to develop one of the first new large scale mines for some time in the region, at Dębieńsko, has continued as well as further work on the mothballed Morcinek mine to develop it for a return to production in the future.

NWR KARBONIA S.A. ('NWR KARBONIA') oversees NWR's two development projects in southern Poland.

Dębieńsko

Dębieńsko represents a significant part of our growth strategy.

We were granted a mining licence to enable us to extract coal from Dębieńsko, valid for 50 years in 2008, and in 2010, we applied for an amendment to this licence along with acquisition of land and recruitment of a world-class engineering and technical team.

EUR 25 million has been set aside for the first phase of this project, to be invested on the completion of a Detailed Feasibility Study ('DFS'), which includes geological exploration, land purchase, engineering work and some infrastructure projects.

The growing reputation of NWR has allowed us to successfully recruit a world-class engineering and technical team and put in to place contracts with industry-leading consultants and engineering contractors for the project execution.

During 2010, the first boreholes at the planned future shaft and decline locations were drilled and documented in anticipation of a double slope opening. The development of mine plans continued, based on the study of 3D models showing the geology of the area.

In parallel, we have acquired some plots of land necessary for surface infrastructure, in addition to an electricity supply line and related substation.

We expect to break ground in Dębieńsko towards the middle of 2011 with first production still about five years away.

Morcinek

Last mined in the late 1990s, Morcinek is a mothballed mine, situated in southern Poland close to the Czech border. NWR KARBONIA was granted a 12-year exploration licence in 2003 for Morcinek 1, followed by an additional six-year licence for a second area, in 2008. The signing of an intergovernmental agreement in August 2008 allowing cross-border mining activities gives us increased optionality when exploring Morcinek.

Geological documentation is scheduled for completion by the end of 2011 for Morcinek 1. Once the Polish Ministry of the Environment has accepted this, an application for a mining licence will be submitted for an area containing abundant mineable coal.

A further deep exploration borehole is planned for 2011 in the second, Morcinek 2 area, with a further six to be drilled during 2012 to 2014, with the aim of preparing geological documentation.

Strategic development

In addition to our current development projects, we believe the long-term rationale for consolidation in the Central and Eastern European coal sector is compelling and we continue to pursue our regional consolidation strategy. This will deliver both growth and synergies in mining skills and resources. As the first privatised coal mining business in the region and the first to access international capital markets, we have already gained the necessary experience to implement this strategy. Our operational knowledge, combined with our commercial and financial expertise, puts us in a strong position to capitalise on any opportunities that may emerge.

With its huge coal reserves, Poland remains a key target region for us to exploit our technical expertise of mining in the Upper Silesian basin. Developing Dębieńsko and Morcinek increases our presence in the region where we anticipate further opportunities for development.

We also continue to explore potential opportunities in Ukraine, a coal-rich region, where privatisation of the mining industry is well under way. Our successful track record of productivity and efficiency improvements means that we can bring both capital and operational expertise to potential partners.



View of the hoist tower at the Dębieńsko site in southern Poland

Business Review – Business Development – Markets for development

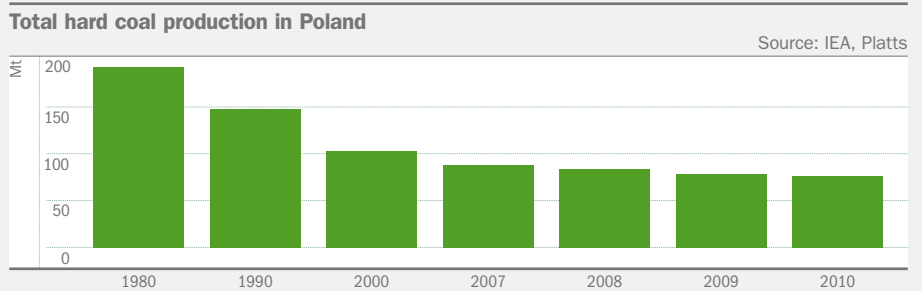
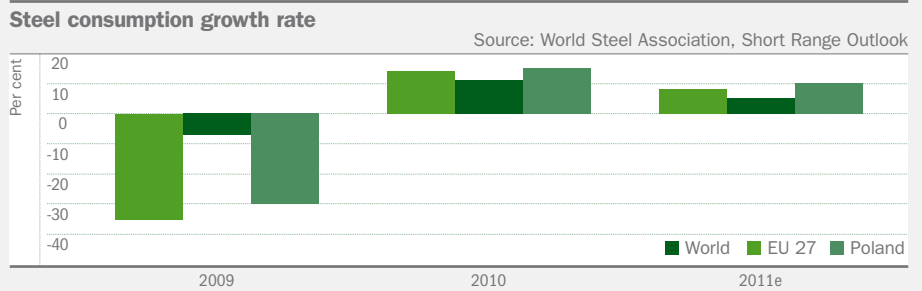
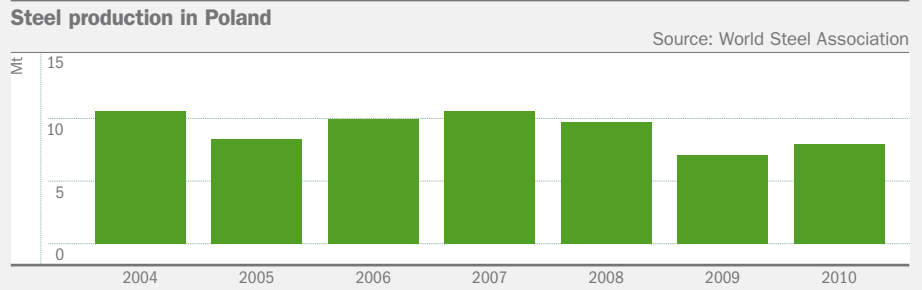
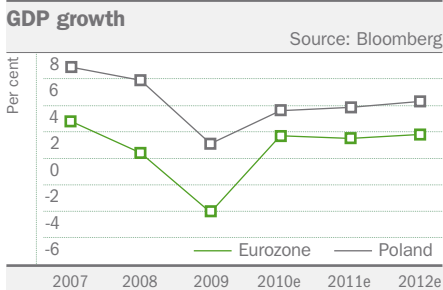
Markets for development

**The Polish and Ukrainian coal markets
 Poland**

Poland represents a very promising market for investment considering its size and the progressive development of its economy. Poland was the only country in the European Union to avoid a recession in 2009 and also recorded stronger GDP growth than most countries during 2010. The government continues with its agenda of economic reforms and liberalisation, including its privatisation programme, which saw a number of companies join its stock exchange in 2010. The country's manufacturing base, which is a supplier to German producers, has rebounded strongly in 2010 on the back of Germany's export driven recovery. Construction demand is also robust due to a large infrastructure programme and in preparation for Poland's co-hosting of the UEFA European Football Championship in 2012.

The strong demand for coal remains, as heavy industry continues to play an important role in the economy with increasing steel and electricity demand. Electricity production is still almost exclusively generated from hard coal. However, coal production in Poland has been steadily declining in recent decades since many inefficient mines have come off-line as the industry brings itself up to international competitive and environmental standards. Poland has, therefore, started to import more coal to meet its domestic requirements.

Most coal companies in the country are still state owned but are part of the government's wider plans for privatisation. Such privatisations represent promising opportunities to invest in the modernisation of Poland's coal industry and to tap into its continued development.



Ukraine

Although more economically and politically challenging than Poland, the Ukrainian coal market also offers a promising investment opportunity. The country possesses large deposits of coal with the World Energy Council estimating total coal reserves at 52 billion tonnes, the 8th largest in the world. As in Poland, coal production has been declining since the 1990s as the country embarked on large-scale industrial reform following independence. However demand for both thermal and coking coal have not fallen to the same extent, since steel production and electricity demand have been growing as the economy expands. Domestic coal production no longer keeps up with demand, leading Ukraine to import 25% of all its coking coal requirements in 2010.

The Ukrainian economy is expected to show strong levels of growth in the coming years since the country is still in the early stages

of development. Domestically, large infrastructure programmes will require increasing amounts of steel whilst heavy industry should continue to reap the benefits of low costs whilst serving large export markets to the east and to the west. Such growth and development should increase further the demand for thermal and coking coal.

The country's coal mines are still predominantly publicly owned and considered quite inefficient and underdeveloped. The average age of mines exceeds 50 years with very few new mines brought into operation in the last 20 years. The government has recently declared its commitment to the modernisation of the coal sector in partnership with private investors to substantially increase production. This investment friendly environment presents a good opportunity to take part in the development of the Ukrainian coal industry.

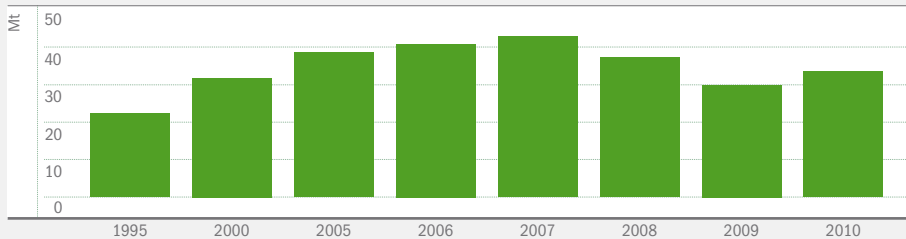
Ukraine macro indicators

Source: Consensus Economics



Ukraine steel production

Source: World Steel Association



PEOPLE



NAME: ARKADIUSZ STRENCZEK
JOB TITLE: SHIFT LONGWALL
FOREMAN
MINE: ČSM

PERSPECTIVE 2015

The PERSpective 2015 programme was designed as a continuation of the POP 2010 programme. Its main objective is to enhance NWR's competitive advantage by maximising the returns on our recent investments in state of the art technology and health and safety.

The plan focuses on five main areas: People, Efficiency, Reserves, Safety and Predictability ('PERSP').

Our **People** are our most valuable asset and we believe it is important to adequately remunerate them for the challenging work they perform. We also recognise the importance of providing them with appropriate education and training as well as providing them with the necessary tools to develop their qualifications and skills. In 2010, the average wage of our miners was CZK 32,583, 48 per cent above the regional average. We also supported several dozens of our employees in their university and postgraduate studies.

In addition to improving safety standards, our investments in mining technology aim to increase **Efficiency** and productivity in our operations. Our goal is to increase productivity by 4 per cent per year to 5 tonnes per man-shift by the end of 2015 from 4 tonnes per man-shift in 2009. Our Continuous Improvement project should further contribute to increase efficiency gains, as we continue to welcome and implement the best innovation suggestions proposed by our employees.

With a view to securing NWR's future operations up to 2030, we continue to work on augmenting our **Reserves** base. We are now in the process of preparing our upcoming mining plans and the related administrative processes necessary in order to achieve that.

Safeguarding the health and promoting the **Safety** of our workers is an integral part of our business. We aim to continue investing in the best in class personal protection and safety aids and equipment, as well as engaging all of our workers in the process of supporting further improvements in safety standards. We endeavour to minimise accidents, with the ultimate aim of zero harm, and we are targeting to decrease the accident rate index ('LTIFR') in our mines to five by the end of 2015.

We highly rank our relationships with our customers, suppliers and the municipalities where we operate and appreciate the significance of **Predictability** as an aspect of the mining business. We remain focused on further improving our customer and supplier relations as well as holding regular discussions with the municipalities from the areas where our coal extraction takes place. We are committed to working on mutually beneficial cooperations with a view to mitigating the impacts of the damage caused by mining.