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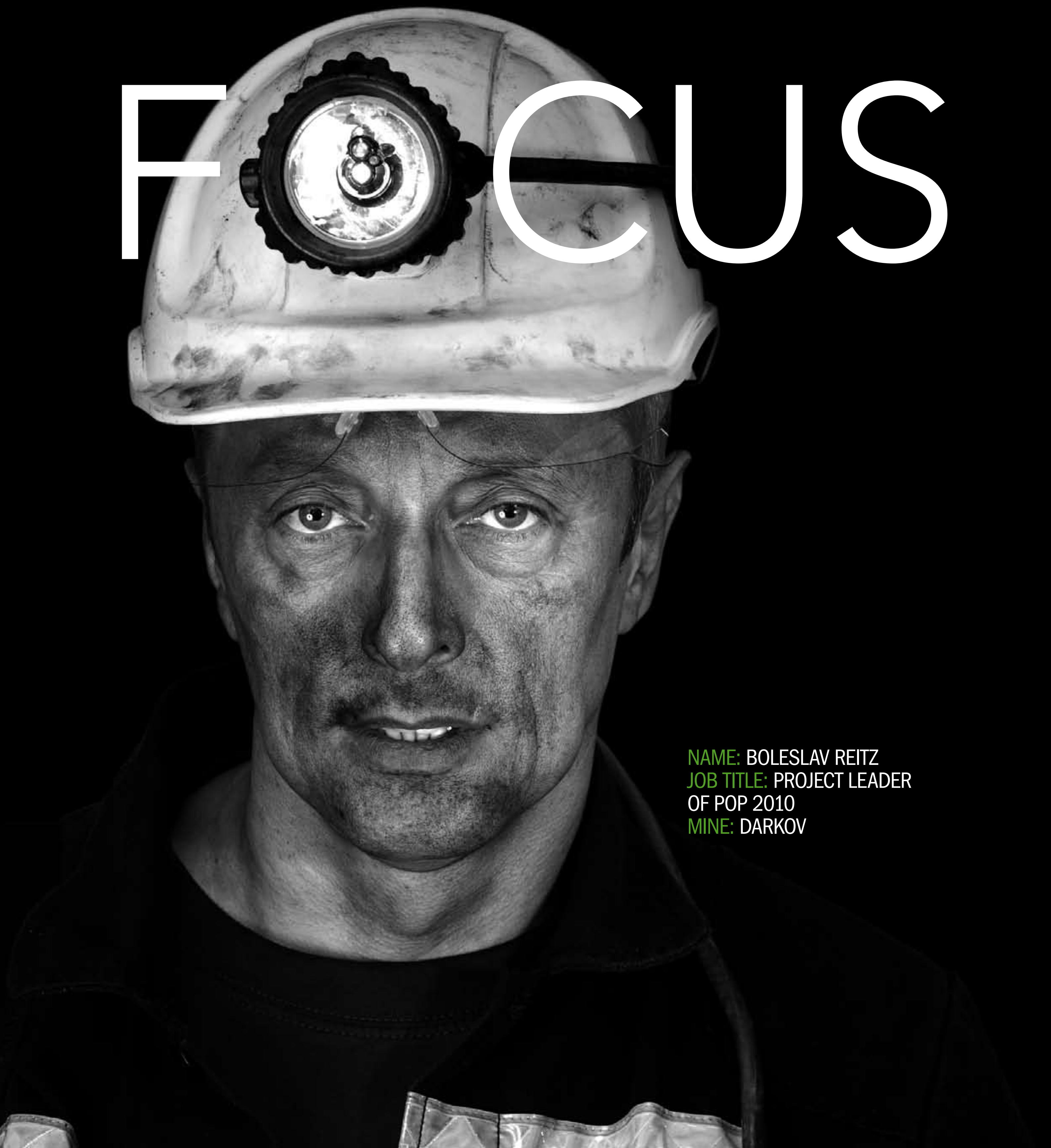


NAME: BOLESLAV REITZ
JOB TITLE: PROJECT LEADER OF POP 2010
MINE: DARKOV

POP 2010 – PRODUCTIVITY OPTIMISATION PROGRAMME

Last year marked the first full year of operational efficiencies from POP 2010, a project that involved implementing state of the art longwall mining and drilling technology.

The investments in POP 2010 are delivering increased productivity and improved safety standards. Last year the number of occupational accidents in our mines dropped by 22 per cent to 271, from 346 in 2009. The annual LTIFR in the same period decreased from 12.00 in 2009 to 9.13 last year. The new equipment has also had a positive impact on reducing dust levels.

During the first and second phase of the POP 2010 project at the Darkov, Karviná and ČSM Mines a total of nine high-performance drilling sets with new generation type ex roadheaders were introduced. The roadheader is equipped with a newly designed jet rohr, verified by tests undertaken by Coal Research Institute in Radvanice, in the Czech Republic.

The roadheaders have an added height capacity and are able to bore larger sections of galleries. Every roadheader is equipped with a camera that automatically records and transmits drilling progress. These machines are equipped with a safer, state of the art ventilation system, together with dust-removing technology.

Having completed and seen the first benefits of POP 2010, we will now focus our attention on further optimising the efficiency of the new technologies, as well as further improving health and safety standards in line with our aim to reach zero harm levels.

Business Review – Coal

COAL

Our subsidiary, OKD, a.s. ('OKD') is the sole producer of hard coal in the Czech Republic and a significant player in the Central European market. Its four operating mines are located in the Karviná and Ostrava region, situated just south of the Polish border on the Upper Silesian coal basin.

Klaus-Dieter Beck, Executive Director of NWR, Chief Executive Officer of OKD and Chairman of the Board of Directors of OKD

Divisional highlights

Coal revenues up 35 per cent to EUR 1,082 million, with revenues for coking coal up 65 per cent to EUR 739 million

11.4Mt of coal produced

Performance

Overall longwall productivity up 15 per cent

LTIFR down 24 per cent

Market summary

Strong recovery in demand for coking coal, with vehicle production up 9 per cent and steel production up 28 per cent

Thermal coal market remains stable

Coal revenues increase

+35%

We produce quality coking coal and thermal coal (also known as steam coal) sold to markets in Central and Eastern Europe; our coking coal provides the raw material for the steel industry and our thermal coal powers energy suppliers including electricity and heat producers and other industrial users.

Key achievements in 2010

Our coal mining business delivered a robust performance in 2010. We achieved our production targets, increased our productivity and improved our safety results – one of the most important measures of success for our business.

Delivering significant improvements in both productivity and safety during 2010 is a source of considerable pride within OKD. As part of our EUR 350 million Productivity Optimisation Programme ('POP 2010'), we installed 10 new longwalls over the course of 2008 and 2009, which generated significant productivity gains in 2010. As a result overall longwall productivity was 1,750t of coal per longwall per day in 2010, an increase of just over 15 per cent compared with 2009. Some new longwall sets achieved, under good conditions, average daily production levels of as high as 6,000t of coal.

Our ongoing focus on productivity continued to generate impressive results due to the introduction of the new longwall equipment. We produced 11.4Mt of coal, slightly ahead of last year (2009: 11.0Mt), with fewer longwalls sets in operation thanks to POP 2010: 17.6 constant operating longwall sets delivered 15 per cent higher volume of coal as 20 sets for the same period in 2009.

The new mining equipment is also contributing to safer operations in our mines. The Lost Time Injury Frequency Rate ('LTIFR')[1] fell by 24 per cent to 9.13 down from 12.00 in 2009 reflecting the benefits of the new equipment, a consistent focus on health and safety training and the completion of our SAFETY 2010 project, a EUR 17 million capital investment programme focused on improving personal safety equipment for every miner.

Operational performance

The geological environment we are operating in is a challenging one: we are mining down to a depth of 1,100 metres below the surface, and also down to a seam thickness of 0.8 metres. Combined with our skills and capabilities in mining at these depths, the new equipment enhances our ability to mitigate the additional cost required to mine deeper each year.

Sales

Our comprehensive service enables us to deliver coal in a timely manner and build stronger relationships with our customers. We can also ensure the quality and consistency of our products and the reliability and timeliness of deliveries.

We have well-established relationships governed by long-term framework agreements. In some cases, customers have relied on our coal for decades.

Demand for both thermal and coking coal has remained robust throughout the year, with total coal revenues rising strongly, up 35 per cent to EUR 1,082 million compared to EUR 800 million in 2009. Although volumes were evenly split between coking coal and thermal coal at 49:51 per cent, coking coal accounted for 68 per cent of total coal revenues due to the higher prices and margins it commands.

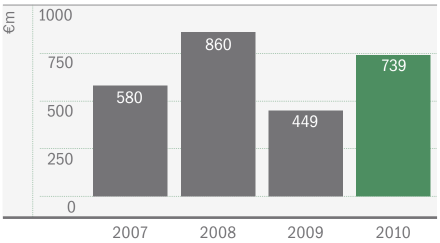
Coking coal

Revenues for 2010 rose strongly to EUR 739 million, up 65 per cent on the previous year (2009: EUR 449 million). This reflected the marginal increase in sales volume to 5,257kt as economic conditions improved, as well as the recovery in demand, which drove prices substantially higher. Coking coal prices reached an average of EUR 141 per tonne, compared with the EUR 87 achieved in 2009. For the first time in our history we priced 80 per cent of our coking coal volumes on a Japanese Fiscal Year ('JFY') basis, setting prices from April 2010 to March 2011 and ensuring that our

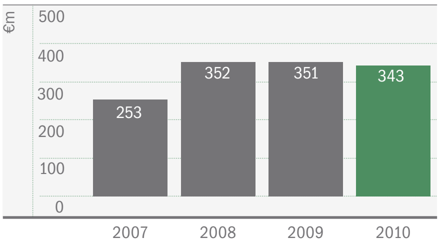
1 LTIFR = number of reportable injuries after three days of absence divided by total hours worked expressed in millions of hours.

Business Review – Coal continued

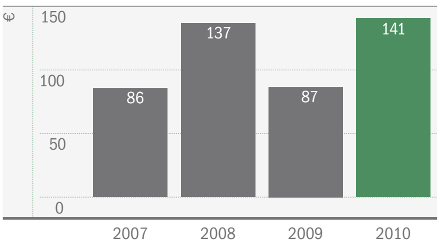
Coking coal revenues



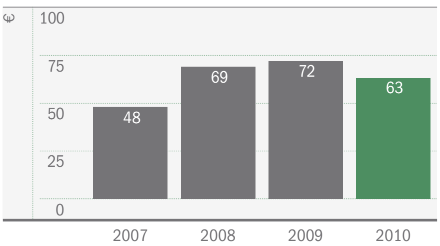
Thermal coal revenues



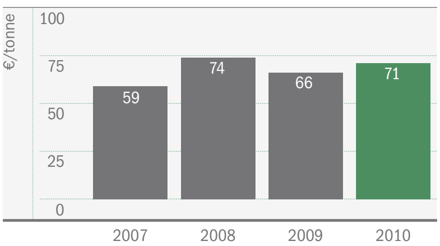
Coking coal prices



Thermal coal prices



Mining cash cost per tonne[1]



1 2007 and 2008 figures include transportation costs.

prices better reflected the global supply and demand situation. Around 42 per cent of coking coal sales in 2010 were hard coking coal and 58 per cent were semi-soft grades.

Thermal coal

By contrast, prices for thermal coal softened to EUR 63 per tonne, a 13 per cent decrease on 2009 when prices were positively affected by growing customer concerns about the ability of local supply to meet market demand. All our thermal coal is priced on a calendar year basis.

Revenues reached EUR 343 million (2009: EUR 351 million) and volumes rose, up 12 per cent on 2009 to 5,455kt reflecting improved demand. Thermal coal sales were composed of approximately 80 per cent coal and 20 per cent middlings.

Costs

Several factors contributed to a 4 per cent rise in our mining cash costs per tonne (on a constant currency basis), to EUR 71 compared with EUR 66 in 2009.

In 2010 we intensified our underground development works, which combined with the fact that we mine deeper each year, increased our materials and energy costs and also additional shifts were required resulting in higher contractor expenses and maintenance costs.

Although base salaries did not rise following extensive consultations with the trade unions, good operational results led to performance-related bonus payments during the year, leading to a modest increase in total personnel costs.

We remain focused on containing our mining unit costs, driving further efficiency gains to counter general mining sector inflationary pressures and rising costs related to the increasing depths at which we mine. However, these efficiency gains can only partially offset the impact of higher prices for steel and other materials, the cost of electricity, compressed air and heat and the overhaul and maintenance of older equipment.

Reserves

One of the largest, richest sources of hard coal in Central Europe, the Upper Silesian Coal Basin underpins the long-term sustainability of our mining operations in the region. Our JORC[2] reserves from our four mines were 396 million tonnes as at 1 January 2011 including 190 million tonnes in our Dębieńsko site in Poland.

Looking ahead

We will continue to focus on improving productivity in the coming year to help us address the challenges of mining at ever increasing depths. We mine approximately 20m deeper each year and this generates geological issues and tougher working conditions. Investment in 2011 will also focus on a fully integrated IT system (SAP), which includes more sophisticated planning and engineering procedures, more precise online control and monitoring features of production and infrastructure activities. Successfully implementing culture change in our workforce to encourage a proactive, participative approach is another focus for the year ahead. Communications and training are at the heart of this, with every worker briefed on the Company's targets and strategy and extensive training programmes focusing on health and safety as a priority but also including softer issues such as interpersonal skills. Our contractors form an integral part of our workforce and are included in all our programmes to ensure standards and behaviours are consistent throughout.

Whilst we were pleased to see further improvement on our LTIFR results this year, safety will always remain our top priority and we remain focused on reaching zero harm levels. To get there we want safety fully intergrated into our working culture, with everyone alert to safety issues at all times.

2 Full name: Joint Ore Reserves Committee. The Group currently uses both the FSU system and the JORC system in parallel to report reserves and resources. The Group employs a certified geologist who prepares the reserve numbers in accordance with JORC certified expert.

Following the completion of POP 2010, which marked a huge step forward for the Company in terms of its technology, the PERSPective 2015 Programme ('PERSP 2015'), launched in 2010, sets out our objectives and targets for improving performance over the next five years. It covers our approach to dealing with our people fairly, our targets for increasing productivity and our plans to open up new reserves. It also aims to enhance our interaction with the local communities, drive up safety standards and build upon our reputation of being a reliable business partner.

Klaus-Dieter Beck
Executive Director of NWR, Chief Executive Officer of OKD and Chairman of the Board of Directors of OKD

Plowset

Business Review – Coal – Our markets

Our markets

The Central and Eastern European coal market

In 2010 the economies of Central and Eastern Europe ('CEE'), along with the rest of Europe, began to recover from the turmoil of the financial and economic crisis of the previous year. Following several quarters of contraction, modest GDP growth returned to most European economies although some peripheral countries continued to struggle with public debt imbalances. The key driver of growth in the Eurozone and CEE region was a rebound in industrial exports on the back of strong growth in Germany.

NWR's main customers are blue chip organisations in the Czech Republic and neighbouring countries including Austria, Germany, Poland and Slovakia. They are primarily based in the industrial belt of eastern Czech Republic and Poland where a concentration of heavy industry is located. The industries in the region have a strong interdependence, with coal miners supplying the steel mills who in turn supply the automotive, construction and manufacturing industries. As a result of the economic recovery, demand in all of these sectors experienced renewed growth during 2010. For instance vehicle production in the Czech Republic grew by 9 per cent during the year while general steel consumption in Europe returned to positive growth.

Our close proximity and excellent logistic links to our customers underpin long-term relationships. This in combination with the long distances to deep-water ports, gives us a competitive advantage over seaborne imports, which incur higher transportation costs.

In the neighbouring Silesian state-owned Polish mines, total production has been declining steadily since the 1980s. Poland is subsequently struggling to meet its own domestic demand, which is evidenced by the fact that the country became a net importer of coal in 2008. Further afield, increasing volumes of coal are being imported to the region from Ukraine, Russia as well as seaborne to plug the missing production, but logistical constraints and high transportation costs will keep these imports limited.

The coking coal market

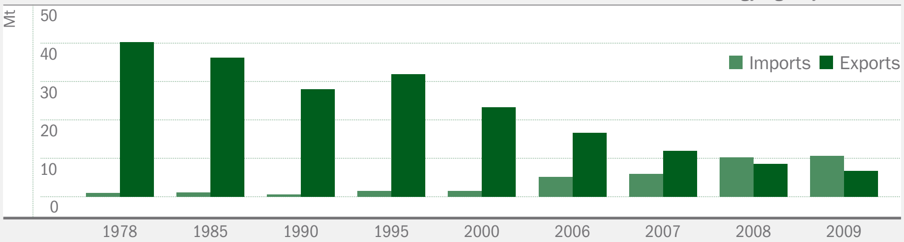
The health of the coking coal market will always be closely aligned to that of the steel industry, which moves very much in line with GDP growth. In recent years the steel industry in NWR's markets has experienced increasing demand, particularly with the rapid development of the Eastern European economies.

NWR's coking coal customers are predominantly the major steel producers in the region (including ArcelorMittal, US Steel, and voestalpine) where production levels rose by 28 per cent during 2010 on the back of recovering GDP growth, after having dropped 27 per cent during 2009 as a result of the economic crisis.

Coking coal demand in the region during the year has subsequently followed the rise in steel production levels, leading to stronger

Poland hard coal imports and exports[1]

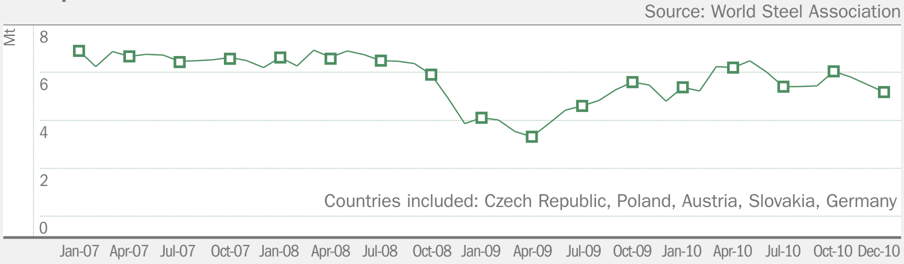
Source: International Energy Agency and Palts



1 For the most recent available year, 2009.

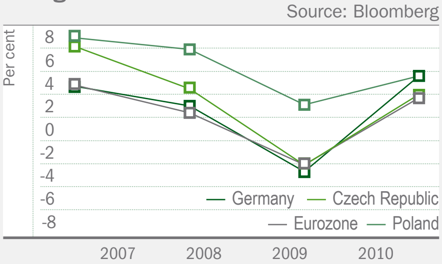
Steel production in NWR customer markets

Source: World Steel Association



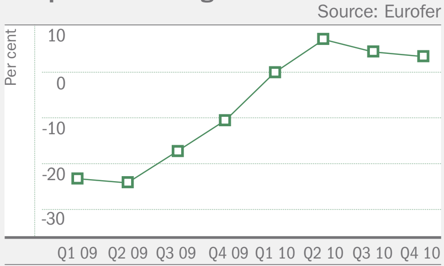
GDP growth

Source: Bloomberg



European steel use growth

Source: Eurofer



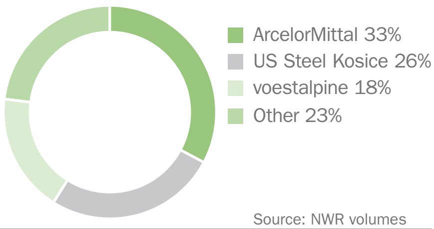
demand in 2010 compared to 2009 but still short of the pre-crisis levels.

The thermal coal market
The demand for thermal coal largely depends on the demand for electricity and heating energy as well as the supply and demand of other energy sources. Poland, for instance, generates over 90 per cent of its electricity from hard coal.

The thermal coal market in Central Europe is relatively static as it is not economically viable to transport the coal long distances. A well-established thermal energy infrastructure in the region ensures a steady and reliable customer base for NWR's thermal coal and with limited alternative domestic fuels available, coal will continue to make up a significant portion of the region's energy mix.

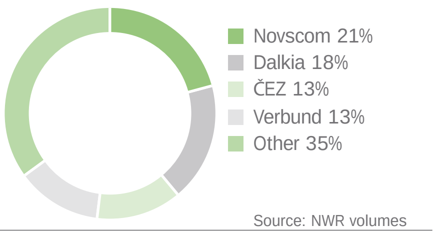
The major customers for our thermal coal are large energy companies operating in the region such as ČEZ, Dalkia and Verbund.

NWR coking coal sales by customer 2010



Source: NWR volumes

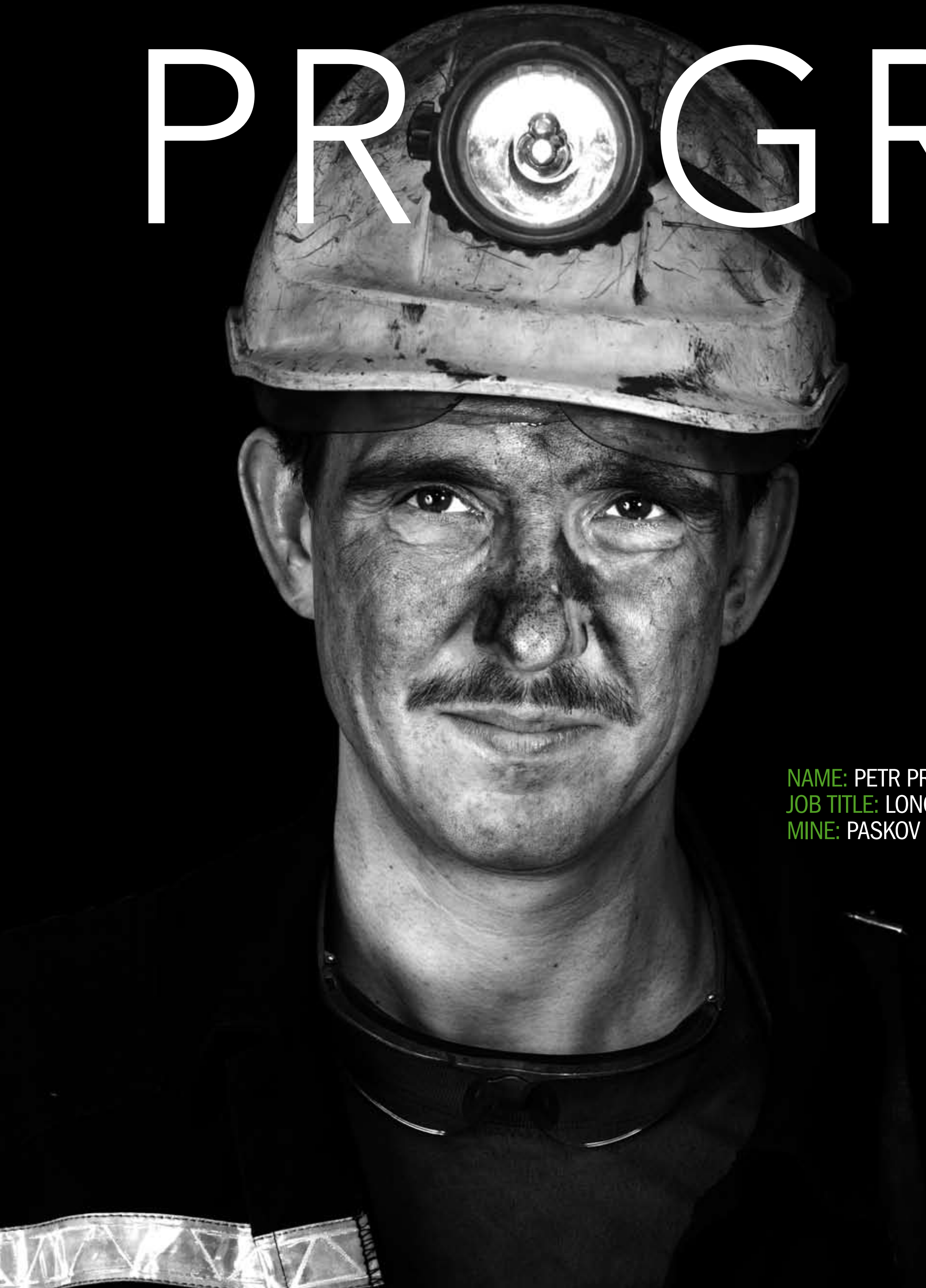
NWR thermal coal sales by customer 2010



Source: NWR volumes

Mid-seam POP 2010 equipment set: shields

PROGRE



NAME: PETR PROKOP
JOB TITLE: LONGWALL FOREMAN
MINE: PASKOV

SS

THE CONTINUOUS IMPROVEMENT PROGRAMME IN 2010 – IMPROVING EFFICIENCY AND SAFETY AT NWR'S OPERATIONS

The programme is designed to increase the involvement of NWR's employees in daily operational life, to work together to improve efficiency and safety at the operations.

Teams as well as individuals are encouraged to put forward their suggestions on issues including ways of improving working conditions, increasing occupational safety and methods of streamlining workflows. The project is not only open to NWR's own employees but also contractors, and anyone who provides a feasible idea is rewarded. Specially deployed optimisation teams solely focus on this project and then implement these ideas. In 2010, those who contributed successfully received cash bonuses as well as other special rewards.

Employees of OKD and its suppliers submitted 742 practical improvement proposals in 2010. Of these, 558 projects have been completed, and another 154 are being implemented. Thanks to this single programme, OKD has made overall savings of around EUR 9 million. We remain committed to improving our operations and welcome further input from our employees during 2011.

Business Review – Coke

COKE

Our coking subsidiary, OKK Koksovny, a.s. ('OKK Koksovny') is the largest producer of foundry coke in Europe, now operating from one site, Svoboda in Ostrava. OKK Koksovny produces both foundry and blast furnace coke from four batteries with a maximum capacity of 850kt per year following the conclusion of the consolidation process.

Ján Fabián, Chief Operating Officer of NWR, Vice Chairman of the Board of OKD

Divisional highlights

Coke revenues up significantly by 188 per cent to EUR 303 million

1.0Mt of coke produced

Performance

Production consolidated onto a single site

Refurbishment of existing battery complete

Additional new coking battery brought on-stream

Market summary

Improved demand for steel drove up volumes and prices

Coke revenues increase

+188%

Coke is produced by heating up coking coal in furnaces at temperatures of up to 1,200°C without access to oxygen, to extract volatile components such as gases and produce a highly efficient, high carbon fuel. There are two types of coke: blast furnace coke which is used as a reducing agent in smelting iron ore to produce steel and foundry coke which is used to melt pig iron in the manufacture of iron castings by the iron founding industry.

Key achievements in 2010

It has been an outstanding year for OKK Koksovny as we completed the consolidation of production onto one site, built a new coking battery, and completely refurbished another whilst production continued. Health and safety remained our highest priority during this period of intense activity and we maintained our strong track record delivering a coking Lost Time Injury Frequency Rate ('LTIFR')[1] of 2.55 with only four registered accidents (2009: 2.39; four registered accidents).

In line with our strategy to enhance profitability by investing in equipment and technology, we successfully completed our Coking Plant Optimisation Programme 2010 ('COP 2010'), which aimed to increase the efficiency and reduce the cost base of our coking operations by consolidating all operations at one site on time and to budget. Notably, we maintained high safety standards throughout the project.

A key achievement of COP 2010 was successfully consolidating all production at our Svoboda site. Shutting down the Jan Šverma site by the end of 2010 posed a significant environmental challenge as health and safety standards needed to be maintained whilst dealing with the gas and chemical outputs of the shut down process. Extensive consultation with the labour unions meant that approximately 50 per cent of the workforce at the Jan Šverma site was transferred to the Svoboda site and the remainder left the Company by mutual agreement.

We also constructed a new battery, one of the few coking batteries that have been built in the region recently, which will enable us to respond to the demand for foundry and blast furnace coke more flexibly. With 56 chambers and a maximum production capacity of 225kt per year, the new battery no. 10 has a state of the art device to capture the air pollutants generated during production, significantly reducing environmental impact. The new battery was slowly heated from June 2010, trial production started in October 2010 and moved into full production at the beginning of 2011.

A further phase of COP 2010 was the refurbishment of battery no. 8, prolonging its life for more than 20 years. This was a complex project as the chambers were refurbished in stages whilst the battery continued to operate.

Operational performance

Our operations performed strongly in 2010, producing 1.0Mt of coke during the year, up 19 per cent on 2009 when volumes were reduced to 843kt in response to weak customer demand. This is a very good result considering that parallel to normal operations we completed COP 2010.

Sales

Significantly improved coke market conditions pushed sales up to 1.1Mt; split by 55 per cent blast furnace coke, 33 per cent foundry coke and 12 per cent other types. Blast furnace coke sales were driven by improved demand in the steel industry where our customers started to reach their integrated coke production capacities and source supplies externally. In the foundry coke market, we are one of the main suppliers in the region to a wide range of customers who were faced with rising demand in the automotive industry.

Revenues for 2010 accelerated to EUR 303 million compared with EUR 105 million the previous year as prices rose to an average of EUR 275 per tonne. Coke prices are set quarterly and have remained well ahead of 2009's average of EUR 149 per tonne reflecting the recovery in demand and reduced coking capacity in the region.

1 LTIFR = number of reportable injuries after three days of absence divided by total hours worked expressed in millions of hours.

Business Review – Coke continued

Costs
Coke conversion cash cost per tonne (production costs incurred excluding coal charges), fell substantially during the year to EUR 70 mainly on the back of rising volumes (2009: EUR 84 per tonnes).

The key drivers of total coke production costs are materials and energy. These rose in line with higher production levels as more coking coal was needed to meet the increased production requirements together with increased coking coal price.

Personnel costs decreased mainly due to the reduction in headcount as we proceeded with the closure of the Jan Šverma Coking Plant.

Outlook
Coke conversion cash costs per tonne are forecast to reduce by approximately 15 per cent in 2011 as the full benefits of consolidating production on one site and the increased efficiency of the new battery continue to deliver improved performance.

We start 2011 in a strong position to capitalise on our investment programmes with an efficient operating base and the production flexibility to respond effectively to fluctuations in demand.

Ján Fabián
Chief Operating Officer of NWR,
Vice Chairman of the Board of OKD

Loading platform of coke-quenching car containing coke with a temperature of approximately 1,100ºC

Business Review – Coke – Our markets

Our markets

The Central and Eastern European coke market

As a product of coking coal, coke demand similarly follows the fortunes of the steel industry. However, coke markets tend to be more volatile since many steel mills produce their own coke supply with independent producers complementing their production. However, a number of producers continue to operate out of date coking batteries. There remains further volatility in the Central Eastern European region.

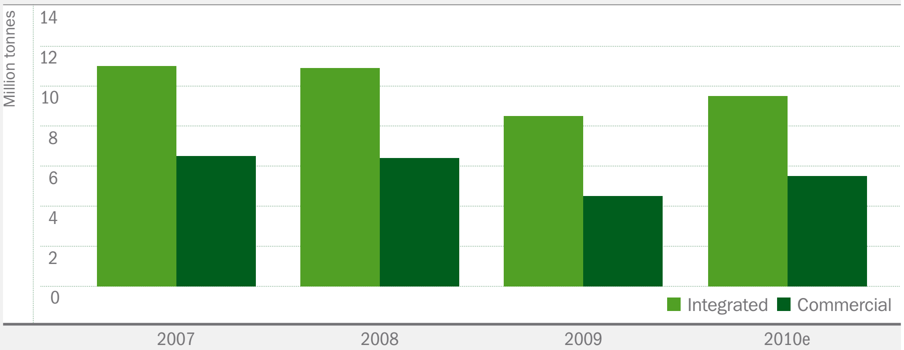
Subsequent to the collapse in steel production, coke demand in Central Europe fell significantly in 2009. In response much coke capacity in the merchant coke market was taken off line. This reduced supply capacity, along with export restrictions from China and rising demand, helped coke prices in Europe to recover in 2010 from the lows of 2009. Monthly European blast furnace coke prices rose in 2010 by an average of 90 per cent while monthly foundry coke prices rose by an average of 35 per cent.

Sales of our blast furnace coke are concentrated within a small number of large customers in the steel industry who in turn supply the automotive, construction and manufacturing sectors. Customers include blue chip organisations such as voestalpine and Moravia Steel with whom we have forged close, long-standing relationships.

Sales of foundry coke are more widely distributed over a larger number of smaller customers with their own foundries. Foundries mainly supply the automotive industry.

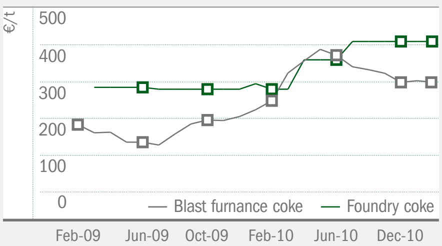
Coke production in CEE

Source: NWR estimates

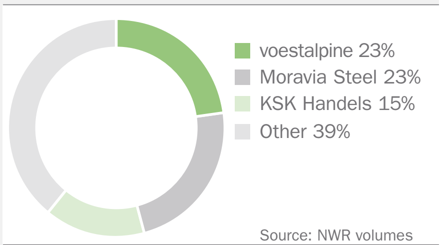


European coke prices

Source: Resource Net



NWR coke sales by customer 2010



Source: NWR volumes

MODERNISA

NAME: JIŘÍ RADOŠOVSKÝ
JOB TITLE: CHIEF OPERATIONS MECHANIC
OPERATION: OKK KOKSOVNY

TION

COP 2010 – COMPLETED ON TIME AND TO BUDGET

NWR successfully completed COP 2010 at the end of 2010. With a capital investment of EUR 63 million, this two-year project streamlined and modernised NWR's coking operations.

During the year, the Jan Šverma Coking Plant was decommissioned, consolidating all NWR's coking operations at a single site, Svoboda.

At Svoboda, the newly constructed battery no. 10 has 56 chambers and meets the highest environmental standards. The battery and the service machinery are fitted with state of the art equipment for capturing air pollutants created by coke production. The maximum production capacity of the battery is approximately 225kt of coke per year. Trial operations commenced in October 2010 and moved into full production at the beginning of 2011. The battery is fired by its own coke-oven gas, and is connected to the latest systems to improve the process of handling by-products of coke production such as tar, benzol and coke-oven gas. All waste materials produced during the construction of this battery were disposed of in an environmentally friendly manner.

Additionally, battery no. 8 has undergone a complete refurbishment, including the construction of new pushing and charging machines.

With more flexible facilities we are now in a better position to meet our customers' specific coking demands. The Svoboda plant operates four coke-oven batteries with a total of 210 chambers, and capacity of approximately 16 tonnes of coke per chamber over a production cycle of around 32 to 34 hours. The total maximum production capability is 850kt of coke per year.

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.

Dębieńsko

Dębieńsko represents a significant part of our growth strategy.

NWR KARBONIA S.A. ('NWR KARBONIA') oversees NWR's two development projects in southern Poland – Dębieńsko and Morcinek. 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 Dębieńsko Site hoist tower in Southern Poland

Business Review – Business Development – Markets for development

Markets for development

The Polish and Ukrainian coal markets

Poland

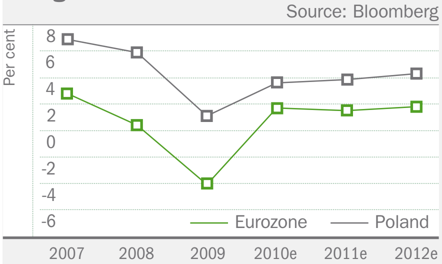
Poland represents a very promising market for investment considering its size and the progressive development of its economy. Poland was the only country in the European Union to avoid a recession in 2009 and also recorded stronger GDP growth than most countries during 2010. The government continues 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.

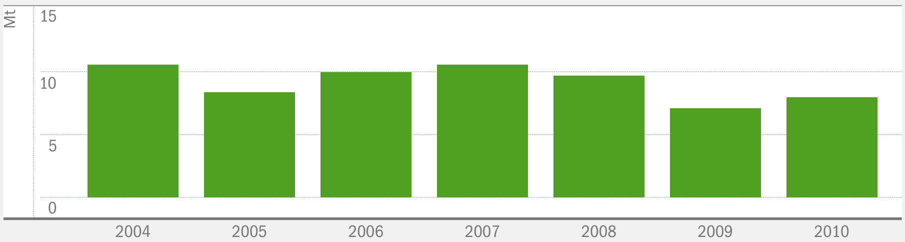
GDP growth

Source: Bloomberg



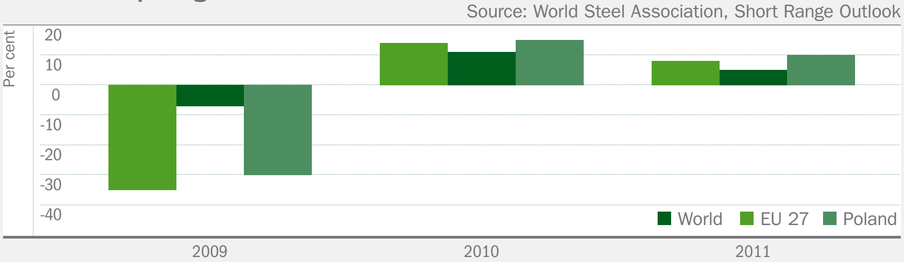
Steel production in Poland

Source: World Steel Association



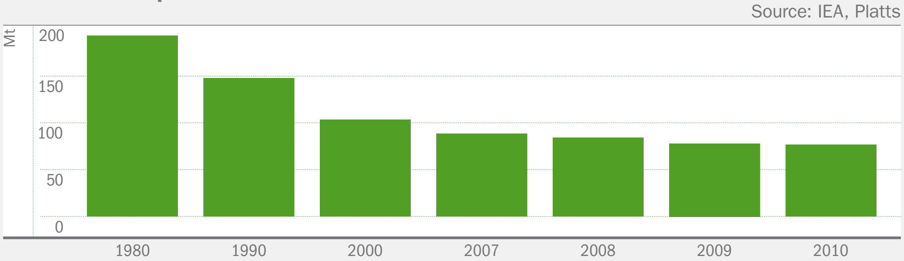
Steel consumption growth rate

Source: World Steel Association, Short Range Outlook



Total hard coal production in Poland

Source: IEA, Platts



Ukraine

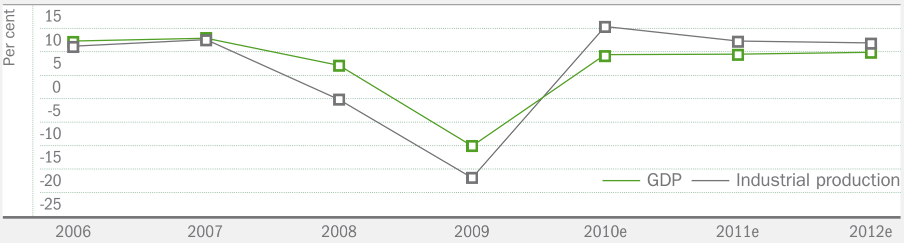
Although more economically and politically challenging than Poland, the Ukrainian coal market also offers a promising investment opportunity. The country possesses large deposits of coal with the World Energy Council estimating total coal reserves at 52 billion tonnes, the 8th largest in the world. As 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.

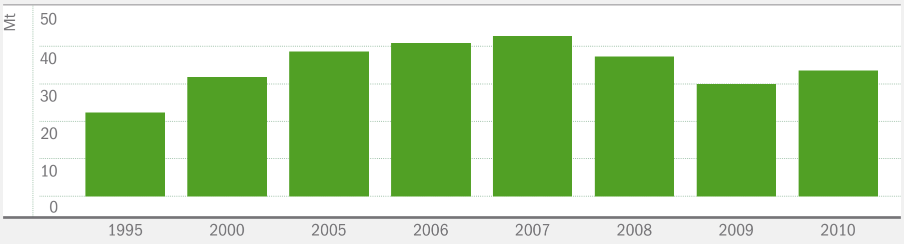
Ukraine macro indicators

Source: Consensus Economics



Ukraine steel production

Source: World Steel Association



PEOPLE

NAME: ARKADIUSZ STRENCZEK
JOB TITLE: SHIFT LONGWALL FOREMAN AT THE SOUTHERN SITE
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.

FINANCE DIRECTOR'S REVIEW

Marek Jelínek, Executive Director and Chief Financial Officer

- Adjusted earning per A share of EUR 0.86
- Significant reduction in net debt, down by 34 per cent to EUR 321 million
- Strong cashflow from operating activities of EUR 315 million
- Return to dividend payments
- Successful placing of EUR 500 million senior secured notes

EBITDA

€464m

We re-instated dividend payments this year. We paid an interim dividend of EUR 0.21 per A share, and declared a final dividend of EUR 0.22 per A share taking the total dividend for 2010 to EUR 0.43 per A share in line with our dividend policy.

Strong cash position

€529m

Overview
We delivered a strong financial performance in 2010 but perhaps our key achievement was to reach our stretch coal production target of 11.4Mt while keeping unit costs under control.

Our revenues rose significantly to EUR 1,590 million, up 42 per cent compared with 2009 (2009: EUR 1,117 million), helped by the increase in sales volumes and a strong recovery in commodity prices, especially for coking coal and coke, as we saw prices increasing quarter on quarter throughout the year.

EBITDA from continuing operations also increased significantly by 160 per cent to EUR 464 million (2009: EUR 179 million) driven by a combination of three factors: the increase in sales volumes, rising prices and stringent cost control.

Total EBITDA increased to EUR 468 million in 2010 (2009: EUR 186 million) including EUR 4 million from discontinued operations.

Adjusted earnings per A share were EUR 0.86, compared with EUR (0.25) for the same period in the previous year.

Revenues
Our largest source of revenue is from sales of coking coal, which accounted for 68 per cent of total revenues in 2010 with rising prices driving up revenues by 65 per cent to EUR 739 million (2009: EUR 449 million). Average sales prices for coking coal reached EUR 141 per tonne in 2010, up 62 per cent on the EUR 87 realised in 2009.

By contrast, revenues for thermal coal fell slightly to EUR 343 million (2009: EUR 351 million), reflecting a 13 per cent decline in average sale prices for thermal coal to EUR 63 (2009: EUR 72 per tonne).

We saw a dramatic increase in coke revenues, up 188 per cent to EUR 303 million (2009: EUR 105 million), largely driven by increased sales volumes and an 84 per cent increase in prices to EUR 275 per tonne compared with EUR 149 per tonne last year, as demand recovered.

Operating expenses
Our total operating expenses including depreciation and amortisaton rose by 12 per cent to EUR 1,271 million (2009: EUR 1,137 million) reflecting increases in external coal consumption for coking coal and due to higher levels of coke production, increased consumption of mining materials and higher personnel and contractor expenses as a result of increased production and development works. Total operating expenses also include transportation costs, which are re-invoiced to customers and thus have no impact on our bottom line.

Costs for energy consumed in coal mining declined by 14 per cent as a result of a 22 per cent fall in electricity prices, partially offset by an increase in electricity consumption of 4 per cent. Increased production drove up the number of shifts by 20 per cent and led to an increase in the number of contractors employed, resulting in a 30 per cent increase in contractors costs.

Although an agreement with the unions held our basic wages at the same level as in 2009, we delivered on our promise to share the success of our strong performance and paid a well-deserved summer and winter bonus to our mining employees. As a result, total personnel expenses increased by 2 per cent on a constant currency basis.

Mining unit cash cost rose by 4 per cent on a constant currency basis to EUR 71 per tonne as we intensified our development efforts at the end of 2009 and into 2010 with a view to returning to higher operational capacity. Previously postponed repairs to longwall equipment were completed, driving up maintenance costs and the inevitable additional costs of mining deeper in more demanding geological conditions added to the increased usage of mining material and equipment for the new longwalls.

Business Review – Finance Director's Review continued

Net operating cash flow

€315m

Unit cash costs for coke showed a very positive trend, declining 20 per cent on a constant currency basis, from EUR 84 per tonne in 2009 to EUR 70 per tonne in 2010. This decrease was mainly driven by the significant increase in production, up 19 per cent to 1.0Mt. We expect this trend to continue into 2011 as we reap the benefits of consolidating our coke production onto a single site.

Capital expenditure ('CAPEX')

Total CAPEX in 2010 was 12 per cent below 2009 levels primarily as a result of the completion of the POP 2010 investment programme in 2009.

Our CAPEX for the year was EUR 221 million, including the final investment in the Productivity Optimisation Programme 2010 ('POP 2010') where we had negotiated deferred payment terms to help conserve cash in 2009. Significant productivity improvements from POP 2010 have fully vindicated our decision to continue investing during the downturn and we are now reaping the benefits of that investment.

The Coking Plant Optimisation Programme 2010 ('COP 2010') project was completed by the end of 2010. The concentration and modernisation of the coke works makes us a more cost efficient, environment friendly operation and gives us more flexibility to adapt to market demand by making it easier to switch between the production of blast furnace coke and foundry coke, adapting to market demand. There will be some on-going costs to decommission the Jan Šverma site and we are currently looking at the most efficient ways of completing this process.

Exchange rates

The Czech Koruna/Euro exchange rate is the foreign exchange rate relevant for us, as our revenues and expenses are a mix of both currencies. The Czech Koruna has been volatile during 2010, strengthening towards the end of the year leading to an average exchange rate of CZK/EUR 25.28 and appreciating by 4 per cent during the year. We partially mitigate the effects of the currency fluctuation with our hedging policy, as we aim to cover approximately 70 per cent of our cash flow exposure with currency forwards. Whilst this policy will not change going forward, we will be changing the way we implement this to reflect the increasing move to quarterly pricing of our products.

Cash flow

Cash flow in the period was strong, influenced by the positive dynamics of commodity pricing, increased revenues from coal and coke and a corporation tax rebate.

The net proceeds from the sale of NWR Energy a.s. to Dalkia Ceska republika a.s., which amounted to EUR 125 million, led to a further positive effect on net debt.

Net operating cash flow amounted to EUR 315 million in the year, up by EUR 139 million as compared with 2009. The significant reduction in our inventories also contributed to cash flow improvements (a EUR 30 million impact). At the same time, during 2010, there was a negative impact of EUR 66 million with respect to the increase in receivables. Our working capital is now back to normal levels.

Dividends

As our financial performance improved, we re-instated dividend payments this year. We paid an interim dividend of EUR 0.21 per A share, and declared a final dividend of EUR 0.22 per A share adding up to total dividend for 2010 of EUR 0.43 per A share. This is in line with our dividend policy, to distribute 50 per cent of the Mining Division's consolidated annual net income over the course of the business cycle, which remains unchanged going forward.

Liquidity and capital resources

During the year we significantly reduced our net debt by over a third to EUR 321 million, from EUR 486 million at the end of 2009. As of 31 December 2010, we held cash and cash equivalents of EUR 529 million.

We undertook a major balance sheet initiative in the spring of 2010, refinancing a package of senior secured bank facilities. We successfully placed EUR 500 million senior secured notes due in 2018 with 7.875 per cent coupon to repay the senior secured bank facilities supplemented by approximately EUR 181 million from cash resources.

We start 2011 in a strong financial position with a favourable environment in which to pursue our strategy.

This enabled us to defer our debt maturity, with our earliest bond maturity date in 2015. This timing is important as it gives us the necessary financing headroom in light of the high level of capital expenditure we expect over the next five years related to the development of Dębieńsko. We were also able to take advantage of a strong credit market in the spring to lock in favourable terms. We had withdrawn a bond earlier in the year as spreads widened following worsening conditions in peripheral European economies, only returning to the market when conditions had improved. This demonstrates our ability to remain flexible and disciplined and move opportunistically to take advantage of favourable market conditions.

We have also strengthened our financial position by securing a EUR 100 million Senior Secured Revolving Credit Facility ('RCF') in the first quarter of 2011. The RCF will be available for three years after the date of signing and the proceeds will be used for general corporate purposes. Although we do not envisage drawing down in the near future, we are always aware that we operate in an industry, which can be unpredictable at times, making it prudent to have additional resources at our disposal if required.

Outlook

We start 2011 in a strong financial position with a favourable environment in which to pursue our strategy. However, we will continue to experience the general mining sector inflationary pressures as well as rising costs related to the increasing depths at which we mine. We also expect the Czech Koruna to continue strengthening during 2011, which will translate into higher headline costs.

For 2011, we have revised our CAPEX requirements in light of incremental development with a view to maintaining production volumes and mix, as well as ongoing provision for replacement and renewal of longwalls in particular. Additionally, we are also provisioning for higher safety-related CAPEX, especially as the underground environment becomes increasingly challenging. We believe that going forward our CAPEX requirements will be between EUR 200–225 million per annum. On the assumption that the Dębieńsko project is signed off, a further EUR 50 million of CAPEX has been allocated for next steps in 2011.

Our plans for reincorporating in the United Kingdom during 2011 and thus becoming eligible for FTSE UK Series Index indices inclusion continue to progress. The reincorporation should give us increased exposure and further access to premium international capital markets.

We will also continue to pursue strategic opportunities in the region, underpinned by our financial strength and track record of successful operational performance and financial expertise.

Marek Jelínek
Executive Director and Chief Financial Officer


RESPONSI
NAME: JAROSLAV PROVÁZEK
JOB TITLE: CHIEF MECHANIC
OPERATION: HBZS

BLE

SAFETY – AN ONGOING COMMITMENT TO ZERO HARM

NWR successfully completed its SAFETY 2010 programme at the end of 2010. SAFETY 2010 entails the largest purchase of mining work equipment ever realised in the Czech Republic. This two-year project was primarily focused on replacing personal work wear and technical equipment with the latest innovations. The new equipment has not only improved safety but also general working conditions underground.

As in other technological fields, advances in science allow equipment to become more compact and lighter. For example, the new underground mining lamps are now half the size and weight of their predecessors, which makes a noticeable difference to the miners on a daily basis. Thanks to the use of NiMh dry accumulators, the new lamps have enhanced safety.

Furthermore, as part of NWR's ongoing commitment to improving safety conditions, the Company has implemented stringent safety regulations, processes and monitoring systems at all its operations. Additionally, employees are encouraged to appreciate not only wider potential risks but also to have a greater sense of responsibility for their own safety and that of their colleagues. NWR runs several initiatives to promote a safer workplace, which are based on an improved dialogue between employees and senior staff in day-to-day operational life. These include ‘suggestion boxes’ for employees on ways to improve safety, working conditions and efficiency with the most viable ideas being rewarded.

As a result of the initiatives we have undertaken, the number of injuries at OKD, decreased by 22 per cent, from 346 injuries recorded in 2009 to 271 in 2010. Similarly, the LTIFR dropped from 12.00 to 9.13, exceeding the target set for 2010.

Business Review – Principal Risks and Uncertainties

PRINCIPAL RISKS AND UNCERTAINTIES

The risks outlined below have been identified as the principal risks and uncertainties for the Group which could have a financial, operational or reputational impact on the Group. Further information on our approach to risk management is provided in the Corporate Governance report on pages 52 to 70.

Risk description	Potential impact	Mitigation
Economic environment In 2010, the economies of Central and Eastern Europe ('CEE') began to recover from the turmoil of the financial and economic crisis of the previous year. However, the economic situation remains uncertain.	Economic conditions globally and in the CEE region may have an adverse effect on demand for NWR's products and therefore on the Group's financial performance.	We closely monitor economic developments, both local and global, to ensure that NWR is ready for appropriate action when necessary. We are in regular contact with our main suppliers and customers so that we can minimise the potential impact of negative economic conditions wherever possible. In addition, OKK Koksovny, a.s. ('OKK Koksovny') has constructed a new battery at Svoboda, which will enable us to respond more flexibly to changing economic conditions and demand by switching between production of foundry and blast furnace coke as appropriate.
Fluctuations in currency exchange rates and interest rates Currency fluctuations may have a material effect on NWR's financial results due to our operations being exposed to a mixture of Czech Korunas and Euros whilst the Group reports its results only in Euros.	The mix of the Group's revenues and costs means that appreciation of the Czech Koruna against the Euro tends to result in an increase in costs that is more significant than the corresponding increase in revenues and as such will lead to a decline in the result of operations. As some of our development projects are located in Poland, changes in the exchange rate of the Polish Zloty may also adversely affect the results of our operations. In addition, as we may be affected by volatility in variable interest rates via our indebtedness, a significant increase in interest rates could negatively affect the Group's results.	We apply various financial instruments to minimise our exposure to currency fluctuation and interest rate volatility to acceptable levels, depending on the foreseeable time horizons of these exposures. With regard to currency fluctuation, the maximum time horizon is 12 months ahead as this generally matches the time horizon of the Group's expected revenues and costs. We aim to mitigate at least 70 per cent of our exposure to currency fluctuation. The maximum time horizon for financial instruments used to mitigate the exposure to interest rate volatility matches the contracted periods of NWR's indebtedness, as this ultimately determines the degree to which NWR is exposed to the volatility of floating interest rates.
Price volatility Price volatility may affect the Group in two ways: 1. A significant and rapid change in realised coking and thermal coal and coke prices and; 2. A significant increase in input costs.	A reduction in the Group's earnings if: 1. Received prices do not enable the Group to meet its margins given the fixed elements of production costs; and 2. Increased input costs cannot effectively be passed on to customers.	1. We have long-term contracts in place with many of our customers, in which we negotiate prices on a regular basis. With regard to coking coal, in 2010, the majority of our coking coal sales were priced for the full Japanese Fiscal Year to reduce volatility. 2. We continue to have long-term business relationships with both our customers and key suppliers of our strategic commodities.
Customer base A substantial proportion of the Group's sales volumes of coal is made to a small number of customers.	A significant decrease in demand for NWR's products or the inability to collect payment from a customer could affect financial results and performance.	We have long-term framework agreements with our main customers, expiring at various times until 2016. These agreements, as well as the annual and quarterly supply agreements, are reviewed and re-negotiated periodically, ensuring medium-term stability in sales levels and pricing of the Group's products. We closely monitor our customers' solvency to ensure their continued ability to honour their contracts.

Risk description	Potential impact	Mitigation
Employees The Group needs to recruit, develop and retain sufficient skilled employees to meet its needs in maintaining or expanding production to ensure its competitive position.	Operational inefficiencies and inability to fully capture growth.	We are focused on attracting a younger workforce through a number of initiatives including liaison with local education institutes and programmes, setting up apprentice classes and hiring college graduates. The Group provides regular and comprehensive training for employees in conjunction with equipment manufacturers. Our remuneration policies include incentive arrangements which clearly link performance to bonus payments.
Health and safety, and the Environment NWR's operations in coal mining and coke production are subject to significant operating risks that could result in decreased coal production or have an undesired impact on health and safety or the environment we operate in. Failure to ensure/ implement effective health and safety procedures or an inability to properly respond to health and safety incidents.	In case we cannot ensure a constant and positive performance in health and safety and minimise our impact on the environment, this can have an impact on operations, as well as our reputation. Thereby our ability to attract talent and investor support as well as the validity of the Group's licences to exploit its resources could be threatened.	Health and safety will always remain a top priority on NWR's agenda, both for our employees and for the environment in which the Group operates. The 'SAFETY 2010' project, completed by the end of 2010, involved significant investment in upgrading safety tools and equipment. Following on from SAFETY 2010, we have launched the 'PERSPective 2015 Programme' which focuses on improving safety KPIs as well as giving us the capability to further monitor safety performance and act appropriately and proactively on possible safety issues. The Group is also working on implementing new mining techniques and processes that will significantly decrease the likelihood of damage caused by our mining activities. NWR continues to strive to minimise its impact on the environment by investing in state of the art technology, as well as developing and pursuing best practice operating processes. In cases where we cannot avoid some environmental impact, NWR continues to focus on rehabilitation of land affected by our activities. We are co-operating closely with regional and local organisations and governments to ensure appropriate and meaningful rehabilitation. An example of this is our investment of EUR 24.4 million in the 'Darkov sea' project, which will ultimately see the area restored to a recreational resort. During 2010, we closed down the operations at the Jan Šverma Coking Plant and are now working on the most appropriate way to dismantle all production facilities in an effort to minimise any potential impact on the environment.
Regulatory change affecting licences and permits Changes in laws and regulations at EU, national and local government level in the Czech Republic and Poland.	These factors could affect the Group's ability to obtain, keep and/or extend mining licenses and permits which could limit the Group in its growth or its existing production capacity.	We monitor political, regulatory and social risks and hold regular discussions with local, regional and national governments in the Czech Republic and Poland and monitor current and possible future regulations closely. During 2010, we cooperated with local and regional governments to develop sustainable development projects that are meaningful for both the region and the Group.
Geological Conditions Like all mining operations anywhere in the world, the Group's mining operations are subject to geological conditions. The Group's mines are among the deepest mines in CEE. They are currently ranging from approximately 600 to 1,100 metres deep but may in the future extend to a depth of 1,400 metres.	Worsening geological conditions as a result of deeper mining results in increased operational risk. Future production could be lower in terms of quality and quantity due to increased operational risk. Less production and/ or a lesser quality of the coal produced will have a direct negative impact on the Group's financial results.	This risk is inherent to running a coal mining business in CEE and even though the Group uses some of the most advanced mining technology, and continuously monitors and analyses the geological conditions thoroughly, it is impossible to fully mitigate such risk.
Future growth Plans for future growth are based on developing and acquiring projects where success is dependent on a number of factors including: our capacity and resources, external relationships and project delivery and execution.	The inability to develop growth opportunities, which will constrain our ability to create long-term value for our shareholders.	NWR is developing two organic Polish projects (Dębieńsko and Morcinek). We are currently progressing our project at Dębieńsko having put together a world-class team that is undertaking a detailed feasibility study to eliminate much of the uncertainty and execution risk. We are also exploring and developing hard coal reserves in existing mining areas. In addition we have built a solid and stable foundation for our business, from which we are well positioned to take advantage of acquisition opportunities to strengthen our regional position.