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.

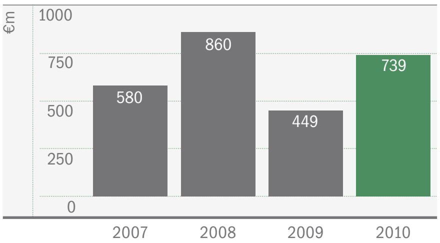
Demand for both thermal and coking coal has remained robust throughout the year, with total coal revenues rising strongly, up 35 per cent to EUR 1,082 million compared to EUR 800 million in 2009. Although volumes were evenly split between coking coal and thermal coal at 49:51 per cent, coking coal accounted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

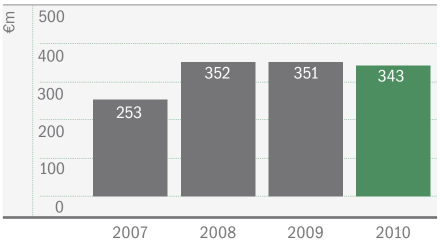
1 LTIFR = number of reportable injuries after three days of absence divided by total hours worked expressed in millions of hours.

Business Review – Coal continued

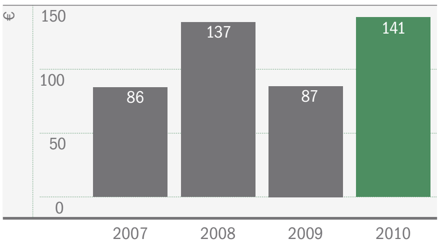
Coking coal revenues



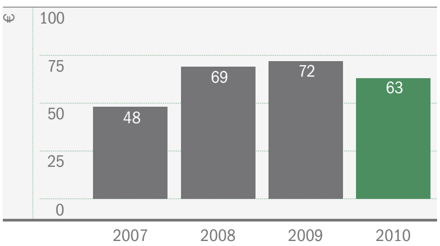
Thermal coal revenues



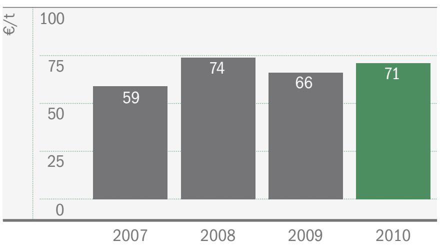
Coking coal prices[1]



Thermal coal prices[1]



Mining cash cost per tonne[2]



1 Average sales price per tonne.
2 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[3] 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.

3 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

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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

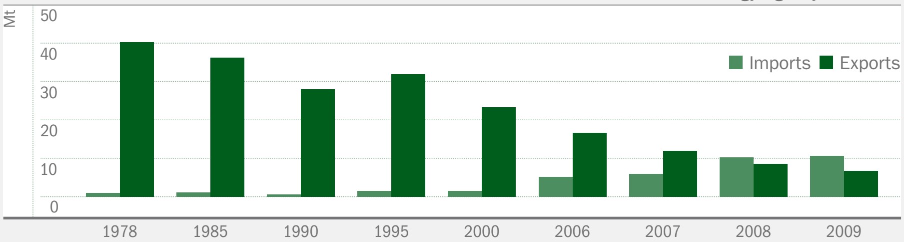
The health of the coking coal market will always be closely aligned to that of the steel industry, which moves very much in line with GDP growth. In recent years the steel industry in NWR's markets has experienced increasing demand, particularly with the rapid development of the Eastern European economies.

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]

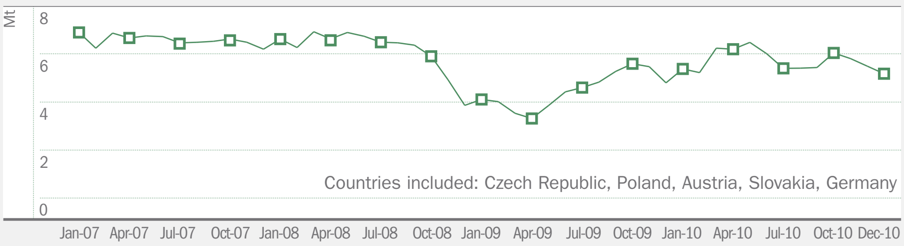
Source: International Energy Agency and Palts



1 For the most recent available year, 2009.

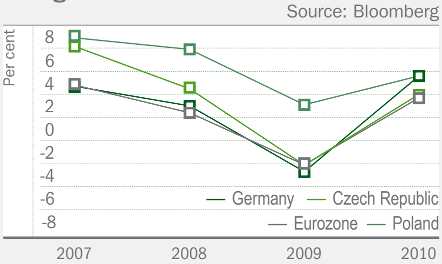
Steel production in NWR customer markets

Source: World Steel Association



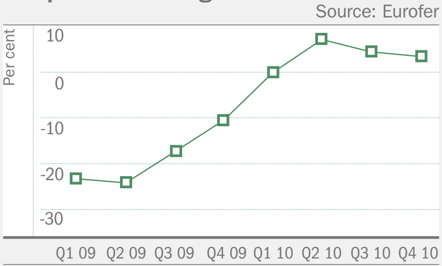
GDP growth

Source: Bloomberg



European steel use growth

Source: Eurofer



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

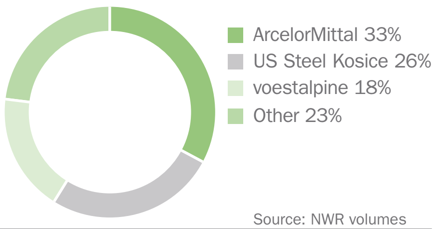
The thermal coal market

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.

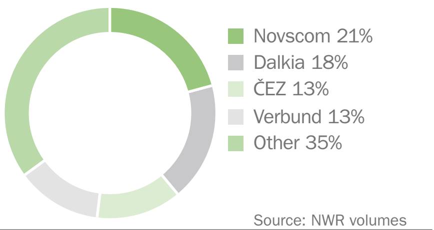
The major customers for our thermal coal are large energy companies operating in the region such as ČEZ, Dalkia and Verbund.

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

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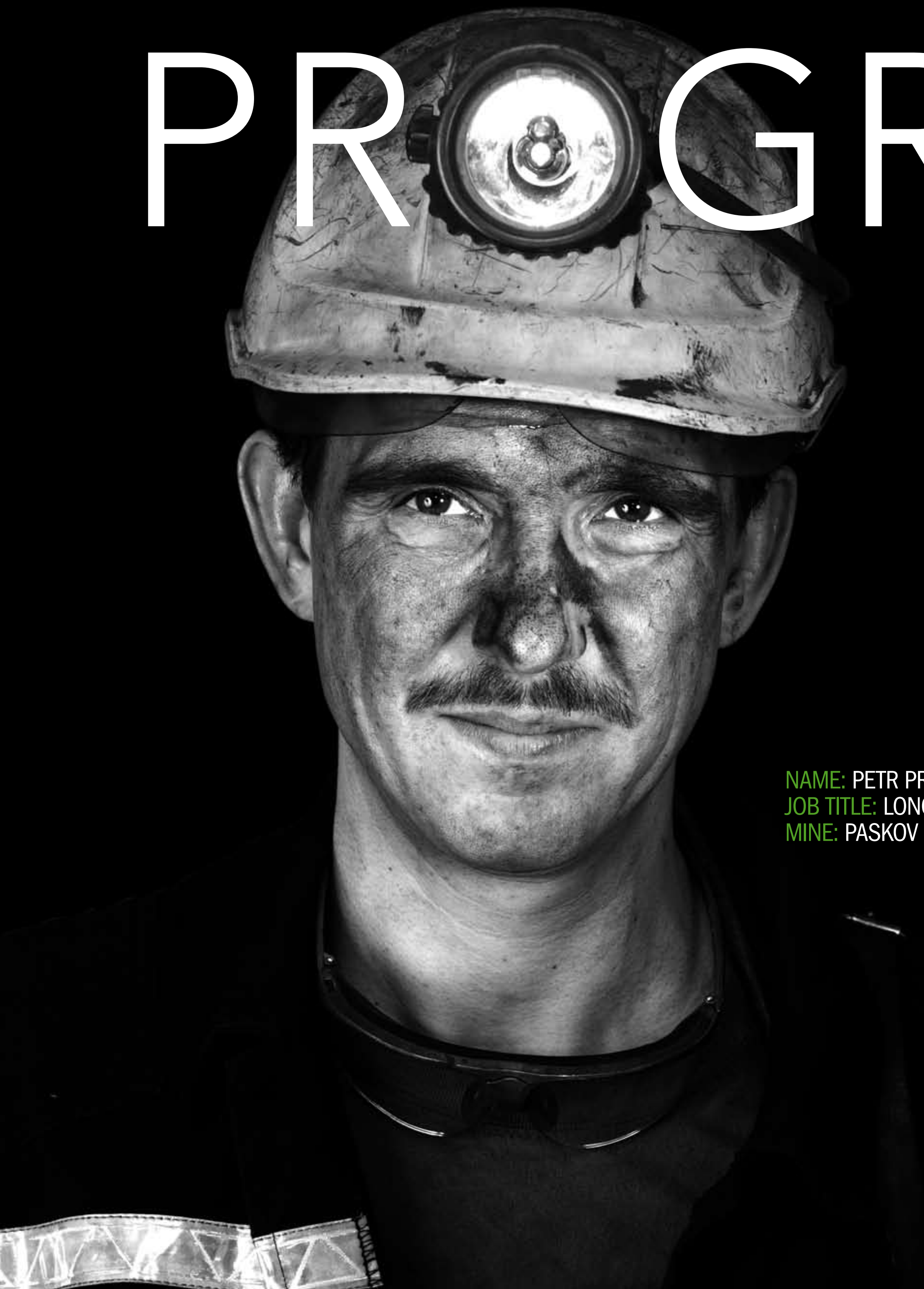

NAME: PETR PROKOP
JOB TITLE: LONGWALL FOREMAN
MINE: PASKOV

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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.