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. pg 52-70

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 licences 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.