



**Combined accounts of  
RPG Industries, a.s.,  
OKD, Doprava, akciová společnost,  
OKD, DPB, a.s.  
and OKD Group**

**for the year ended 31 December 2006**

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## AUDITOR'S REPORT TO DIRECTORS OF NEW WORLD RESOURCES B.V.

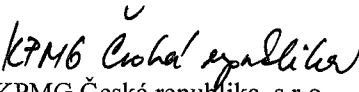
We have audited the accompanying combined balance sheet of the group of four commonly controlled companies (OKD, a.s. and its subsidiaries, OKD, Doprava, akciová společnost, OKD, DPB, a.s. and RPG Industries, a.s., together "the combined entities") comprising the Czech mining, gas and transportation operations of RPG Partners Ltd. as of 31 December 2006 and the related combined income statement and the combined statement of changes in equity for the year then ended ("combined financial information"). The combined financial information has been prepared from the books and records maintained by the combined entities and the purchase adjustments maintained by RPG Partners Ltd. as described in the basis of preparation set out in Note 1 to the combined financial information. This financial information is the responsibility of management of New World Resources B.V. and has been prepared by them solely for the purpose of the intended high-yield bond offering of New World Resources B.V. Our responsibility is to express an opinion on the accompanying financial information based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the financial information. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying combined financial information has been prepared, in all material respects, in conformity with the basis of preparation set out in the Note 1 to the combined financial information.

The accompanying combined financial information does not represent general purpose financial statements. This report is prepared solely for the purpose of the prospectus and should not be used for any other purpose.

Prague, 28 March 2007

  
KPMG Česká republika, s.r.o.

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ  
SPOLEČNOST, OKD, DPB, A.S. AND OKD GROUP

COMBINED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	<i>Note</i>	1.1.2006 - 31.12.2006 <u>thousands CZK</u>
Revenues	4	37,281,822
Change in inventories of finished goods and work-in-progress		-264,964
Consumption of material and energy		-10,008,254
Service expenses		-7,528,083
Personnel expenses	5	-10,909,962
Depreciation	12	-6,285,255
Amortization	13	-270,350
Reversal of impairments of property, plant and equipment	12	1,926,958
Reversal of impairment of receivables		48,858
Net gain from material sold		156,770
Gain from sale of property, plant and equipment		41,293
Other operating income		299,559
Other operating expenses	6	<u>-878,228</u>
<b>SUB-TOTAL</b>		<b>3,610,164</b>
Financial income	8	1,932,228
Financial expense	8	-1,261,480
Profit on disposal of interest in subsidiaries		<u>127,370</u>
<b>NET PROFIT BEFORE TAX</b>		<b>4,408,282</b>
Income tax expense	9	<u>-1,030,449</u>
<b>TOTAL NET PROFIT AFTER TAX FOR THE PERIOD</b>		<b><u><u>3,377,833</u></u></b>
Attributable to:		
Minority interest		1,137
Shareholder of combined entities		3,376,696

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ  
 SPOLEČNOST, OKD, DPB, A.S. AND OKD GROUP

COMBINED BALANCE SHEET

AS OF 31 DECEMBER 2006

	<i>Notes</i>	31 December 2006 thousands CZK
<b>ASSETS</b>		
Property, Plant and Equipment	12	32,002,027
Mining licences	13	5,015,473
Other financial investments	14	108,286
Long-term receivables	15	90,560
Restricted cash	16	489,129
<b>TOTAL NON-CURRENT ASSETS</b>		<b>37,705,475</b>
Inventories	17	1,343,337
Accounts receivable and prepayments	18	4,396,014
Derivatives	19	938,415
Income tax receivable	9	413,606
Cash and cash equivalents	20	27,820,229
<b>TOTAL CURRENT ASSETS</b>		<b>34,911,601</b>
<b>TOTAL ASSETS</b>		<b>72,617,076</b>
<b>EQUITY AND LIABILITIES</b>		
<b>COMBINED EQUITY</b>		
Share Capital	21	4,696,163
Capital reserves		30,154,930
Special liquidation reserve		2,378,798
Foreign exchange translation reserve		-3,790
Statutory reserves		3,515,201
Deficit		-3,499,021
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF COMBINED ENTITIES</b>		<b>37,242,281</b>
Minority interest		0
<b>TOTAL EQUITY</b>		<b>37,242,281</b>
<b>LIABILITIES</b>		
Provisions	22	3,230,272
Long-term interest-bearing loans and borrowings	23	16,961,532
Employee benefits	24	2,452,575
Deferred revenue	25	98,978
Deferred tax liability	26	3,745,356
Other long-term liabilities	27	5,047
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>26,493,760</b>
Provisions	22	465,210
Accounts payable and accruals	28	4,596,360
Derivatives	19	49,747
Income tax payable	9	813,520
Current portion of long-term bank loans	23	2,743,344
Short-term interest-bearing loans and borrowings	23	212,854
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,881,035</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>72,617,076</b>

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST, OKD, DPB, A.S. AND OKD GROUP

COMBINED STATEMENT OF CHANGES IN EQUITY

FOR THE 12 MONTHS ENDED 31 DECEMBER 2006

	<i>Share capital CZK'000</i>	<i>Capital reserves CZK'000</i>	<i>Special liquidation reserve CZK'000</i>	<i>Foreign exchange differences CZK'000</i>	<i>Statutory reserves CZK'000</i>	<i>Retained earnings/ Deficit CZK'000</i>	<i>Total CZK'000</i>	<i>Minority interests CZK'000</i>	<i>Equity total CZK'000</i>
1 January 2006	4,696,163	30,144,229	2,378,798	1,171	3,168,923	2,025,224	42,414,508	0	42,414,508
Currency translation	0	0	0	-4,961	0	0	-4,961	0	-4,961
Additions to reserves	0	10,701	0	0	0	33,105	43,806	0	43,806
Total income and expense for the year recognised directly in equity	0	10,701	0	-4,961	0	33,105	38,845	0	38,845
Net profit for the period	0	0	0	0	0	3,376,696	3,376,696	1,137	3,377,833
Total income and expense for the period	0	10,701	0	-4,961	0	3,409,801	3,415,541	1,137	3,416,678
Allocation of profit	0	0	0	0	346,278	-346,278	0	0	0
Dividends paid	0	0	0	0	0	-8,588,905	-8,588,905	0	-8,588,905
Changes in minority interest	0	0	0	0	0	1,137	1,137	-1,137	0
31 December 2006	4,696,163	30,154,930	2,378,798	-3,790	3,515,201	-3,499,021	37,242,281	0	37,242,281

## **1. GENERAL INFORMATION**

### **a) Basis of preparation**

The combined financial information (“combined accounts“) has been prepared using methods and principles substantially compliant with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union. Due to the following reasons the combined accounts are not in compliance with International Financial Reporting Standards:

- 1) The combined accounts are presented without comparative information for the period ended 31 December 2005 as required by IAS 1;
- 2) The combined accounts reflect “push-down” entries of the purchase price allocation from the acquisition by the current majority shareholder – RPG Partners Limited (“RPGP”) - on 24 October 2004; see section 1 b);
- 3) The combined accounts do not include statement of cash flows and related disclosures as required by IAS 7. IAS 1 requires a complete set of financial statements to include a cash flow statement.

The amounts have been compiled using reporting packages of individual companies used for IFRS consolidation of the immediate parent company – New World Resources B.V. (“NWR”) as of 31 December 2006. The reporting packages have been prepared using the carrying amounts of the assets and liabilities of the combined entities including the effects of “push-down” fair value acquisition adjustments. The purchase price allocation has been carried out by management of RPGP using external expert valuation.

The combine accounts have been prepared on the historical basis except for derivative financial instruments.

The combined accounts comprise of entities controlled by RPGP via NWR. The entities include OKD, a.s. and its subsidiaries (“OKD Group”), OKD, Doprava, akciová společnost (“OKD Doprava”) , OKD, DPB, a.s. (“OKD DPB”), and their respective subsidiaries and RPG Industries, a.s., altogether “combined entities”. The reporting packages of the combined entities were prepared for the period of 12 months ended 31 December 2006.

The combined accounts have been prepared solely for the purpose to present historical financial statements for the period of 2006, most corresponding to the group structure of NWR as of 31 December 2006. They will be included in the prospectus for the high-yield bonds offering of NWR and should not be used for any other purpose. The combined accounts do not represent general purpose financial statements.

The combined accounts were prepared as a total of the reporting packages of the combined entities adjusted for elimination of transactions and balances between the combined entities and as if the assets, liabilities and results of operations were combined since 1 January 2006. Reported equity of the combined accounts represents the sum of equity of the combined entities, including the effects of the RPGP fair value acquisition adjustments, after eliminations.

In preparing the combined accounts, any subsidiaries of OKD a.s. and OKD Doprava are first consolidated by these combined entities. Subsidiaries are entities controlled by these combined entities. Control exists when the combined entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the combined accounts from the date that control commences until the date that control ceases.

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST,  
OKD, DPB, A.S. AND OKD GROUP

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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The combined accounts are presented in Czech Crown (CZK) and are rounded to the nearest thousand. Functional currency of OKD, a.s., OKD Doprava, OKD DPB and RPG Industries, a.s. is Czech Crown (CZK).

The accounting policies have been applied consistently by the combined entities.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any other future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the combined accounts are described in the following notes:

- Note 12 – Property, plant and equipment,
- Note 19 – Financial instruments,
- Note 22 - Provisions,
- Note 24 - Employee benefits, and
- Note 30 - Contingent assets and liabilities.

**b) History of the combined entities**

In October 2004, RGP, via its investment vehicle, Charles Capital, acquired KARBON INVEST which owned OKD, a.s. (hereinafter called “Former OKD”) and its subsidiaries. RGP over past three years transformed Former OKD into a focused coal producer with a simplified corporate structure.

The transformation and restructuring has had objectives to (i) separate the coal business, the logistics business and the gas exploitation business from various unrelated activities that were then undertaken by Former OKD and its subsidiaries, (ii) simplify the holding structure and (iii) move the holding entity for the core businesses to the Netherlands so as to better position it for access to international capital markets. In the period covered by the combined accounts the following restructuring steps took place:

As at 1 January 2006, Former OKD and its subsidiaries were reorganized into seven successor entities (whereby Former OKD has ceased to legally exist), resulting in the separation of core and non-core businesses as follows:

- The mining business was transferred into OKD, Mining, a.s. and subsequently renamed OKD, a.s.
- The fuel and metals trading business, represented by METALIMEX a.s., was transferred to a new holding company RPG Trading, s.r.o.
- The coal bed methane extraction and heat and electricity production businesses, represented by OKD DPB, were transferred to a new holding company RPG Gas, s.r.o.
- The logistics and transportation business, represented by OKD Doprava was transferred to a new holding company RPG Transport, s.r.o.
- Investment property owned by Former OKD was transferred into three real estate companies, RPG RE Byty, s.r.o. (previously RPG RE Residential, s.r.o.), RPG RE Commercial, s.r.o. and RPG RE Land, s.r.o.

Effective 1 July 2006, RPG Transport merged into its 100% subsidiary OKD Doprava and ceased to exist (being wound up without liquidation). On the same date also RPG Gas, s.r.o. merged into its 100% subsidiary OKD DPB and ceased to exist (being wound up without liquidation).

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST,  
OKD, DPB, A.S. AND OKD GROUP

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

On 21 July RPG Industries, a.s. was sold by RPPG to NWR.

In August 2006, the immediate owner of Former OKD, KARBON INVEST together with Charles Capital merged into RPG Industries Public Limited in a European cross-border merger, resulting in the creation of RPG INDUSTRIES SE. Upon completion of this phase, RPG INDUSTRIES SE was the immediate direct 100% shareholder of all successor entities to Former OKD resulting from the above de-merger.

In September 2006, RPG INDUSTRIES SE contributed all shares of OKD, a.s., 99% of OKD Doprava and 99% of OKD DPB to NWR. In December 2006 1% of OKD Doprava and 1% of OKD DPB were contributed to NWR.

Throughout 2006, various non-core assets and entities were divested from OKD, a.s. (including the construction company VOKD, a.s.). Also, to consolidate the core business, the fuel trading business of METALIMEX a.s. was sold to OKD, a.s. on 1 June 2006.

**c) Structure of the combined entities**

The combined accounts include the following companies for the period stated below:

<i>Combined entities</i>	<i>% Equity = voting</i>	<i>Nature of Activity</i>	<i>Period</i>	<i>Note</i>
OKD, Doprava, akciová společnost	100 %	Transportation and logistics	Full year	
OKD, a.s.	100 %	Coal mining	Full year	
OKD, DPB, a.s.	100 %	Gas exploration, electricity production	Full year	
RPG Industries, a.s.	100 %	Professional services	Full year	
<i>Entities merged into Combined entities</i>				
RPG Transport, s.r.o.	100%	Holding company	1.1.2006-30.6.2006	Merged
RPG Gas, s.r.o.	100%	Holding company	1.1.2006-30.6.2006	Merged
<i>Entities directly owned by OKD, a. s.:</i>				
OKD, Báňské stavby Ostrava, a.s. "v likvidaci"	100 %	Rentals (inactive company)	Full year	
OKD, BASTRO, a.s.	100 %	Engineering	Full year	
OKD, HBZS, a.s.	100 %	Emergency services	Full year	
OKD, OKK, a.s.	100 %	Coke plant	Full year	
CZECH-KARBON s.r.o.	100 %	Trade	Full year	
OKD, Rekultivace, a.s.	100 %	Restoration activities	Full year	
KARBONIA PL, Sp. z.o.o	100 %	Electricity selling	Full year	
EKO-KARBO, a.s.	100 %	Waste processing	Full year	
SLOVENERGO, spol. s r.o.	90%	Trade	1.6.2006 - 31.12.2006	Purchased and sold
VOKD, a.s.	100 %	Mining and surface constructions	1.1.2006 – 30.9.2006	Sold
KOVONA KARVINÁ, a.s.	97.12 %	Rentals, production of metal products	1.1.2006 - 31.3.2006	Sold

*NB. – The primary business of entities owned by OKD, a.s. is to support its mining activities*

All of the consolidated subsidiaries are incorporated in the Czech Republic with the exception of KARBONIA PL, Sp. z.o.o. incorporated in Poland and SLOVENERGO, spol. s r.o. incorporated in Slovak Republic.

**d) Disposals of OKD, a.s. subsidiaries**

The 97.12% investment in KOVONA KARVINÁ, a.s. was disposed as of 31 March 2006. Gain on sale amounted to CZK 129,137 thousand. Sale proceeds and net liabilities at the disposition were CZK 30,000 thousand and CZK 99,137 thousand respectively.

The 100% investment in VOKD, a.s., a subsidiary of OKD, a.s., was disposed as of 22 September 2006 and excluded from the combined accounts as from that date. Gain on sale amounted to CZK 1,914 thousand. Sale proceeds and net assets at the disposition were CZK 286,000 thousand and CZK 284,086 thousand respectively.

The 90% investment in SLOVENERGO, spol. s r.o., a subsidiary of OKD, a.s., which was acquired on 1 June 2006 was disposed as of 22 December 2006. Loss on sale amounted to CZK 3,681 thousand. Sale proceeds and net assets at the disposition were CZK 32,819 thousand and CZK 36,500 thousand respectively.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a) New IFRS**

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

In 2006 the combined entities adopted the following new or amended International Financial Reporting Standards and IFRIC Interpretations, which were relevant for the combined entities:

- IAS 19 Amendment – Employee Benefits
- IAS 21 Amendment – The Effect of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease
- IFRIC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The principal effects of these changes are as follows:

#### **IAS 19 Employee Benefits**

As of 1 January 2006, the combined entities adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the year ending 31 December 2006 but has not had a recognition or measurement impact, as management chose not to apply the new option offered to recognize actuarial gains and losses outside of the income statement.

#### **IAS 21 The Effects of Changes in Foreign Exchange Rates**

As of 1 January 2006, the combined entities adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the combined entities' net investment in a foreign operation are recognised in a separate component of equity in the Combined accounts regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006.

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

Amendment for financial guarantee contracts (issued August 2005) - amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) - amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the Combined income statement. As the combined entities currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) - amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The combined entities had not previously used this option, hence the amendment did not have an effect on the financial statements.

**IFRS 6 Exploration for and Evaluation of Mineral Resources**

The combined entities adopted IFRS 6 as of 1 January 2006, which requires to describe the accounting policy for expenditures incurred in the exploration and evaluation of mineral resources. The combined entities did not change their accounting policy and the application of IFRS 6 has had no impact on the financial statements.

**IFRIC 4 Determining Whether an Arrangement contains a Lease**

The combined entities adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the combined entities as at 31 December 2006.

**IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**

The combined entities adopted IFRIC Interpretation 5 as of 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for an entity's assets. This interpretation has had no impact on the financial statements.

**New IFRS Standards and IFRIC Interpretations issued but not yet effective**

The combined entities are currently assessing the potential impacts of the new and revised standards that will be effective from 1 January 2007 or later. Most relevant to the combined entities' activities are IAS 1 Amendment Presentation of Financial Statements – Capital Disclosures, IFRS 7 Financial Instruments: Disclosures and IFRS 8 Operating Segments. Management currently does not expect that the new standards and interpretations will have a significant effect on the combined entities' results and financial position, although they may expand the disclosures in certain areas.

The principal effects of these changes are expected as follows:

**IFRS 7 Financial Instruments: Disclosures**

The combined entities did not apply the standard, which is effective from 1 January 2007. The Standard will require increased disclosure in respect of the combined entities' financial instruments. It supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and is applicable to all entities that prepare financial statements in accordance with IFRS. Management considers that the significant additional disclosures required will relate to its financial risk management objectives, policies and processes.

**Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures**

The combined entities did not apply the amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective from 1 January 2007. As a complementary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the combined entities and its capital structure.

**IFRS 8 Operating Segments**

The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The combined entities expect the new Standard to alter the presentation and disclosure of its operating segments in the consolidated financial statements.

**b) Foreign currency**

**(i) Foreign currency transactions**

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

**(ii) Foreign operations**

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

**c) Derivative financial instruments**

The combined entities use derivative financial instruments (such as forward currency contracts, interest rates swaps and interest rates collar contracts) to hedge their exposure to foreign exchange risks and interest rate cash flow risk. In accordance with RPGP's internal strategy, the combined entities do not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value is the amount determined based on the market price or an expert appraisal.

Hedge accounting has not been applied by the combined entities with respect to their derivative financial instruments. Consequently, any gains or losses arising from changes in fair value on derivatives are recognised in the income statement.

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

**d) Property, plant and equipment**

**(i) Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy k). Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads directly attributable to bringing the asset to a working condition for its intended use. The cost also includes the estimated cost of dismantling and removing the items and restoring the site on or under which they are located, to the extent that it is recognised as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

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

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

**(ii) Leased assets**

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

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

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

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

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

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

**(iii) Subsequent expenditure**

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

**(iv) Depreciation**

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

The estimated useful lives are as follow:

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

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

Mining works are depreciated on a straight-line basis based on their estimated useful life. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**e) Intangible assets**

**(i) Licenses**

Licenses represent the coal reserve license owned by OKD, a.s. The coal reserve is the exclusive deposit (and creates a portion of the mineral wealth) of the Czech Republic and the licenses allow OKD, a.s. to extract coal from this deposit.

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

The plan used for valuation comprises the whole projected period of future OKD, a.s. coal-mining operations, (i.e. from the year 2004 until the year 2033).

**(ii) Goodwill and negative goodwill**

Goodwill (negative goodwill) represents amounts arising on acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree at the date of acquisition. When the excess is negative (negative goodwill) it is immediately recognised in income.

Goodwill is not amortized and is stated at cost less impairment losses (see accounting policy k).

**(iii) Research and development**

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

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

**(iv) Other intangible assets**

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

**(v) Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use.

**(vi) Emission rights**

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

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

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

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

**(vii) Exploration for and Evaluation of Mineral Resources**

Expenditures on exploration for and evaluation of mineral resources are expensed as incurred.

**f) Investments**

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

Available-for-sale investments are recognised/de-recognised by the combined entities on the date they commit to purchase/sell the investments.

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

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

**g) Trade and other receivables**

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

**h) Inventories**

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

**i) Cash and cash equivalents**

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

**j) Restricted cash**

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

**k) Impairment**

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

**(i) Calculation of recoverable amount**

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

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

**(ii) Reversals of impairment**

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

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

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

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

**l) Minority interest**

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

**m) Interest-bearing borrowings**

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

**n) Employee benefits**

The combined entities provide a number of different benefits to its employees – jubilee, loyalty, retirement and special miners' benefits.

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

**o) Provisions**

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

**(i) Restoration and mining damages provisions**

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

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

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

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

**(ii) Restructuring provisions**

A provision for restructuring including direct costs relating to restructuring is recognised when the combined entities have approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

**p) Trade and other payables**

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

**q) Revenue**

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

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

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

**(ii) Government grants**

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

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

**r) Expenses**

**(i) Operating lease payments**

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

**(ii) Net financing costs**

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

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

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

**(iii) Income tax**

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

Current tax liabilities are calculated in accordance with the tax regulations of the states of residence of the combined entities and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual combined entity basis as the tax laws do not permit combined tax returns.

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

**s) Segment reporting**

A segment is a distinguishable component of the combined entities that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments.

Segment information is presented in respect of the combined entities' business and geographical segments. The primary format, business segments, is based in management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total costs incurred during the period to acquire property, plant and equipment.

**t) Business combinations involving entities under common control**

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

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

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST,  
OKD, DPB, A.S. AND OKD GROUP

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

**3. SEGMENT INFORMATION**

The primary segment reporting format is based on the business segments as the combined entities' risks and rates of return are predominantly determined by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The business segments are represented by the combined entities' lines of coal and coke, transport and gas and electricity. The coal and coke segment relates to coal extraction and production of coke. The transport segment provides transportation and logistics services and gas and electricity segment relates to gas and electricity mining, and electricity production activities.

<b>Business Segments</b>	<i>Coal and Coke</i>	<i>Transport</i>	<i>Gas and electricity</i>	<i>Eliminations</i>	<i>Total</i>
	<i>1.1.2006 - 31.12.2006 CZK'000</i>	<i>1.1.2006 - 31.12.2006 CZK'000</i>	<i>1.1.2006 - 31.12.2006 CZK'000</i>	<i>1.1.2006 - 31.12.2006 CZK'000</i>	<i>1.1.2006 - 31.12.2006 CZK'000</i>
Segment revenue					
External sales	35,301,873	1,628,960	350,989	0	37,281,822
Inter-segment sales	314,321	1,304,545	183,558	-1,802,424	0
Total revenue	<u>35,616,194</u>	<u>2,933,505</u>	<u>534,547</u>	<u>-1,802,424</u>	<u>37,281,822</u>
<b>Segment Result</b>					
Segment result	2,634,878	860,685	26,799	0	3,522,362
Financial revenues					1,932,228
Financial expenses					-1,173,678
Sale of subsidiaries					127,370
Profit before taxation					4,408,282
Income tax expense					-1,030,449
Net profit					<u>3,377,833</u>
<b>Assets and liabilities</b>					
Segment assets	45,118,083	2,983,752	452,309		48,554,144
Unallocated assets					24,062,932
Total assets					<u>72,617,076</u>
Segment liabilities	29,455,560	500,394	160,639		30,116,593
Unallocated liabilities					5,258,202
Total liabilities					<u>35,374,795</u>
<b>Other segment information:</b>					
Reversal of impairment	1,438,222	488,736	0		1,926,958
Capital expenditures	2,193,925	179,361	25,100		2,398,386
Depreciation	6,080,431	146,624	58,200		6,285,255
Amortization	270,350	0	0		270,350
Average number of employees	20,397	1,982	400		22,779

The unallocated assets include cash that was distributed in January 2007 (see note 31).

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST,  
OKD, DPB, A.S. AND OKD GROUP

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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3. **SEGMENT INFORMATION (CONTINUED)**

<i>Geographical Segments</i>	<i>Czech Republic 1.1.2006 - 31.12.2006 CZK'000</i>	<i>European Union "old 15" 1.1.2006 - 31.12.2006 CZK'000</i>	<i>European Union – "new10" 1.1.2006 - 31.12.2006 CZK'000</i>	<i>Middle and Eastern Europe 1.1.2006 - 31.12.2006 CZK'000</i>	<i>Other 1.1.2006 - 31.12.2006 CZK'000</i>	<i>Total 1.1.2006 - 31.12.2006 CZK'000</i>
Segment revenue						
External sales	22,456,552	6,643,462	7,566,636	607,852	7,320	<b>37,281,822</b>
Segment assets	70,627,363	951,278	939,095	96,226	3,114	<b>72,617,076</b>
Capital expenditure	2,393,623	0	4,763	0	0	<b>2,398,386</b>

**4. REVENUES**

	<i>1.1. 2006 - 31.12.2006 CZK'000</i>
Sales	34,163,849
Services rendered	<u>3,117,973</u>
	<u>37,281,822</u>

**5. PERSONNEL EXPENSES**

	<i>1.1.2006 - 31.12.2006 CZK'000</i>
Wages and salaries	7,056,874
Social insurance costs	2,610,529
Social security and other payroll costs	980,945
Employee benefits (see note 24)	261,614
	<u>10,909,962</u>

Average number of employees in the period:

Managers	116
Staff	<u>22,663</u>
	<u>22,779</u>

The total remuneration and variable benefits received by the management were CZK 227,372 thousand, out of which the social and health insurance were CZK 50,303 thousand.

**6. OTHER OPERATING EXPENSES**

Other operating expenses comprise:	<i>1.1.2006 - 31.12.2006 CZK'000</i>
Provision for Dukla Mine closure	354,935
Compensation for mining damages	262,603
Property taxes and government fees	176,103
Net loss on sale of receivables	37,355
Other	47,232
Total other operating expenses	<u>878,228</u>

**7. OWN WORK CAPITALIZED**

Own work capitalized in the amount of CZK 982,386 thousand is not recognised in the revenues. It reduced expenses as follows:

	<i>1.1.2006 - 31.12.2006</i>
	<i>CZK'000</i>
Consumption of material and energy	648,104
Service expenses	129,465
Personnel expenses	187,829
Other operating expenses	16,988
Total	<u><u>982,386</u></u>

**8. FINANCIAL INCOME AND EXPENSES**

Financial income comprise:	<i>1.1.2006 - 31.12.2006</i>
	<i>CZK'000</i>
Bank interest received	291,524
Other interest received	21,543
Dividends received	3,782
Realized and unrealised foreign exchange gains	504,134
Profit on revaluation of derivative instruments	1,084,571
Other	26,674
Total financial income	<u><u>1,932,228</u></u>

Financial expenses comprise:	<i>1.1.2006 - 31.12.2006</i>
	<i>CZK'000</i>
Bank interest expense	104,053
Interest on finance leases	655
Other interest expense	68,654
Realised and unrealised foreign exchange losses	654,912
Loss on revaluation of derivative instruments	183,516
Bank fees and other	249,690
Total financial expenses	<u><u>1,261,480</u></u>

**9. INCOME TAX EXPENSE**

The corporate income tax is calculated in accordance with tax regulations applied in the country of the entity's residence, (i.e. for the Czech entities at the rate of 24% and Polish and Slovak entities 19% in 2006).

Components of tax expense:	<i>1.1.2006 -</i>
	<i>31.12.2006</i>
	<i>CZK'000</i>
Income statement:	
Corporate tax charge	1,599,628
Deferred tax expense relating to the creation and reversal of temporary differences	<u>-569,179</u>
Income tax expense	<u><b>1,030,449</b></u>

There are no deferred tax assets recognised on the remaining impairment loss in OKD, OKK, a.s. (refer to note 12).

Reconciliation of the statutory and effective tax rates:	<i>1.1.2006 -</i>
	<i>31.12.2006</i>
	<i>CZK'000</i>
Profit before tax	<u>4,408,282</u>
Tax at the applicable rate of 24%	<b>1,057,988</b>
Tax effect of	
- Non-deductible expenses	391,920
- Loss on the sale of interests in subsidiaries	-10,059
Tax exempt revenues	<u>-409,400</u>
Tax expense	1,030,449
Effective tax rate	<u><u>23%</u></u>

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

	<i>1.1.2006 -</i>
	<i>31.12.2006</i>
	<i>CZK'000</i>
Net tax receivable/(liability) at 1 January 2006	-37,923
Current tax movements - subsidiaries sold	-7,958
Current and supplementary tax charges	-1,599,628
Tax paid, net	<u>1,245,595</u>
Net tax liability at 31 December 2006	<u><b>-399,914</b></u>
Current income tax payable	-813,520
Current income tax receivable	413,606

## 10. DIVIDENDS

In 2006, OKD, a.s. paid dividends of CZK 8,547,905 thousand and OKD, DPB, a.s. of CZK 41,000 thousand to the shareholder.

## 11. RELATED PARTY DISCLOSURES

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

Transactions between related parties include coke and coal trading, heating, waste management, advisory and rental.

Transactions with related parties included in the balance sheet and the income statement are as follows (in thousand CZK):

<i>Balance sheet</i>	<i>31.12.2006</i>
	<i>CZK'000</i>
<i>Receivables from related parties under common control</i>	
METALIMEX a.s.	33,440
RPG Byty, s.r.o.	29,369
Depos Horní Suchá, a.s.	17,828
RPG RE Commercial, s.r.o.	4,151
Other	1,788
Receivables from related parties in total	<u><u>86,576</u></u>
<i>Payables to related parties under common control</i>	
METALIMEX a.s.	215,770
RPG Advisors, a.s.	49,351
RPG Byty, s.r.o.	22,862
RPG RE Commercial, s.r.o.	5,125
Other	1,600
Payables to related parties in total	<u><u>294,708</u></u>
<i>Loans payable to related parties</i>	
New World Resources B.V.	136,000
RPG Industries SE	9,321
Loans payable to related parties in total	<u><u>145,321</u></u>

In 2006, New World Resources B.V. provided RPG Industries a.s. with loans of CZK 91,000 thousand and CZK 45,000 thousand. The loans are repayable upon request and carry interest rate 12-month PRIBOR + 1.5% p.a. In 2006, paid interest was CZK 1,550 thousand.

Loan granted by RPG Industries SE is due at 30 June 2007 and carry interest rate LIBOR+1.25%.

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST,  
OKD, DPB, A.S. AND OKD GROUP

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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	1.1.2006 -
<i>Income statement</i>	31.12.2006
	CZK'000
<i>Sales to related parties under common control</i>	
METALIMEX a.s.	5,123,365
RPG Byty, s.r.o.	539,723
RPG RE Commercial, s.r.o.	56,957
Depos Horní Suchá, a.s.	22,577
Other	10,813
Sales to related parties in total	<u><u>5,753,435</u></u>
<i>Purchases from related parties under common control</i>	
METALIMEX a.s.	1,521,354
RPG Advisors, a.s.	282,919
RPG RE Commercial, s.r.o.	38,305
New World Resources B.V.	37,970
RPG Byty, s.r.o.	17,124
RPG Trading, s.r.o.	21,001
Other	8,428
Purchases from related parties in total	<u><u>1,927,101</u></u>

There are no significant transactions with other related parties.

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST,  
OKD, DPB, A.S. AND OKD GROUP

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

**12. PROPERTY, PLANT AND EQUIPMENT**

Cost:	<i>Land and Buildings CZK'000</i>	<i>Plant and Equipment CZK'000</i>	<i>Other assets CZK'000</i>	<i>Construction in Progress CZK'000</i>	<i>Total CZK'000</i>
At 1 January 2006	34,773,836	11,554,097	55,021	1,183,123	47,566,077
Additions	354,778	1,517,559	50,322	699,883	2,622,542
Additions through common control acquisitions	0	24,897	4,645	0	29,542
Disposal of assets related to sold subsidiaries	-206,948	-134,296	-503	-4,723	-346,470
Disposals	-538,135	-132,405	-5,810	-43,985	-720,335
Transfers	447,808	323,227	0	-771,035	0
At 31 December 2006	<u>34,831,339</u>	<u>13,153,079</u>	<u>103,675</u>	<u>1,063,263</u>	<u>49,151,356</u>
Accumulated depreciation:					
At 1 January 2006	7,234,205	6,101,760	25,193	174,062	13,535,220
Additions through common control acquisitions	0	4,498	4,248	0	8,746
Depreciation charge for the year	4,091,385	2,143,712	50,158	0	6,285,255
Disposal of acc. depreciation of assets related to sold subsidiaries	-51,221	-68,795	-195	-950	-121,161
Disposals	-517,811	-108,594	-5,368	0	-631,773
Reversal of impairment	-935,907	-859,191	-93	-131,767	-1,926,958
At 31 December 2006	<u>9,820,651</u>	<u>7,213,390</u>	<u>73,943</u>	<u>41,345</u>	<u>17,149,329</u>
Net book value at 31 December 2006	<u>25,010,688</u>	<u>5,939,689</u>	<u>29,732</u>	<u>1,021,918</u>	<u>32,002,027</u>
Net book value at 1 January 2006	<u>27,539,631</u>	<u>5,452,337</u>	<u>29,828</u>	<u>1,009,061</u>	<u>34,030,857</u>

The net book value of plant and equipment includes CZK 61,684 thousand in respect of assets held under finance leases.

On 27 February 2006 the Board of Directors of OKD, a.s. decided to cease coal mining operations at the Dukla site, part of the Paskov Mine, at 31 December 2006 and to begin physical liquidation of property, plant and equipment and to begin the site restoration of this plant on 1 January 2007. The preparatory work to commence liquidation of the Dukla mine began in 2006. The site restoration and liquidation will be carried out in the years 2007 to 2009. OKD, a.s. identified redundant tangible fixed assets of the Dukla mine and recognised additional depreciation of CZK 1,138,561 thousand. As at 31 December 2006 net book value of redundant tangible fixed assets of the Dukla mine amounts zero.

*Impairment loss reversal – OKD, OKK, a.s.*

OKD, OKK, a.s., one of the cash generating units (“CGU”) of the combined entities that were impaired as at 31 December 2005, made an update of its impairment test. The update has been made as a result of internal as well as external factors positively influencing the business plan of this CGU. The major external factor influencing the business plan is the increase in coke prices in 2006. Estimated development of coke prices for the period 2007-2015 was based on actual coke prices. The recoverable value of the CGU, measured based on discounted free cash flow projections prepared in line with RPG group strategy, resulted in a reversal of impairment loss of CZK 1,438,222 thousand. The remaining impairment loss of this CGU as at 31 December 2006 is CZK 1,118,974 thousand.

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

Cash flow projections were made for the period from 2007 to 2020 in order to reflect lifecycle of coking batteries existing at 31 December 2006. Cash flow projections for the period from 2007 to 2015 are based on detailed business plans for each year. Cash flow projections for the period from 2016 to 2020 were made by extrapolating the 2015 cash flows and applying a declining factor of 0.99.

*Impairment loss reversal – OKD, Doprava, akciová společnost*

Management of OKD, Doprava, akciová společnost estimated fair value less costs to sell off its machinery i.e. railcars, engines and packing machine, based on their estimated selling price. Management estimated the selling price based on its experience and knowledge of the market. The valuation is based on market proposals and also reflects prices of recently purchased machinery. It takes into account moral and physical obsolescence of machinery owned by OKD, Doprava, akciová společnost at 31 December 2006. This management estimate is supported by an independent expert valuation report and it resulted in a reversal of impairment of CZK 488,736 thousand. The remaining impairment loss of this CGU as at 31 December 2006 is CZK 813,313 thousand.

Impairment in OKD, Bastro, a.s., OKD, HBZS, a.s. and OKD, Rekultivace, a.s. remained unchanged.

The reversals of impairment losses are recognised in the income statement in line Reversal of impairment of property, plant and equipment.

Recoverable amount was quantified for relevant cash generating units by the estimation of recoverable amount from operation of cash generating units using discounted cash flow method with the discount rate 9% p.a. or estimate of selling price.

*Construction of mine „Frenštát“*

Assets relating to the construction of the mine “Frenštát” relate to geological survey work. These assets are maintained by OKD, a.s. but are not reflected in its books. The original cost of these assets amounts to CZK 920,904 thousand of which CZK 815,139 thousand is the value of assets located in the mine and CZK 105,765 thousand is the value of assets located on the surface.

**13. LICENSES**

	<i>Licenses</i>
Cost:	<i>CZK'000</i>
At 1 January 2006	5,592,344
At 31 December 2006	<u>5,592,344</u>
Accumulated depreciation:	
At 1 January 2006	306,521
Depreciation charge for the year	270,350
At 31 December 2006	<u>576,871</u>
Net book value at 31 December 2006	<u>5,015,473</u>
Net book value at 1 January 2006	<u>5,285,823</u>

Amortisation for the year was calculated as a proportion of the coal amount actually mined in this period to the total economically exploitable coal reserves from 2004 to 2033.

#### **14. OTHER FINANCIAL INVESTMENTS**

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

	<i>31.12.2006</i>
	<i>CZK'000</i>
Garáže Ostrava a.s.	80,600
ČSOB	13,000
Other investments available for sale	14,686
	<u><u>108,286</u></u>

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

#### **15. LONG-TERM RECEIVABLES**

	<i>31.12.2006</i>
	<i>CZK'000</i>
Trade receivables	26,267
Long-term advances granted	48,173
Other	16,120
	<u><u>90,560</u></u>

Maturity of these receivables do not exceed 5 years.

#### **16. RESTRICTED CASH**

As of 31 December 2006, OKD, a.s. had restricted cash of CZK 489,129 thousand kept in relation to mining damages and restoration expenditures. The amount of restricted cash corresponds to mining and restoration provision created in cash by OKD, a.s. since 1 January 2004 according to amended Czech legal requirements and can be used only to settle the mining damages and restoration expenditures. Timing of use is uncertain. Bank account carries variable interest rate that approximate the effective interest rate.

#### **17. INVENTORIES**

	<i>31.12.2006</i>
	<i>CZK'000</i>
Raw materials and spare parts	587,280
Work-in-progress and semi-finished goods	224,883
Finished goods	460,996
Merchandise	70,178
	<u><u>1,343,337</u></u>

The inventories are disclosed net of write-downs for slow-moving and obsolete inventories of CZK 132,181 thousand. Write-downs are included in consumption of material and energy.

## 18. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31.12.2006 CZK'000
Trade accounts and notes receivable	3,954,708
Advance payments for property, plant and equipment	6,924
Advance payments for inventories	619
Other advance payments	22,029
VAT and other tax recoverable	93,144
Other receivables	260,509
Prepayments and accrued revenue	58,081
Total accounts receivable and prepayments	<u><u>4,396,014</u></u>

Total receivables are stated net of a provision of CZK 74,331 thousand.

As at 31 December 2006 receivables in nominal value of CZK 103,058 thousand were pledged as security for loans.

## 19. FINANCIAL INSTRUMENTS

### **Risk management and financial instruments**

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

These risks are managed by a variety of mechanisms implemented by the combined entities.

### **Credit (Customer) Risk**

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

### **Market risk**

Market risk arises from the possible variations in the value of assets and liabilities due to fluctuations in foreign exchange rates, interest rates and operating results of subsidiaries. The combined entities have implemented policies and methods of monitoring these risks.

#### *Foreign exchange rate risk*

The combined entities are exposed to foreign exchange risks arising from sales, purchases, receivables and loans that are denominated in currencies other than CZK. The foreign currency exposure risks OKD, a.s. decreases by closing its open position by entering into forward exchange rate contracts "par forwards" with bank institutions. Forward contracts are concluded up to 2013 and they cover approx. 50% of the expected opened position.

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FOR THE YEAR ENDED 31 DECEMBER 2006

As at 31 December 2006, the combined entities had the following EUR-denominated balances:

	<i>31.12.2006</i> <i>EUR'000</i>
Receivables	45,532
Payables	9,501
Loans	538,473

*Interest rate risk*

The combined entities' exposure to the risk of changes in market interest rates relates primarily to the combined entities' syndicated bank loan with floating interest rates (see note 23). To manage this, the combined entities enter primarily into interest rate swaps and interest rate collars. At 31 December 2006 approximately 93% of the combined entities' long-term loans including the current portion are secured.

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

<i>Fair value of derivative instruments</i>	<i>31.12.2006</i>	
	<i>Assets</i> <i>CZK'000</i>	<i>Liabilities</i> <i>CZK'000</i>
Forward exchange contracts	816,661	0
Interest rates swap contracts	117,217	38,440
Interest rates collar contracts	4,537	11,307
	<u>938,415</u>	<u>49,747</u>

<i>Nominal value of derivative instruments</i>	<i>31.12.2006</i>	
	<i>CZK'000</i>	<i>EUR'000</i>
Forward exchange contracts	0	703,373
Interest rates swap contracts	4,253,995	451,500
Interest rates collar contracts	505,225	52,500
	<u>4,759,220</u>	<u>1,207,373</u>

Gains or losses arising from changes in fair value on the derivatives during the period do not qualify for hedge accounting and are taken directly to the income statement.

**Liquidity risk**

Liquidity risk refers to the possibility of the combined entities being unable to meet its cash obligations mainly in relation to the settlement of amounts due to suppliers and bank loans and facilities. The combined entities manages risk by constant monitoring of the amount of current liabilities against the amount of cash and liquid assets.

### **Fair value**

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

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

#### Cash and cash equivalents, current investments

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

#### Investments

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

#### Receivables and Payables

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

#### Short-term loans

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

#### Long-term debt

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

#### Derivatives

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

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST,  
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NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Carrying amounts and the estimated fair values of financial instruments at 31 December 2006 are as follows:

	31.12.2006	
	<i>Carrying Value</i>	<i>Fair Value</i>
	CZK'000	CZK'000
<i>Financial assets</i>		
Other financial investments	108,286	N/A
Long-term receivables	90,560	90,332
Restricted cash	489,129	489,129
Trade and other receivables	4,396,014	4,396,014
Cash and cash equivalents	27,820,229	27,820,229
Derivative financial instruments	938,415	938,415
	31.12.2006	
	<i>Carrying Value</i>	<i>Fair Value</i>
<i>Financial liabilities</i>		
Long-term interest-bearing loans and borrowings	16,961,532	16,961,532
Other long-term liabilities	5,047	5,047
Accounts payable and accruals	4,596,360	4,596,360
Current portion of long-term loans	2,743,344	2,743,344
Short-term interest-bearing loans and borrowings	212,854	212,854
Derivative financial instruments	49,747	49,747

## 20. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents comprise the following balance sheet amounts:

	31.12.2006
	CZK'000
Cash at bank	27,737,012
Short-term deposits	76,630
Cash on hand and cash in transit	6,587
Cash and cash equivalents	<u>27,820,229</u>

Cash at the bank earns interest at floating rates based on daily bank deposit rates. Certain accounts are used for cash pooling. Short-term deposits are made for varying periods, typically one week, depending on the immediate cash requirements of the combined entities, and earn interest at short-term deposit rates. Short-term deposits are mainly represented by term deposits which carries interest rates approximating the effective interest rate.

## 21. SHARE CAPITAL AND RESERVES

### *Share capital*

The share capital in the Combined accounts represents sum of share capital of combined entities.

	31.12.2006 CZK'000
Share capital RPG Industries, a.s.	2,000
Share capital OKD a.s.	2,500,000
Share capital OKD Doprava	2,053,373
Share capital OKD DPB	140,790
	<u>4,696,163</u>

### OKD, a.s.:

The authorized share capital amounts to 12,500 shares of CZK 200 thousand each. The issued capital is fully paid.

### OKD DPB:

The authorized share capital amounts to 5 ordinary shares of CZK 20 million each, 1 ordinary share of CZK 1,407,900, 1 ordinary share of CZK 39,382,100. The issued capital is fully paid.

### OKD Doprava:

The authorized share capital amounts to 19 ordinary shares of CZK 100 million each, 1 ordinary share of CZK 56,773 thousand, 1 ordinary share of CZK 20,533,730, 1 ordinary share of CZK 76,066,270. The issued capital is fully paid.

### RPG Industries, a.s.:

The authorized share capital amounts to 10 ordinary shares of CZK 200 thousand each, The issued capital is fully paid.

### *Capital reserves*

Capital reserves consist largely from "push-down" entries of the purchase price allocation on 24 October 2004 and reallocation within equity during de-merger of OKD, a.s. as of 1 January 2006.

### *Special liquidation reserve*

During the privatization of Former OKD, a.s. the Special liquidation reserve was designated and classified as an equity item in its statutory accounts. No shares were issued for the amount of the reserve. The reserve can only be used to cover losses from the liquidation of assets related to mines at mining locations which have been closed or are designated for closure. Therefore, the use is restricted and the reserve cannot be distributed.

### *Statutory reserves*

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

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

**22. PROVISIONS**

The provision balances are as follows:

	<i>At 1 January</i>	<i>Charged</i>	<i>Utilised</i>	<i>Unwinding of</i>	<i>At 31 December</i>
	<i>CZK'000</i>	<i>CZK'000</i>	<i>CZK'000</i>	<i>discount</i>	<i>CZK'000</i>
				<i>CZK'000</i>	
Mining damage	422,931	204,508	-185,678	0	441,761
Restoration provision	2,667,236	45,496	-102,996	55,117	2,664,853
Dukla Mine closure	0	71,682	0	0	71,682
Other restoration costs	53,057	206	-1,287	0	51,976
Other	465	642	-1,107	0	0
<b>Total long-term provisions</b>	<b>3,143,689</b>	<b>322,534</b>	<b>-291,068</b>	<b>55,117</b>	<b>3,230,272</b>
Employee redundancy	9,339	20,754	-29,568	0	525
Dukla Mine closure	0	283,253	0	0	283,253
Unpaid vacation	94,564	15,877	-14,243	0	96,198
Buy-out (family houses)	86,760	0	-51,716	0	35,044
Other	105,374	16,571	-71,755	0	50,190
<b>Total short-term provisions</b>	<b>296,037</b>	<b>336,455</b>	<b>-167,282</b>	<b>0</b>	<b>465,210</b>

Due to the long-term nature of the restoration provision, the biggest uncertainty in estimating the provision is the costs that will be incurred. OKD, a.s. has assumed that site restoration will be conducted using technology and materials that are available currently. The provision has been calculated using discount rate of 2.2% p.a.

On 27 February 2006 the Board of Directors of OKD, a.s. decided to cease coal mining operations at the Dukla site, an internal organisational unit of Paskov Mine, at 31 December 2006 and to begin physical liquidation of property, plant and equipment and to begin the site restoration of this plant on 1 January 2007. The preparatory work to commence liquidation of the Dukla site has begun in 2006. The site restoration and liquidation will be carried out in the years 2007 to 2009. OKD, a.s. recorded a provision of CZK 354,935 thousand related to preparation of the site liquidation, site restoration and social and health-related costs (especially severance and other social disbursements). The charge for the provision was included in other operating expenses.

### 23. INTEREST-BEARING LOANS AND BORROWINGS

#### *Long-term loans and borrowings*

The long-term bank loan is represented by facilities provided by a banking syndicate. NWR is a guarantor of the syndicated loan.

<b>Long-term bank loans</b>	<i>Currency</i>	<i>Interest rate</i>	<i>Security</i>	<i>Maturity</i>	<i>31.12.2006</i> <i>CZK '000</i>
Bank loan - facility 1	CZK	3M PRIBOR+1.10%*	shares of OKD, a.s.	2011	3,191,545
Bank loan - facility 2	CZK	3M PRIBOR+1.35%	shares of OKD, a.s.	2012	1,145,410
Bank loan - facility 3	CZK	3M PRIBOR+1.50%	shares of OKD, a.s.	2013	758,237
Bank loan - facility 1	EUR	3M EURIBOR+1.10%*	shares of OKD, a.s.	2011	9,153,500
Bank loan - facility 2	EUR	3M EURIBOR+1.35%	shares of OKD, a.s.	2012	3,285,089
Bank loan - facility 3	EUR	3M EURIBOR+1.50%	shares of OKD, a.s.	2013	2,165,596
					<u>19,699,377</u>
of which current portion					2,743,344
<b>Total long-term loans</b>					<b><u>16,956,033</u></b>
Long-term liabilities from finance leases					5,499
<b>Total long-term interest-bearing loans</b>					<b><u>16,961,532</u></b>

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

3M PRIBOR stands for 3-month Prague interbank offered rate and was 2.55% at 31 December 2006. 3M EURIBOR stands for Euro interbank offered rate and was 3.725% at 31 December 2006.

The total long-term bank loans exclude the current portion of long-term bank loans and the long-term loans which are intended to be repaid earlier - in less than one year. These are included in short-term bank loans. All interest-bearing loans and borrowings are repriced at least once a year.

#### *Short-term loans and borrowings*

Short-term bank loans include credit lines that finally mature in 2008 - they are operating loans with withdrawal option in the form of an overdraft or revolving that may be repaid whenever before the maturity date, they are included in short-term loans.

<b>Short-term loans</b>	<i>Currency</i>	<i>Interest rate</i>	<i>Security</i>	<i>Maturity</i>	<i>2006</i> <i>CZK '000</i>
Loans from related parties	CZK	3M LIBOR+1.25%	None	2007	145,321
Finance leases	CZK	various	None	2007	5,161
Overdraft	CZK	3M PRIBOR+0.65%	note of bill, pledge of receivables	2008	54,613
Overdraft	CZK	3M PRIBOR+0.7%	None	2008	7,759
<b>Total short-term loans</b>					<b><u>212,854</u></b>

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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Repayment schedule for long-term bank loans and borrowings:

	<i>CZK '000</i>
2007	2,743,344
2008	2,743,343
2009	2,743,343
2010	2,743,343
2011	1,371,672
2012 and thereafter	7,354,332
	<u>19,699,377</u>

#### **24. EMPLOYEE BENEFITS**

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

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

Special miners benefits	1,527,653
Loyalty benefits	371,381
Employees' jubilee	6,467
Severance payment	423,521
Other long-term benefits	123,553
Total employee benefits	<u>2,452,575</u>

##### *Special miner's benefits*

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

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

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

Retirement benefit is based also on collective agreement of OKD, a.s. and is assigned to the employees who terminate their employment contract upon becoming entitled to draw an old age pension. The payment is a multiple of average monthly wage.

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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*Loyalty benefits*

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

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

*Severance payments*

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

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

Net benefit expense

	1.1.2006 - 31.12.2006 CZK'000
Current service cost	141,109
Interest cost on benefit obligation	87,955
Employment reduction	84,802
Past service cost	573,354
Actuarial gain	-47,995
Curtailments	-310,614
Benefits paid	-266,997
Net benefit expense	<u><u>261,614</u></u>

Changes in the present value of the defined benefit obligation

	1.1.2006 - 31.12.2006 CZK'000
Defined benefit obligation at 1 January 2006:	2,206,419
Disposal of VOKD, a.s.	-15,458
Net benefit expense	261,614
Defined benefit obligation at 31 December 2006:	<u><u>2,452,575</u></u>

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

*Discount rate* - Discounts rates are derived from the linear approximation of the yield curve of the Czech government bonds at 31 December 2006. The average discount rate used for the calculation of employee benefits is 3.88% per annum.

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

*Wage increase* - This assumption is relevant where the benefit depends on the future wage. In all these cases the combined entities estimate the steadily average wage increase of 5% per annum.

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

*Retirement age* - The retirement age is according to the former and current Czech legislation, as follows: For retirements before 31.12.1995 the retirement age is 60 for men and 57 – 53 for women (depending on the number of children). The retirement age after the year 2013 is 63 for men and 63 – 59 for women (depending on the number of children). The retirement age between those two years mentioned above is determined by the linear approximation.

**25. DEFERRED REVENUE**

	<i>Government grants</i>	<i>Other</i>	<i>Total</i>
	<i>CZK '000</i>	<i>CZK '000</i>	<i>CZK '000</i>
At 1 January 2006	77,983	12,808	90,791
Disposal of subsidiaries	0	-18,549	-18,549
Change in the period	<u>-5,595</u>	<u>32,331</u>	<u>26,736</u>
At 31 December 2006	<u><u>72,388</u></u>	<u><u>26,590</u></u>	<u><u>98,978</u></u>

The combined entities have received government grants to cover environmental improvements. Government grants are being amortised over the expected useful life of the assets acquired with funds from a government subsidy.

**26. DEFERRED TAX**

	<i>31.12.2006</i>
	<i>CZK'000</i>
<i>Deferred tax asset</i>	
At 1 January 2006	31,197
Change of deferred tax charged in the period	668,129
Deferred tax movements - subsidiaries acquired	<u>0</u>
At 31 December 2006	<u><u>699,326</u></u>
<i>Deferred tax liability</i>	
At 1 January 2006	4,336,867
Change of deferred tax charged in the period	98,950
Deferred tax movements - subsidiaries sold	<u>8,865</u>
	<u><u>4,444,682</u></u>
Deferred tax liability, net	<u><u>3,745,356</u></u>

COMBINED ACCOUNTS OF RPG INDUSTRIES, A.S., OKD, DOPRAVA, AKCIOVÁ SPOLEČNOST,  
OKD, DPB, A.S. AND OKD GROUP

NOTES TO COMBINED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

	31.12.2006
	CZK'000
<i>Deferred taxes at 31 December relate to the following:</i>	
<i>Deferred tax asset</i>	
Fixed assets	28,512
Allowances, adjustments and provisions	76,225
Employee benefits	582,860
Tax losses carried forward (see below)	10,287
Other	1,442
	<u>699,326</u>
<i>Deferred tax liability</i>	
Fixed assets	4,396,294
Allowances, adjustments and provisions	39,606
Other	8,782
	<u>4,444,682</u>
Deferred tax liability, net	<u><u>3,745,356</u></u>

Tax losses to be carried forward and offset against future taxable income are available in OKD, BASTRO, a.s., a subsidiary of OKD, a.s. Their amounts are as follows:

<b>Czech Republic</b>	<i>Tax loss</i> CZK'000	<i>Year of expiry</i>
Tax losses arising in 2000	22,465	2007
Tax losses arising in 2001	0	2008
Tax losses arising in 2002	14,826	2009
Tax losses arising in 2003	5,574	2008
Total available amount of tax losses carried forward	<u>42,865</u>	
Deferred tax at the applicable rate of 24%	10,287	
Provision for tax losses carried forward that are not likely to be utilised	0	
Deferred tax asset recognised in respect of tax losses carried forward	<u>10,287</u>	

**27. OTHER LONG-TERM LIABILITIES**

<i>Nature of item</i>	31.12.2006
	CZK'000
Trade liabilities	2,689
Long-term deposits received	227
Other	2,131
Total	<u><u>5,047</u></u>

**28. ACCOUNTS PAYABLE AND ACCRUALS**

	<i>31.12.2006</i> <i>CZK'000</i>
Trade accounts and notes payable	2,822,436
Dividends payable	42,322
Advance payments received	18,544
VAT and other tax payable	201,023
Social and health contributions payable	404,254
Wages and salaries payable	745,054
Other payables	360,891
Accrued expenses	1,836
	<u><u>4,596,360</u></u>

**29. FUTURE COMMITMENTS**

The combined entities have the following commitments in respect of:

	<i>31.12.2006</i> <i>CZK'000</i>
<i>Operating leases</i>	
Instalments due within one year	75,799
Instalments due between two and five years	267,864
	<u>343,663</u>
<i>Acquisition of property, plant and equipment</i>	
From third parties	<u>479,455</u>

Majority of operating lease contracts are concluded as indefinite with short notice period. Leased items include locomotives, equipment, land and buildings. There are none with term exceeding 5 years. Operating lease expense in 2006 total CZK 98,496 thousand.

### **30. CONTINGENT ASSETS AND LIABILITIES**

The combined entities have following significant contingent assets and contingent liabilities as at 31 December 2006.

**a) Promissory notes and guarantees:**

**OKD, BASTRO, a. s.**

OKD, BASTRO, a. s. has a loan taken from a bank secured by receivables, blank promissory note and oral guarantee given by OKD, a.s.

**b) Environmental issues:**

**OKD, a.s.:**

In accordance with privatization projects, the National Property Fund of the Czech Republic ("NPF") reimburses acquirers of privatized assets in respect of expenses incurred for the clean-up of environmental damage relating to the pre-privatization period. In 1993, OKD, a.s. asked NPF to reimburse its expenses for cleaning-up damages in accordance with government decision No. 123 dated 17 March 1993. On 18 April 1996 contract no. 131/96 was concluded between NPF and OKD, a.s. relating to environmental issues in the area in the entity's ownership.

**OKD, OKK, a.s. :**

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

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

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

**c) Claims and litigations:**

**OKD, a.s.**

- Litigation in respect of certain equity securities with a value of CZK 32,611 thousand, including related interest against OKD, a.s., and a co-defendant for damage caused by acting in concert. Up to the date of the combined accounts, the relevant court in Ostrava did not issue any document and the court hearing has not yet been scheduled. An attempt for out-of-court settlement was unsuccessful and the proceedings continue.

- (i) Litigation between the claimant, OKD, a.s., and Slovenský Investičný Holding, a.s. (currently Slovenské investičné družstvo, formerly VSŽ Košice, a.s.) concerning guaranteed payments of coal deliveries. OKD, a.s. is a party to disputes relating to promissory notes and arbitration proceedings in respect of letter of guarantee of VSŽ Košice, a.s. and filed a claim for a compensation of damage potentially incurred if guarantee of VSŽ Košice, a.s. was rendered invalid by the court in the preceding proceedings due to an absence of a foreign exchange permit.

Litigation between the defendant, OKD, a.s., and Slovenský Investičný Holding, a.s. (currently Slovenské investičné družstvo, formerly VSŽ Košice, a.s.), concerning guaranteed payments of coal deliveries. VSŽ Košice, a.s. filed an action against OKD, a.s. with the Regional Court in Bratislava for the annulment of promissory notes, coal purchase contracts and letter of guarantee of VSŽ Košice, a.s.

Litigations above are subject to the Master Settlement Agreement concluded on 15 August 2005. The parties agreed on a conditional settlement of various contentious and doubtful claims between the parties to the Master Settlement Agreement or with other entities. The Master Settlement Agreement includes, inter alia, the settlement of disputes whose parties are also OKD, a.s. and KOP, a.s. (subsidiary of OKD, a.s. already dissolved by merger with OKD, a.s.). In line with this Master Settlement Agreement, relevant actions were undertaken by all involved parties during 2006 to terminate all law proceedings. No settlement has been settled in 2006.

- In connection with purchases of certain minority shares in ČMD, a. s., METALIMEX a. s. (former subsidiaries of OKD, a.s.) and OKD, a.s. made by entities related to the combined entities, the following court proceedings, to which OKD, a.s. is a party, are in progress:
  - Petition to review the appropriateness of consideration for shares of ČMD, a. s., the petitioner Tomáš Klesňák, OKD, a.s. being a party to proceedings as legal successor of ČMD, a. s. and K.O.P. The statement and legal succession notification were submitted. No proceedings were ordered by court so far.
  - Petition to review the appropriateness of consideration for shares of OKD, a.s., the petitioner Tomáš Klesňák, Tomáš Veichart. OKD, a.s. being a party to proceedings together with RPG INDUSTRIES SE as legal successor of KARBON INVEST, a.s. The statement and legal succession notification were submitted. There was prepared new independent expert evidence, which was completed and submitted to court in 2007. No proceedings were ordered by court so far.
  - Petition to review the appropriateness of consideration for shares of METALIMEX a. s., the petitioner OSDA – ČR – METALIMEX, OKD, a.s. being a party to proceedings as legal successor of K.O.P., a.s. The Regional Court in Ostrava stated its lack of jurisdiction and the case was transferred to the Municipal Court in Prague. OKD, a.s. was not asked to submit the statement yet.

At the combined accounts' preparation date, based on legal advise the management of combined entities believes that the current litigations and claims have no significant impact on the combined entities' financial position at 31 December 2006.

**31. OTHER MATERIAL MATTERS**

**a) Merger of OKD, a.s., OKD, PILA-SALMA, a.s. and OKD, Restrukturalizace, a.s.**

On 16 October 2006 an approval concerning the merger of OKD, a.s., OKD, PILA-SALMA, a.s. a OKD, Restrukturalizace, a.s. was issued as a result of previously initiated law proceedings. The approval became effective on 31 October 2006 and the merger was entered into the commercial register. The decisive date of the merger was 1 July 2006.

**b) Merger of EKO-KARBO, a.s. and OKD, HBZS, a.s.**

The board of directors OKD, a.s. decided on 7 November 2006 about the merger of wholly owned subsidiaries EKO-KARBO, a.s. and OKD, HBZS, a.s. into one continuing entity OKD, HBZS, a.s. There are undertaken relevant law steps and the approval is expected to be issued during the year 2007. The decisive date of merger is to be 1 January 2007.

**c) Personnel changes in the statutory bodies and management**

**OKD, a.s.**

According to the decision of the sole shareholder of OKD, a.s. on 11 September 2006 Mr. Josef Goj, Mr. Petr Motloch, Mr. Petr Havlíček and Mr. Evžen Kočenda were replaced as members of the Board of directors.

New members were appointed with an effective date 11 September 2006. As members following persons were appointed: Mr. Zdeněk Bakala, Mr. Peter Kadas, Mr. Csaba Barta and Mr. Michael Jasanský. Mr. Zdeněk Bakala was appointed as the Chairman of the Board of directors and Mr. Peter Kadas was appointed as the Deputy Chairman of the Board of directors.

Newly nominated Board of directors appointed new management in line with the approval of changed organizational structure of OKD, a.s. in which the management is separated from the Board of directors. Nominated and approved by the Board of directors were Mr. Josef Goj as a Chief Executive Officer, Mr. Petr Motloch as Chief Finance Officer, Mr. Petr Otava jr. as a Chief Trade Officer. The decision became effective on 11 September 2006. Further Mr. Petr Mokroš as a Chief Economics Officer and Mr. Jan Matula as a Chief Production Officer were appointed with an effective date on 12 September 2006.

**OKD, OKK, a.s.**

In 2006 members of the Board of directors Mr. Michal Kuča, Mr. Petr Poledník and Ms. Ludmila Novotná were replaced. Mr. Marek Jelínek as a Chairman and Mr. Evžen Kočenda as a Vice-Chairman were appointed on 11 September 2006.

**OKD, DPB, a.s.**

On 11 September Mr. Martin Vojta and Mr. Evžen Kočenda replaced the previously appointed members of the Board of directors. On the same date Mr. Martin Vojta was appointed as a Chairman of the Board of directors and Mr. Evžen Kočenda as a Vice-Chairman of the Board of directors.

**d) Controlling agreements**

There are controlling agreements for indefinite period between RPG Industries, a.s. as the "Controlling person" and OKD, a.s. , OKD Doprava and OKD DPB as the "Controlled person".

Under this agreement, the Controlled person, to the extent permitted by law, is subject to the sole control of the Controlling person. The Controlling person is authorized to impose written instructions on the Controlled person in all matters within the remit of the statutory body, even instructions that may be

disadvantageous to the Controlled person, if they are in the interest of the Controlling person or another person with which the Controlling person forms a concern. Instructions from the Controlling person may not contravene the legal regulations or the Articles of Association of the Controlled person. The controlling agreement includes the obligation of indemnification and the obligation to settle losses if, for duration of the agreement's validity, the Controlled person finishes a year with a loss according to financial statements that have been independently audited and then approved by the sole shareholder (acting in the capacity of the General Meeting).

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

**e) Review of the 2004 and 2005 coke selling prices appropriateness**

The tax authority in Ostrava is currently reviewing appropriateness of coke selling prices of OKD, a.s. The review is focused on transactions in 2004 and 2005. The review has not been finalized yet and therefore no results are currently available.

No estimate of financial effect has been disclosed in order not to influence the result of the tax review. However, management of OKD, a.s. is strongly persuaded about the correctness of its procedures related to process of negotiation of coke prices and also believes that no expenses are going to arise for OKD, a.s. with respect to this matter.

**32. SUBSEQUENT EVENTS**

**a) Liquidation of OKD, Báňské stavby Ostrava, a.s. "v likvidaci" ("in liquidation")**

As at 23 February 2007 a court decision about the termination of the liquidation process of OKD, Báňské stavby Ostrava, a.s. "v likvidaci" has become effective and the company was delisted from the commercial register. Impact on the financial result from the liquidation is not significant for February 2007.

**b) Significant contracts**

**OKD DPB**

In December 2006 OKD DPB has concluded a loan contract with credit limit of CZK 300,000 thousand. The loan is to be provided in 2007 and 2008 to finance construction works of network of co-generating units. Final repayment of this long term loan is in 2015.

In relation to this contract OKD DPB has entered into interest rate swap contract to mitigate the interest rate risks related to the loan contract. Nominal value of the swap is related to outstanding amount of the loan. The interest rate period starts on 28 September 2008 and the expiry date of the transaction is tied to the repayment period of the loan, i.e. 2015.

**c) Payment of the syndicated loans instalment**

On 14 February 2007 OKD, a.s. paid its regular instalment of the syndicated loan in the amount of CZK 359,500 thousand and EUR 37,500 thousand.

**d) Equity payout**

New World Resources B.V. approved a payout from the equity of OKD, a.s. of CZK 22,950,000 thousand on 24 January 2007. The payment took place on 25 January 2007 and the funds were paid to New World Resources B.V. Before and after the equity payout the combined entities are in compliance with credit contract covenants.

**e) Foreign exchange risk policy changes**

The combined entities have decided to increase the share of foreign exchange rate forward contracts up to the maximum 65% of the expected open position.

**f) Personnel changes in the statutory bodies of the combined entities**

**OKD, a.s.**

Mr Csaba Barta was replaced as member of the Board of directors by Mr. Lajos Varga following the decision of the sole shareholder on 24 January 2007.

Mr Jasansky was called out from the position of the member of Board of directors on 1 March 2007.

The Supervisory Board of OKD, a.s. has discussed at its session on 8 March 2007 statement of resignation of Mrs. Petra Sokolová and Mr. Jan Matula, members of the Supervisory board and decided that their terms of duty are to be terminated on 10 April 2007.

APPROVED BY BOARDS OF DIRECTORS OF NEW WORLD RESOURCES B.V.

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