

## New World Resources B.V. Results for the Quarter Ended March 31st 2007

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### First Quarter 2007 Highlights

- Coking coal production accounted for CZK 4,485 million in net sales in Q1 2007 on an EXW basis.
- Net coke sales totalled CZK 1,320 million in Q1 2007.
- Steam coal accounted for CZK 1,782 million in net sales in Q1 2007 on an EXW basis.
- EBITDA increased by 9.3%\*.
- Average contracted coal price increased by 6.5% compared to Q1 2006. Average contracted coke price went up by 9.1% from Q1 2006.
- Total average number of employees decreased by 7.3% compared to Q1 2006.
- On May 21, 2007 Mr. Klaus Beck was appointed Chairman of the Board of Directors of OKD. Being one of the recognized top world professionals in coal mining, Mr. Beck will bring to OKD management his rich international experience from serving in leading managerial positions in the coal mining companies in the US and Europe.
- OKD Board of Directors is in the advanced stages of negotiating the terms of appointment of a new financial director and director for strategic development.
- NWR Board of Directors is in the advanced stages of negotiating the terms of appointment of a new non-executive chairman. The main purpose of all such appointments is to enhance the Company's senior management with significant international experience and to provide new strategic thinking.

### Selected Financial and Operational Data

<i>CZK '000 unless stated otherwise</i>	<b>1 Jan 07 – 31 Mar 07</b>	<b>1 Jan 06 – 31 Mar 06</b>	<b>Change, %</b>
<b>EBITDA</b>	2,697,074	2,467,050*	9.3%*
of which Restricted Group	2,550,332	n/a	-
<b>Operating Cash Flow</b>	767,151	1,241,248	-38%
of which Restricted Group	642,088	n/a	-
<b>Total Coal Production (kt)</b>	3,336	3,551	-6%
<b>Average Number of Staff</b> ( <i>persons, incl. contractors</i> )	24,919	26,882	-7.3%
of which Restricted Group	22,071	n/a	-
<b>Lost-time Injury Frequency Rate</b>	15.01	18.62	-19.4%

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\* After retroactive price adjustment for the first quarter of 2006 (for details, please see page 8).

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## DEFINITIONS AND ABBREVIATIONS

“CEE” refers to the geographic region of Central and Eastern Europe, which includes Albania, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Serbia, the Republic of Montenegro, Slovakia and Slovenia.

“Company” refers to New World Resources B.V., the Issuer, and all of its subsidiaries.

“Czech Crowns” or “CZK” refers to the lawful currency of the Czech Republic.

“Doprava” refers to OKD, Doprava, akciová společnost, a joint-stock company (*akciová společnost*) organized under the laws of the Czech Republic.

“DPB” refers to OKD, DPB, a.s., a joint-stock company (*akciová společnost*) organized under the laws of the Czech Republic.

“EXW” refers to the “Ex Works” Incoterm, which is when the seller fulfils his obligation to deliver upon having the goods available at his premises to the buyer.

“IFRS” refers to International Financial Reporting Standards as adopted by the E.U.

“Indenture” refers to the Indenture, dated May 18, 2007, by and among New World Resources B.V., as Issuer, Deutsche Trustee Company Limited, as Trustee, Deutsche Bank AG, London Branch, as Principal Transfer Agent and Principal Paying Agent, Deutsche Bank Luxembourg S.A., as Irish Listing Agent and Registrar and Deutsche International Corporate Services (Ireland) Limited, as Irish Paying Agent and Irish Transfer Agent.

“Issuer” or “NWR” refers to New World Resources B.V., a private company with limited liability organized under the laws of the Netherlands.

“kt” refers to one thousand metric tons.

“Lost-time Injury Frequency Rate” refers to the frequency of reported occupational injuries per 1 million of working hours

“Notes” refer to the Issuer’s €300 million aggregate principal amount of 7.375% Senior Notes due 2015.

“OKD” refers to OKD, a.s. (formerly OKD, Mining, a.s.), a joint-stock company (*akciová společnost*) organized under the laws of the Czech Republic and the principal direct subsidiary of the Issuer, which assumed the core business as a part of the Company’s restructuring.

“Rekultivace” refers to OKD, Rekultivace, a.s.

“Restructuring” refers to the restructuring transactions of the Company with the aim to (i) separate the core business and the logistics business from various unrelated activities in which the former OKD and its subsidiaries were engaged, (ii) simplify the holding structure of the Company and (iii) move the holding entity for the core business to the Netherlands so as to better position it for access to international securities markets.

## **BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

New World Resources B.V. was formed on December 29, 2005, and its principal subsidiaries, OKD, Doprava and DPB were contributed to NWR on September 7, 2006 by its shareholder, RPG Industries SE.

The financial information for the first quarter of 2006 has been prepared on a combined basis. The combined group comprises of entities controlled by RPG Group via NWR. The entities include OKD and its subsidiaries, OKD, Doprava, akciová společnost, OKD, DPB, a.s., and their respective subsidiaries, RPG Industries, a.s., and New World Resources B.V., altogether “combined entities”.

The financial information with respect to the first quarter of 2006 contained in this quarterly report has been derived from the combined accounts, prepared solely for the purpose to present historical financial information for the first quarter of 2006, most corresponding to the group structure of the Company as of 31 December 2006. The combined accounts do not represent general purpose financial information.

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.

In preparing the combined accounts, any subsidiary of OKD and OKD Doprava is 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.

Amounts have been compiled using reporting packages of individual companies used for IFRS consolidation of the immediate parent company, 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 RPG Group using external expert valuation.

The consolidated financial statements for the first quarter of 2007 have been prepared in accordance with International Financial Reporting Standards “IFRS” as adopted by the European Union.

The consolidated financial statements are presented in Czech Crowns (CZK), rounded to the nearest thousand. Czech Crowns is the presentation currency of the Company. Functional currency of the Company is Euro. They are prepared on the historical cost basis except for the following assets and liabilities, which are stated at their fair value: derivative financial instruments. For your convenience, this quarterly report contains translations of certain Czech Crowns amounts into Euros at the rate or rates indicated. These translations should not be construed as representations that the Czech Crowns amounts actually represent such Euros amounts or could be converted into Euros at the rate indicated.

The preparation of financial statements in conformity with IFRSs requires management 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been applied consistently by the Company entities. The accounting policies are described at the end of this document.

### **Non-IFRS Measures**

This quarterly report contains references to certain non-IFRS measures, including EBITDA, Restricted Group EBITDA and Unrestricted Group EBITDA.

The Company defines EBITDA as net profit after tax from continuing operations before minority interest, income tax, net financial costs, depreciation and amortization, impairment of property, plant and equipment (“PPE”) and gains/loss from sale of PPE. While the amounts included in EBITDA are derived from the Company's consolidated financial statements, it is not a financial measure determined in accordance with IFRS and, accordingly, should not be considered as an alternative to net income or operating income as a indication of the Company's performance or as an alternative to cash flows as a measure of the Company's liquidity. The Company currently uses EBITDA in its business operations to, among other things, evaluate the performance of its operations, develop budgets, and measure its performance against those budgets. The Company finds it a useful tool to assist in evaluating performance because it excludes interest, taxes and other non-cash charges.

The Company presents EBITDA for the Restricted Group and the Unrestricted Group to provide investors a basis for evaluating the performance of the Restricted Group, which is comprised of subsidiaries subject to the restrictive covenants of the Indenture governing the Notes. The Restricted Group EBITDA excludes the results of operations of all Unrestricted Subsidiaries. The Company has computed the Unrestricted Group EBITDA using the same formula as for EBITDA, based on the financial statements for Unrestricted Subsidiaries.

## **OPERATING AND FINANCIAL REVIEW**

### **General Overview**

#### *Background*

The Company is the sole producer of hard coal in the Czech Republic and a leading producer of hard coal in Central Europe on the basis of revenues and volume, serving customers in the Czech Republic, Poland, Austria, Slovakia, Hungary and Germany. Its business is primarily focused on hard coal mining and coke production.

The Company operates five mines and two coking facilities in the Czech Republic and serves several large CEE steel and energy producers.

The Company's largest business in terms of revenue is the production of coking coal, which accounted for CZK 4,485 million in net sales during the quarter ended March 31, 2007 on an EXW basis. Coking coal is sold to steel producers and to independent coke producers. The Company also produces coke for sale to steel producers and foundries. Net coke sales totalled CZK 1,320 million during the quarter ended March 31, 2007.

The Company also produces steam coal, which accounted for CZK 1,782 million in net sales during the quarter ended March 31, 2007 on an EXW basis. While demand for steam coal tends to be more stable from year to year than for coking coal, coking coal production generally produces higher profit margins.

The Company also extracts and sells methane gas, a by-product of its coal mining operations, and provides transportation and logistics services. The Company's subsidiaries that engage in such businesses are designated as Unrestricted Subsidiaries under the terms of the Indenture and their impact on the financial performance of the Company is presented in this review.

### **Description of Key Components of the Company's Income Statement**

#### *Revenue Sources*

The Company derives revenues primarily from the sale of coking and steam coal as well as coke. The Company also derives revenue from the sale of methane gas obtained in mine gas degasification operations conducted through DPB as well as from transport and logistics services conducted through Doprava.

#### *Principal Costs and Expenses*

The most significant expenses of the Company are the consumption of material and energy, service expenses (including contract workers) and personnel expenses. For the quarter ended March 31, 2007, the consumption of material and energy and personnel expenses accounted for 34% and 31% of the total direct operating expenses, respectively.

*Consumption of Material and Energy.* The consumption of material and energy is a significant cost item. It consists of three main items: consumption of material for mining operations (steel and wood supports etc.), consumption of spare parts for mining machines and consumption of energy.

*Service Expenses.* Service expenses comprise the cost of contractors and of consulting, professional, transportation and other services. The vast majority of transportation services expenses are pass-through costs invoiced directly to the Company's clients (and included in the Company's revenue). Professional service expenses are those costs associated with the services of attorneys, consultants and other professionals.

As the Company uses contractors for sourcing miners between, the costs of coal production have been increasingly reflected in service expenses. The Company expects to continue to use miners provided

by contractors because it offers greater employment flexibility and because of changes in the market for mining employees in the Czech Republic and Central Europe. The use of contract workers has improved the productivity of the Company's mining operations.

*Personnel expenses.* Personnel expenses comprise wages and salaries, social insurance costs, social security and other payroll costs for the Company's own employees. For comparison purposes, the employee benefits portion of the personnel expenses line item was presented under its own subheading. As discussed above, personnel expenses exclude the costs of workers employed by contractors, which are included in service expenses.

*Employee Benefits.* The Company's 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 employees have earned in return for their services in the current and prior periods.

The Company's employee benefit scheme covers the statutory requirements applicable to the mining industry and other benefits arranged with the labor union in the general labor agreement. All benefits are unfunded. Most of them are paid annually and are calculated based on length of service, level of exposure to health hazards and disability. Others are payable upon severance. Post-employment and long-term benefits are adjusted annually according to (i) a discount rate derived from the linear approximation of the yield curve of the Czech government bonds, (ii) the estimated wage increase per year, (iii) Czech official mortality models, and (iv) the applicable statutory retirement age.

#### *Other Operating Expenses*

Other operating expenses principally include compensation for mining damages, provisions for mine closures, property taxes and government fees and net loss on sale of receivables.

#### *Depreciation and amortization*

Depreciation and amortization include the depreciation of tangible fixed based on the accounting policies in compliance with IFRS and amortization of intangible fixed assets. The Company does not account for any goodwill or its amortization in the first quarter of 2007 in the consolidated accounts.

#### *Sub-Total (Operating Income)*

The income statement of the Company contains a line item captioned Sub-Total. The Company considers the line sub-total in the financial statements to be the operating income of the Company. It includes all operating costs and revenues but does not reflect financial revenues or expenses or the effects of disposal of subsidiaries and taxes.

Starting in 2006, the Company's principal business segments are as follows:

- Coal and Coke
- Transport
- Gas and Electricity

The table below summarizes revenues by segment in the first quarter of 2007:

<b>Revenue component</b>	<b>Quarter ended March 31, 2007 (CZK million)</b>	
	<b>%</b>	
Coal and Coke segment.....	8,547	89.3%
—of which		
Coal sales EXW.....	5,595	65.5%
Coke sales.....	1,321	15.5%
Coal transport and quality surcharges and discounts.....	783	9.2%
Other .....	848	9.9%
Transport segment.....	839	8.8%
Gas and Electricity segment.....	187	2.0%
Revenue total .....	9,574	100.0%

*Coal and Coke.* The majority of the Company's revenue is derived from the Coal and Coke segment. Its key customers are Arcelor Mittal Steel, US Steel, DALKIA, Moravia Steel and Voestalpine. The majority of coal and coke sales is based on framework agreements which are re-priced mainly on an annual basis.

The Company's hard coal mining business is conducted through OKD, a wholly-owned subsidiary of the Issuer. OKD produces coking coal, accounting for 59% of the overall tonnage of coal sold for the quarter ended March 31, 2007, for use in steel production and high quality steam coal for use in power generation. Steam coal, which accounts for approximately 41% of all tonnage of the Company's coal sales for the quarter ended March 31, 2007, is used by utilities, heating plants and industrial companies to produce steam and electricity. While steam coal margins are lower than coking coal margins, steam coal has historically provided a stable source of revenue. For the quarter ended March 31, 2007, the Coal and Coke segment represented 89% of revenues and 94% of the EBITDA of the Company.

*Transport.* The Transport segment is conducted by Doprava and its subsidiaries and consists primarily of rail transport for the Company's coal and coke, rail transport for third parties and logistics services. For the quarter ended March 31, 2007, the Transport segment represented 9% of the revenues and 4% of the EBITDA of the Company.

*Gas and Electricity.* The Gas and Electricity segment is conducted by DPB which is active in the coalbed methane extraction and distribution business. It uses methane extracted from coal mines for heat and power generation, generating revenue from both extraction and sale. DPB operated two modern combined heat and power ("CHP") units with combined capacity of 1.4 MWe and 1.3 MWth in 2006 and it is currently installing 13 additional CHP units with combined capacity of 15.5 MWe and 15.8 MWth. The segment's revenue represented 2% of Company revenues and the segment's EBITDA represented 1.3% of the Company's performance.

## **EBITDA**

The following table compares EBITDA for the quarter ended March 31, 2007 to the same period of 2006

<i>CZK '000</i>	<b>1 Jan 07 – 31 Mar 07</b>	<b>1 Jan 06 – 31 Mar 06</b>	<b>Change, %</b>
<b>EBITDA</b>	2,697,074	2,663,728	1.3%

The Company EBITDA for the first quarter of 2007 is CZK 2,697,074 thousand. Based on the combined financial information for the first quarter of 2006, the comparative EBITDA for the same period of 2006 is CZK 2,663,728 thousand. However the EBITDA for the quarter ended March 31, 2006 was affected by price negotiations with customers in the first half of 2006 associated with decreased market prices resulting in invoicing higher 2005 prices in the first quarter of 2006 and retroactive adjustment of the prices and respective revenues in the second quarter of 2006. This accounted for CZK 196,678 thousand, for an adjusted EBITDA for the quarter ended March 31, 2006 of CZK 2,467,050 thousand. The increase of CZK 230,024 thousand between the adjusted EBITDA for the first quarter of 2006 and EBITDA for the first quarter of 2007 represents 9.3% increase on year over year basis and reflects the improvement of the financial performance of the Company resulting mainly from the following factors:

- Positive coal and coke price development (average coal price increase by 6.5% and coke price by 9.1%) offset in part by the following factors:
- Increase in personnel expenses by 4% due to increase in average wages agreed with trade unions based on the overall trends in Czech Republic (6% agreed with trade unions compared to average increase in nominal wage in Czech Republic 7.8%), offset by improvement of productivity and headcount reduction; and
- Increase in consumption of material and energy, mainly due to increase in purchase prices (7% energy price increase in the Czech Republic).

As mentioned above, EBITDA is non-IFRS measure. The amounts included in EBITDA are derived from the Company's consolidated financial statements. The following table provides reconciliation of EBITDA to other IFRS items of income statement.

<b>Calculation of EBITDA</b>	<b>CZK million</b>	<b>EUR million</b>
Net Profit after Tax from Continuing Operations	665,900	23,751
Income Tax	289,072	10,310
Net Financial Expenses	482,505	17,210
Depreciation and Amortization	1,196,278	42,668
Impairment of PPE	0	0
Gains/Losses from Sale of PPE	63,319	2,258
<b>EBITDA</b>	<b>2,697,074</b>	<b>96,197</b>

The following table provides EBITDA for the quarter ended March 31, 2007 for Restricted and Unrestricted Subsidiaries.

<i>CZK '000</i>	<b>Consolidated Group</b>	<b>Restricted Subsidiaries</b>	<b>Unrestricted Subsidiaries</b>
<b>EBITDA</b>	2,697,074	2,550,332	146,742

### **Operating Cash Flow**

The following table compares Net Operating Cash Flow for the quarter ended March 31, 2007 to the same period of 2006.

<i>CZK '000</i>	<b>1 Jan 07 – 31 Mar 07</b>	<b>1 Jan 06 – 31 Mar 06</b>	<b>Change, %</b>
<b>Net Operating Cash Flow</b>	767,151	1,241,248	-38%

Net cash flows from operating activities for the first quarter of 2007 are CZK 767,151 thousand, compared with CZK 1,241,248 thousand in the first quarter of 2006. This decrease in net operating cash flow was mainly attributable to advance income tax payments in the first quarter of 2007 in the amount of CZK 422,581 thousand with no payments made during the same period in 2006. This decrease was also attributable to CZK 328,663 thousand change of working capital, principally due to lower increase in accounts payable. The cash generation from operating activities before change in working capital increased by CZK 30,033 thousand. As already discussed, price negotiations in the first half of 2006 and retrospective price adjustments improve the presented EBITDA and correspondingly the cash flow. After adjustment for this effect the decrease in net operating cash flow is 26.6% from CZK 1,044,570 thousand in the first quarter of 2006 to CZK 767,151 thousand in the first quarter of 2007.

The following table provides Net Operating Cash Flow for the quarter ended March 31, 2007 for Restricted and Unrestricted Subsidiaries.

<i>CZK '000</i>	<b>Consolidated Group</b>	<b>Restricted Subsidiaries</b>	<b>Unrestricted Subsidiaries</b>
<b>Net Operating Cash Flow</b>	767,151	642,088	125,063

## **Capital Resources**

The Company's principal source of liquidity has historically been the Company's operating cash flows and bank borrowings.

In January 2007 a dividend of EUR 801 million was distributed to the shareholders of the Company.

The Company currently has €350 million available subject to certain conditions under the Senior Secured Facilities and CZK 3.5 billion (€124 million) available under the Revolving Credit Facilities. In addition, the Company, through the Issuer, incurred €300 million in aggregate principal amount of additional indebtedness in connection with the offering of the Notes. The Company raised proceeds from the offering of the Notes, net of estimated expenses, of €286 million. The Company intends to use the net proceeds of the offering of the Notes (i) by contributing €150 to OKD as a capital contribution, which funds OKD intends to use to repay amounts outstanding under the Senior Secured Facilities and (ii) for general corporate purposes, including the Company's ongoing business activities and any future expansion, and to pay fee and expenses of the offering of the Notes.

As at March 31, 2007 the Group's net debt was 14,024,088 thousand CZK.

## **Unrestricted Subsidiaries and Non-Core Real Estate**

Doprava and its subsidiaries, DPB and Rekvivace are Unrestricted Subsidiaries under the Indenture and generally are not bound by the restricted covenants of the Indenture applicable to the Company. While the Company has disposed of a significant amount of non-core real estate as part of the Restructuring, it has identified additional non-core real estate and intends to transfer these properties outside the Company. In addition, the Indenture permits the Company to distribute or dispose of the non-core real estate without complying with the restricted payment and asset sale covenants of the Indenture and the proceeds of such disposal would not inure to the benefit of Noteholders.

The Unrestricted Subsidiaries do not affect the financial performance of the Company significantly. Their tribute to the operating profit of the Company is only 5%. Their impact on net profit seems to be higher, but the reason is the debt service, which is fully accounted for in the Restricted Subsidiaries. The exclusion of the Unrestricted Subsidiaries does not affect significantly the liquidity or the access to capital resources of the Company.

## Selected Financial Indicators for Restricted and Unrestricted Group in Q1 2007

	1 January 2007- 31 March 2007 CZK '000	1 January 2007- 31 March 2007 CZK '000	1 January 2007- 31 March 2007 CZK '000
	<b>Consolidated Group</b>	<b>Restricted Subsidiaries</b>	<b>Impact of Unrestricted Subsidiaries</b>
Revenues	9,573,586	8,929,797	643,789
<b>EBITDA</b>	<b>2,697,074</b>	<b>2,550,332</b>	<b>146,742</b>
Sub-Total	1,437,477	1,358,504	78,973
Net Profit Before Taxation	954,972	832,395	122,577
<b>Total Net Profit After Tax For The Period</b>	<b>665,900</b>	<b>556,056</b>	<b>109,844</b>
<hr/>			
Total Non-Current Assets	37,135,600	38,718,579	-1,582,979
Total Current Assets	12,873,165	11,605,517	1,267,648
<b>Total Assets</b>	<b>50,008,765</b>	<b>50,324,096</b>	<b>-315,331</b>
Total Equity	15,499,094	16,447,533	-948,439
Total Non-Current Liabilities	25,505,043	25,168,732	336,311
Total Current Liabilities	9,004,627	8,707,831	296,796
<b>Total Equity And Liabilities</b>	<b>50,008,765</b>	<b>50,324,096</b>	<b>-315,332</b>
<hr/>			
Net Increase In Cash And Cash Equivqlents	-22,986,212	-23,072,915	86,703
Cash And Cash Equivalents At The Beginning Of The Period	27,864,602	27,289,811	574,792
<b>Cash And Cash Equivalents At The End Of The Period</b>	<b>4,878,390</b>	<b>4,216,895</b>	<b>661,495</b>

**NEW WORLD RESOURCES B.V.**

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

**Prepared under the International Financial Reporting Standards as Adopted by the  
European Union**

On revalued values in terms of purchase price allocation as at 31.10.2004	1 January 2007- 31 March 2007 CZK '000	1 January 2007- 31 March 2007 EUR '000*
Revenues	9,573,586	341,463
Change in inventories of finished goods and work-in-progress	361,462	12,892
Own work capitalised	0	0
Net profit from material sold	32,857	1,172
Consumption of material and energy	-2,862,175	-102,086
Service expenses	-1,860,774	-66,369
Personnel expenses	-2,654,133	-94,665
Employee benefits	0	0
Amortization and Depreciation	-1,196,278	-42,668
Impairment of assets	0	0
Bad debt expense	5,448	194
Proceeds from sale of property, plant and equipment	-63,319	-2,258
Other operating revenues	247,438	8,825
Other operating expenses	-146,636	-5,230
<b>SUB-TOTAL</b>	<b>1,437,477</b>	<b>51,271</b>
Financial revenue	1,175,381	41,922
Financial expense	-1,657,886	-59,132
Dividends received	0	0
Profit/loss on disposal of interest in subsidiaries	0	0
<b>NET PROFIT BEFORE TAXATION</b>	<b>954,972</b>	<b>34,061</b>
Income tax expense	-289,072	-10,310
<b>NET PROFIT AFTER TAX FROM ORDINARY ACTIVITIES</b>	<b>665,900</b>	<b>23,751</b>
DISCONTINUED OPERATIONS	0	0
<b>NET PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS</b>	<b>0</b>	<b>0</b>
<b>TOTAL NET PROFIT AFTER TAX FOR THE PERIOD</b>	<b>665,900</b>	<b>23,751</b>
Attributable to:		
Minority interest	0	0
Shareholders of the parent	665,900	23,751

\*Currency translation with average FX rate for the period

**NEW WORLD RESOURCES B.V.**

**CONSOLIDATED BALANCE SHEET (UNAUDITED)**

**Prepared under the International Financial Reporting Standards as Adopted by the European Union**

	31 March 2007 CZK '000	31 March 2007 EUR '000'
On revalued values in terms of purchase price allocation as at 31.10.2004		
<b>ASSETS</b>		
Property, Plant and Equipment, intangible assets net	36,360,315	1,298,583
Goodwill and negative goodwill	0	0
Other financial investments	108,822	3,886
Long-term receivables	175,032	6,251
Restricted cash	491,430	17,551
<b>TOTAL NON-CURRENT ASSETS</b>	<b>37,135,599</b>	<b>1,326,271</b>
Inventories	1,736,014	62,001
Accounts receivable and prepayments	5,656,230	202,008
Fair value of derivatives	602,531	21,519
Cash and cash equivalents	4,878,390	174,228
<b>TOTAL CURRENT ASSETS</b>	<b>12,873,165</b>	<b>459,756</b>
ASSETS CLASSIFIED AS HELD FOR SALE	0	0
<b>TOTAL ASSETS</b>	<b>50,008,764</b>	<b>1,786,027</b>
<b>EQUITY AND LIABILITIES</b>		
SHAREHOLDERS' EQUITY		
Share Capital	2,749,995	98,214
Share premium	3,305,330	118,047
Special liquidation fund	2,378,798	84,957
Foreign exchange translation reserve	12,413	475
Statutory reserves	3,460,484	123,589
Retained earnings and Capital funds	3,592,074	128,257
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY</b>	<b>15,499,094</b>	<b>553,539</b>
Minority interest	0	0
<b>TOTAL EQUITY</b>	<b>15,499,094</b>	<b>553,539</b>
LIABILITIES		
Provisions	3,255,719	116,276
Long-term loans	16,033,060	572,609
Employee benefits	2,452,575	87,592
Deferred revenue	108,029	3,858
Deferred tax liability	3,646,153	130,220
Other long-term liabilities	9,507	340
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>25,505,043</b>	<b>910,894</b>
Provisions	426,098	15,218
Accounts payable and accruals	5,671,141	202,541
Fair value of derivatives	37,970	1,356
Short-term bank loans	2,869,418	102,479
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,004,627</b>	<b>321,594</b>
LIABILITIES CLASSIFIED AS HELD FOR SALE	0	0
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>50,008,764</b>	<b>1,786,027</b>

\*Currency translation with FX rate as of March 31, 2007



**NEW WORLD RESOURCES B.V.**

**CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

**Prepared under the International Financial Reporting Standards as Adopted by the European Union**

	<i>1 January 2007 -31 March 2007 CZK '000</i>	<i>1 January 2007 -31 March 2007 EUR '000*</i>
<b>Cash flows from operating activities</b>		
Net profit before taxation and minority interest	954,972	34,061
Elimination of deferred tax change of sold subsidiaries	0	0
Adjustments for:	0	0
Depreciation	1,129,049	40,270
Amortization	67,229	2,398
Impairment of assets	0	0
Changes in provisions	-27,645	-986
Change in fair value of derivatives	324,107	11,560
Profit on disposal of property, plant and equipment, investments and subsidiaries	63,319	2,258
Deferred revenue	9,052	323
Interest expense, net	93,202	3,324
Unrealized foreign exchange differences	-196,591	-7,012
Operating profit before working capital changes	<u>2,416,694</u>	<u>86,197</u>
(Increase) / Decrease in inventories	-392,677	-14,006
(Increase) / Decrease in receivables	-824,598	-29,411
(Decrease) / Increase in payables	53,593	1,912
(Increase) / Decrease in restricted cash	-2,301	-82
Other non-cash movements	1,797	64
Cash generated from operating activities	<u>1,252,508</u>	<u>44,673</u>
Interest paid	-62,776	-2,239
Corporate income tax paid	-422,581	-15,072
	<u>0</u>	<u>0</u>
<b>Net cash flows from operating activities</b>	<u><u>767,151</u></u>	<u><u>27,362</u></u>
<b>Cash flows from investing activities</b>		
Interest received	76,185	2,717
Acquisitions of subsidiaries and other investments	0	0
Purchase of land, property, plant and equipment	-561,423	-20,024
Proceeds from sale of property, plant and equipment and investments	25,844	922
<b>Net cash flows used in investing activities</b>	<u><u>-459,394</u></u>	<u><u>-16,385</u></u>
<b>Cash flows from financing activities:</b>		
(Repayment) /Proceeds of long term borrowings	-713,055	-25,433
Net proceeds from / (Repayments of) borrowings	-169,014	-6,028
Dividends paid net of received	-22,411,900	-799,369
<b>Net cash flows used in financing activities</b>	<u><u>-23,293,968</u></u>	<u><u>-830,830</u></u>
Net increase in cash and cash equivalents	-22,986,212	-819,853
Cash and Cash Equivalents at the beginning of year	27,864,602	993,851
<b>Cash and Cash Equivalents at the end of period</b>	<u><u>4,878,390</u></u>	<u><u>173,998</u></u>

\*Currency translation with average FX rate for the period

**NEW WORLD RESOURCES B.V.**

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)  
AS COMPARED WITH RESTRICTED SUBSIDIARIES AND UNRESTRICTED  
SUBSIDIARIES**

**Prepared under the International Financial Reporting Standards as Adopted by the  
European Union**

	1 January 2007- 31 March 2007 CZK '000	1 January 2007- 31 March 2007 CZK '000	1 January 2007- 31 March 2007 CZK '000
	<b>Consolidated Group</b>	<b>Restricted Subsidiaries</b>	<b>Unrestricted Subsidiaries</b>
Revenues	9,573,586	8,929,797	643,789
Change in inventories of finished goods and work-in-progress	361,462	380,055	-18,593
Own work capitalised	0	0	0
Net profit from material sold	32,857	30,042	2,815
Consumption of material and energy	-2,862,175	-2,698,071	-164,104
Service expenses	-1,860,774	-1,816,371	-44,403
Personnel expenses	-2,654,133	-2,396,092	-258,041
Employee benefits	0	0	0
Depreciation	-1,129,049	-1,059,763	-69,286
Amortization	-67,229	-67,229	0
Bad debt expense	5,448	-1,470	6,918
Proceeds from sale of property, plant and equipment	-63,319	-64,835	1,516
Other operating revenues	247,438	243,286	4,152
Other operating expenses	-146,636	-120,845	-25,790
<b>SUB-TOTAL</b>	<b>1,437,477</b>	<b>1,358,504</b>	<b>78,973</b>
Financial revenue	1,175,381	1,171,631	3,750
Financial expense	-1,657,886	-1,697,740	39,854
Dividends received	0	0	0
Profit/loss on disposal of interest in subsidiaries	0	0	0
<b>NET PROFIT BEFORE TAXATION</b>	<b>954,972</b>	<b>832,395</b>	<b>122,577</b>
Income tax expense	-289,072	-276,338	-12,734
<b>NET PROFIT AFTER TAX FROM ORDINARY ACTIVITIES</b>	<b>665,900</b>	<b>556,056</b>	<b>109,844</b>
DISCONTINUED OPERATIONS	0	0	0
<b>NET PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL NET PROFIT AFTER TAX FOR THE PERIOD</b>	<b>665,900</b>	<b>556,056</b>	<b>109,844</b>
Attributable to:			
Minority interest	0	0	0
Shareholders of the parent	665,900	556,056	109,844

**NEW WORLD RESOURCES B.V.**

**CONSOLIDATED BALANCE SHEET (UNAUDITED)  
AS COMPARED WITH RESTRICTED SUBSIDIARIES AND UNRESTRICTED  
SUBSIDIARIES**

**Prepared under the International Financial Reporting Standards as Adopted by the  
European Union**

	31 March 2007 CZK '000	31 March 2007 CZK '000	31 March 2007 CZK '000
	<b>Consolidated Group</b>	<b>Restricted Subsidiaries</b>	<b>Unrestricted Subsidiaries</b>
<b>ASSETS</b>			
Property, Plant and Equipment, intangible assets net	36,360,315	33,783,601	2,576,714
Goodwill and negative goodwill	0	0	0
Other financial investments	108,823	4,283,329	-4,174,506
Long-term receivables	175,032	160,219	14,813
Restricted cash	491,430	491,430	0
<b>TOTAL NON-CURRENT ASSETS</b>	<b>37,135,600</b>	<b>38,718,579</b>	<b>-1,582,979</b>
Inventories	1,736,014	1,496,671	239,343
Accounts receivable and prepayments	5,656,230	5,289,420	366,810
Fair value of derivatives	602,531	602,531	0
Cash and cash equivalents	4,878,390	4,216,895	661,495
<b>TOTAL CURRENT ASSETS</b>	<b>12,873,165</b>	<b>11,605,517</b>	<b>1,267,648</b>
ASSETS CLASSIFIED AS HELD FOR SALE	0	0	0
<b>TOTAL ASSETS</b>	<b>50,008,765</b>	<b>50,324,096</b>	<b>-315,331</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital	2,749,995	2,749,995	0
Share premium	3,305,330	3,305,330	0
Special liquidation fund	2,378,798	2,378,798	0
Foreign exchange translation reserve	12,413	12,413	0
Statutory reserves	3,460,484	3,460,348	136
Retained earnings and Capital funds	3,592,074	4,540,649	-948,575
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY</b>	<b>15,499,094</b>	<b>16,447,533</b>	<b>-948,439</b>
Minority interest	0	0	0
<b>TOTAL EQUITY</b>	<b>15,499,094</b>	<b>16,447,533</b>	<b>-948,439</b>
<b>LIABILITIES</b>			
Provisions	3,255,719	3,216,631	39,088
Long-term loans	16,033,060	16,030,002	3,058
Employee benefits	2,452,575	2,373,937	78,638
Deferred revenue	108,029	97,133	10,896
Deferred tax liability	3,646,153	3,447,829	198,324
Other long-term liabilities	9,507	3,200	6,307
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>25,505,043</b>	<b>25,168,732</b>	<b>336,311</b>
Provisions	426,098	375,672	50,426
Accounts payable and accruals	5,671,141	5,428,859	242,282
Fair value of derivatives	37,970	37,970	0
Short-term bank loans	2,869,418	2,865,330	4,088
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,004,627</b>	<b>8,707,831</b>	<b>296,796</b>
LIABILITIES CLASSIFIED AS HELD FOR SALE	0	0	0
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>50,008,765</b>	<b>50,324,096</b>	<b>-315,332</b>

**NEW WORLD RESOURCES B.V.**

**CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)  
AS COMPARED WITH RESTRICTED SUBSIDIARIES AND UNRESTRICTED  
SUBSIDIARIES**

**Prepared under the International Financial Reporting Standards as Adopted by the  
European Union**

	<i>1 January 2007 - 31 March 2007 CZK '000</i>	<i>1 January 2007 - 31 March 2007 CZK '000</i>	<i>1 January 2007 - 31 March 2007 CZK '000</i>
	<b>Consolidated Group</b>	<b>Restricted Subsidiaries</b>	<b>Unrestricted Subsidiaries</b>
<b>Cash flows from operating activities</b>			
Net profit before taxation and minority interest	954,972	832,395	122,577
Elimination of deferred tax change of sold subsidiaries	0	0	0
Adjustments for:	0	0	0
Depreciation	1,129,049	1,059,763	69,286
Amortization	67,229	67,229	0
Impairment of assets	0	0	0
Changes in provisions	-27,645	-28,090	446
Change in fair value of derivatives	324,107	324,107	0
Profit on disposal of property, plant and equipment, investments and subsidiaries	63,319	64,405	-1,086
Deferred revenue	9,052	9,073	-21
Interest expense, net	93,202	95,230	-2,028
Unrealized foreign exchange differences	-196,591	-196,591	0
Operating profit before working capital changes	<u>2,416,694</u>	<u>2,227,521</u>	<u>189,173</u>
(Increase) / Decrease in inventories	-392,677	-366,374	-26,303
(Increase) / Decrease in receivables	-824,598	-879,521	54,922
(Decrease) / Increase in payables	53,593	110,468	-56,875
(Increase) / Decrease in restricted cash	-2,301	-2,301	0
Other non-cash movements	1,797	1,860	-63
Cash generated from operating activities	<u>1,252,508</u>	<u>1,091,653</u>	<u>160,854</u>
Interest paid	-62,776	-62,756	-20
Corporate income tax paid	-422,581	-386,809	-35,772
<b>Net cash flows from operating activities</b>	<u><u>767,151</u></u>	<u><u>642,088</u></u>	<u><u>125,062</u></u>
<b>Cash flows from investing activities</b>			
Interest received	76,185	74,137	2,048
Acquisitions of subsidiaries and other investments	0	0	0
Purchase of land, property, plant and equipment	-561,423	-522,040	-39,383
Proceeds from sale of property, plant and equipment and investments	25,844	23,316	2,528
<b>Net cash flows used in investing activities</b>	<u><u>-459,394</u></u>	<u><u>-424,587</u></u>	<u><u>-34,807</u></u>
<b>Cash flows from financing activities:</b>			
(Repayment) / Proceeds of long term borrowings	-713,055	-711,268	-1,787
Net proceeds from / (Repayments of) borrowings	-169,014	-167,248	-1,766
Dividends paid net of received	-22,411,900	-22,411,900	0
<b>Net cash flows used in financing activities</b>	<u><u>-23,293,968</u></u>	<u><u>-23,290,416</u></u>	<u><u>-3,552</u></u>
Net increase in cash and cash equivalents	-22,986,212	-23,072,915	86,703
Cash and Cash Equivalents at the beginning of year	27,864,602	27,289,811	574,792
<b>Cash and Cash Equivalents at the end of period</b>	<u><u>4,878,390</u></u>	<u><u>4,216,895</u></u>	<u><u>661,495</u></u>

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a) New IFRS**

#### **New standards and interpretations adopted during the financial year 2006**

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

- 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 January 1, 2006, the Company adopted the amendments to IAS 19. This change has resulted in additional disclosures being included for the year ended December 31, 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 January 1, 2006, the Company adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Company's 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 of March 31, 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 Company 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 Company 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 Company adopted IFRS 6 as of January 1, 2006, which requires the description of the accounting policy for expenditures incurred in the exploration and evaluation of mineral resources. The Company did not change its accounting policy and the application of IFRS 6 did not have an impact on the financial statements.

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

The Company adopted IFRIC Interpretation 4 as of January 1, 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 Company as at December 31, 2006.

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

The Company adopted IFRIC Interpretation 5 as of January 1, 2006, which establishes the accounting treatment for funds established to help finance decommissioning for an entity's assets. This interpretation did not have an impact on the financial statements.

### **b) Foreign currency**

#### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate in effect on 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 in effect on that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated at the foreign exchange rates in effect on 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 on the reporting date; income statement items of foreign operations are translated at exchange rates approximating the rates on 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 Company uses derivative financial instruments (such as forward currency contracts, interest rate swaps and interest rate collar contracts) to hedge their exposure to foreign exchange risks and interest rate cash flow risk. In accordance with internal strategy, the Company does 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 such derivative contracts are 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 Company 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 Company 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 dependent 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 January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC 4.

Finance leases, which transfer to the Company 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 Company 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 follows:

- 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 Company 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. The coal reserve is the exclusive deposit (and creates a portion of the mineral wealth) of the Czech Republic and the licenses allow OKD to extract coal from this deposit.

When determining fair value of the coal reserve licenses OKD used an income approach, specifically the Multi-period excess earning method (MEEM), taking into account the specific finite horizon of OKD 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 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 Company has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate overhead 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 Company 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 Company 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 Company are classified as being available-for-sale.

Available-for-sale investments are recognised/de-recognised by the Company 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, 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.

#### **k) Impairment**

The carrying amounts of the Company's 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 are largely 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) Reversal 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 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 Company provides a number of different benefits to its employees—jubilee, loyalty, retirement and special miners' benefits.

The Company's 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 period 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 Company's 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 Company is 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 Company 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 Company is 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 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 Company 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 Company's 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 of costs that incurred during the period to acquire property, plant and equipment.

### **Off-Balance Sheet Arrangements**

In the ordinary course of business, the Company is party to certain off-balance sheet arrangements. These arrangements include assets related to the construction and related geological survey work at Frenštát. These assets are maintained by OKD but are not reflected in its books. The assets were booked as costs and have not been utilized. The original cost of these assets was CZK 921 million, of which CZK 815 million was the value of assets located in the mine and CZK 106 million is the value of assets located on the surface. Liabilities related to these arrangements are not reflected in the Company's balance sheets and management does not expect that these off-balance sheet arrangements will have material adverse effects on the Company's financial condition, results of operations or cash flows.

In addition, certain subsidiaries of the Issuer, including OKD, Doprava and DPB, have granted cross-guarantees in connection with the demerger effected pursuant to the Restructuring, pursuant to which each party to the demerger has a contingent liability for liabilities assumed by other parties to the demerger. Such contingent liability is limited to the amount of the net assets retained by such party in the demerger. Those guarantees are not reflected in the Company's balance sheets.