

**COALFIELD RESOURCES PLC**  
Annual Report and Accounts 2012

**CfRplc**



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Coalfield Resources plc was created on 10 December 2012 as part of the restructuring of UK Coal PLC.

Coalfield Resources is now purely an investment holding company. Its only investment with economic value is a 24.9% stake in Harworth Estates Property Group Ltd. It still has a minority residual holding in UK Coal Mine Holdings Ltd but this has no economic value.

Harworth Estates is a leading property and development company owning and managing around 30,000 acres across some 200 sites. It specialises in regenerating brownfield land for development in a range of ways to deliver industrial and commercial opportunities and new low carbon energy projects, new residential developments and leisure uses.

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# Company Information and Advisers

## Chairman

Jonson Cox <sup>2</sup>

## Executive Director

Jeremy Hague

## Non-Executive Directors

Lisa Clement <sup>1,2,3,5</sup>

Peter Hickson <sup>2,3,4,5</sup>

Steven Underwood <sup>1</sup>

## Company Secretary and Registered Office

Geoff Mason

Harworth Park

Blyth Road

Harworth

Doncaster

South Yorkshire

DN11 8DB

## Company Registered Number

2649340

<sup>1</sup> Audit Committee

<sup>2</sup> Nomination Committee

<sup>3</sup> Remuneration Committee

<sup>4</sup> Senior Independent Non-Executive Director

<sup>5</sup> Independent Non-Executive Director

## Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Benson House

33 Wellington Street

Leeds

LS1 4JP

## Stockbrokers

Investec Bank PLC

2 Gresham Street

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## Solicitors

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Bridgewater Place

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LS11 5DR

## Registrars

Equiniti Limited

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## Principal Bankers

Lloyds Banking Group PLC

2nd Floor

Lisbon House

116 Wellington Street

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LS1 4LT

# Chairman's Statement

## Overview of 2012

Having returned UK Coal to profit in 2011, as a result of an intense recovery programme across the whole business led by a new Board, this success was set back in 2012 by the failure of the mining management team's plan, and back-up plan, at Daw Mill Colliery. A post-tax profit of £55.2m in 2011 was followed by a post-tax loss of £6.3m in 2012. It became very clear in March 2012 that something far more radical was needed if the business was to survive, especially having regard to the deficit due to the pension fund of around £450m and the on-going challenges of ensuring mining was sufficiently reliable and profitable.

The Board determined that the only credible way forward was to seek a fundamental and solvent restructuring of the Group to prevent such mining events having an impact on all parts of the business in the future.

## Restructuring

Following the announcement of our decision to restructure on 14 March 2012, we finally achieved a complex solvent restructuring, involving thirty nine steps and over 2,000 contractual documents on 10 December 2012. This dismantled the legacy of the British Coal structure and privatisation in 1994 and separated the Group into three parts: UK Coal Mine Holdings Ltd ("Mine Holdings"), Harworth Estates Property Group Ltd ("Harworth Estates") and Coalfield Resources plc ("the Company"). The largest share of value went to the Mining Division Sections of the Industry-Wide Pension Schemes ("Pension Schemes"), as the largest creditor of the Group.

The process involved the agreement of our principal banking partners, Lloyds Banking Group, together with Barclays Bank, and of the Pension Schemes, the Pensions Regulator, our four key generator customers, the Department of Energy and Climate Change and the Coal Authority. The restructuring was completed on 10 December 2012 to create a more stable platform for the Company, Harworth Estates and Mine Holdings to continue.

The principal value in the Company now relates to the 24.9% interest in Harworth Estates. The value of the portfolio of Harworth Estates, on a 100% basis, is carried at £260.1m on which Harworth Estates carries debt of £75.3m. The portfolio is largely of former coalfield land for development, and the intention is to seek long term value through development on which a good start has been made in the last 18 months with the sales outlined below.

We also agreed to maintain a non-controlling interest in Mine Holdings, the mining business, which was accepted as part of receiving the property interest. The controlling interest in Mine Holdings transferred to an Employee Benefit Trust ("EBT"). Together with the EBT, the Company agreed to establish a Shareholder Committee which provides advice and governance to Mine Holdings but with no prospect of any meaningful financial return. While the Shareholder Committee has no day to day control, it has been very active in supporting Mine

Holdings in 2013 and working with stakeholders to ensure its survival since the Daw Mill fire.

## Fire and Closure of Daw Mill

During 2012, and as part of the restructure, we determined the need to appoint a new Chief Executive and new Finance Director for Mine Holdings. We welcomed Kevin McCullough and Steve Hutchinson to these roles and both have made a positive start in what, shortly afterwards, became trying circumstances.

The fire that broke out on 22 February 2013 at Daw Mill, and led to its subsequent closure, has had a significant impact on Mine Holdings. The mine will be closed, safely, over coming months in the aftermath of the fire.

With the understanding and support of all parts of government, led by the Department for Energy and Climate Change, the Company has honoured its responsibilities and worked tirelessly with all parties to find a way forward for the remaining mines. While carrying no formal responsibility, the Company has believed it is in the best interest of all parties to find an on-going future for the mines. There is no shareholder value for Coalfield Resources in its holding in Mine Holdings, although Mine Holdings remain liable to pay the Company's running costs of up to £3m per annum and outstanding debts for the restructure of £3.6m.

Currently, the Company continues to be in discussions with Mine Holdings about the potential restructuring of the mines and the effect this could have on the Company.

Following the restructuring in December 2012, and as a non-controlling shareholder, the Company is not in a position to make any further comment on the Mine Holdings business. It is worth noting that, without last December's restructuring, the effect of the Daw Mill fire would have directly threatened the mining, property and holding company viability and most likely would have wiped out remaining shareholder value across the entire Group.

## Facility and Likely Fundraising

Notwithstanding the overall benefits of last year's separation, a direct consequence of the Daw Mill fire is that the Company has been notified by UK Coal Operations Limited ("UKCOL"), the main trading subsidiary of Mine Holdings, of its current inability to meet the indemnity it had given to the Company. This indemnity, which was given under the terms of the restructuring, was for UKCOL to indemnify the Company for the costs arising from the fees on the restructuring (the remaining balance of which is approximately £3.6m) and to pay the running costs of the Company (up to £3.0m per annum but, after a cost reduction exercise, will be around half this amount).

In these circumstances the Company has sought to obtain a banking facility, secured against its shareholding in Harworth Estates. The bank has provided a credit approved term sheet for this facility on the basis of a limited guarantee from the Company's major shareholder, Peel Holdings Limited, and

an undertaking of a fund-raising event by the Company should UKCOL continue to be unable to meet its liabilities.

Peel Holdings Limited has agreed to the limited guarantee required by Lloyds TSB Bank plc, and has further offered assistance to facilitate a fund-raising event. Although no longer a premium listed company, the Board voluntarily undertook at the time of the shareholder approval to move to standard listing, that it would seek approval for any related party transaction with Peel Holdings Limited. This was principally intended to apply to property-related transactions. In the current exceptional circumstances, the Board has determined that it is in shareholder interests to proceed with the Peel support, and will seek ratification after the event from shareholders should the situation persist and a fund-raising event be required.

### Harworth Estates

Over the last two years, Harworth Estates has carried out a successful sales programme which contributed to halving the bank debt of the Group. As part of the restructuring, Coalfield Resources has no bank debt as this debt was transferred to Harworth Estates. As part of the restructuring, control of Harworth Estates was transferred to the Pension Schemes in exchange for releasing the Company and Harworth Estates from their pension guarantee obligations and payment of £30.0m into Harworth Estates. This was achieved by Harworth Estates issuing additional shares to the Pension Schemes equivalent to 75.1% of the total shares. The sale of Harworth Power for £20.3m in 2012 and continuing progress with schemes such as Waverley, the former Orgreave Colliery, have reinforced the business. At Waverley, construction began on the first 250 of potentially 3,900 houses. Rolls-Royce and the University of Sheffield also signed contracts to build major facilities on the site.

Harworth Estates currently has property assets of around £260m, and we now look forward to achieving the medium and long term realisation of value from the portfolio, for the benefit of both its shareholders.

### People

As part of the restructuring, significant management changes have been made:

Non-Executive Director Keith Heller has stepped down from the Board to take the lead role on the EBT. I would like to thank Keith for the constructive role he played on the Board and we continue to benefit from his energy and broad experience as the EBT Trustee on the Shareholder Committee.

Peter Hickson, Lisa Clement and Steven Underwood remain on the Board of the Company and I thank them for their valuable advice during the year.

Owen Michaelson has stepped down from the Board and has been appointed as Chief Executive of Harworth Estates where his leadership will continue to take the business forward.

By mutual agreement, Gareth Williams stood down from the Board as Managing Director of the mining business in early 2013.

On 31 December 2012, David Brocksom stood down from his position as Finance Director having completed the restructuring, but has remained available in a transitional role during the early part of 2013.

Jeremy Hague has been appointed as Finance Director for the Company and is likely to also return to Harworth Estates as Finance Director in due course.

The Board of Harworth Estates has been strengthened by the appointment of Martyn Bowes, representing the Pension Schemes, together with Tony Donnelly as an independent Non-Executive Director. Steven Underwood and I, who are both directors of Coalfield Resources, have also been appointed as members of the Board.

The Shareholder Committee, which provides advice, guidance and governance to Mine Holdings on behalf of economic stakeholders, consists of Peter Hickson, Lisa Clement, Keith Heller, Colin Reed and Jonson Cox. We have sought to support mining management through their Daw Mill crisis and recognise that the role may change should there be a potential future mine restructuring.

As formerly agreed, and following the restructure and appointments of Kevin McCullough and Owen Michaelson, I have reduced my time commitment accordingly to two days a week having made a significantly more intense contribution in 2012. I remain Chairman of the Company, and have been asked by both shareholders to serve as Chairman of Harworth Estates. On a transitional basis I have served as Chairman of the Shareholder Committee, which offers guidance to Mine Holdings, although this may change under a post-Daw Mill restructuring.

### Outlook

Following a very turbulent 2012, due mainly to the operational issues at Daw Mill, the restructuring of the Group helped put Harworth Estates and Mine Holdings on a more stable footing. The fire at Daw Mill, and subsequent closure, has been a bitter blow for Mine Holdings but we understand the remaining mines continue to be viable.

As an active investor in Harworth Estates, the Company will continue to provide strong support to help ensure the on-going success of Harworth Estates.

I would like to thank everyone who played a part in our December 2012 restructuring, particularly our customers and suppliers.

**Jonson Cox**  
Chairman

30 April 2013

## Review of Operations

Following the restructuring on 10 December 2012, the Company is principally an active investor in Harworth Estates and carries a residual non-controlling stake in Mine Holdings. The Company does not believe that there was, or is, any practical prospect of a return from its investment in Mine Holdings and accepted this ownership as part of the overall deal, and the requirement of providing governance to the mining business.

The progress made in 2011 on the Recovery Plan by the Group was reversed in 2012, due mainly to a failure of the mining management team to deliver promised performance from Daw Mill under both its base plan for the 32 coalface and unacceptable delays in the contingency plans to have the 33 panel ready to schedule, together with a slight reduction in production at the other deep mines.

During the period 1 January 2012 to 10 December 2012, the date that the Group restructured and the Company changed its name to Coalfield Resources plc, the following operating results were achieved:

### Deep Mines

Daw Mill performed very poorly throughout the year following the slow recovery of 32's face and delays in the 33 face, and produced 1.4m tonnes (2.1m tonnes for full year in 2011). Kellingley and Thoresby also under performed with Kellingley producing 2.0m tonnes (2.3m tonnes in 2011) and Thoresby producing 1.2m tonnes (1.3m tonnes in 2011). A total of 4.6m tonnes were produced by the deep mines (5.7m tonnes in 2011).

Although a major fire broke out at Daw Mill on 22 February 2013, after the end of the reporting year end, it is mentioned here as the subsequent closure has had a considerable impact on Mine Holdings' business.

Harworth Colliery remained on a care and maintenance strategy throughout the period and would need significant reinvestment to reopen which Mine Holdings would need to secure.

### Surface Mines

Surface mines performed well and increased their output by 11% in a very wet year that produced significant operating issues. The combined surface mines produced 2.0m tonnes (1.8m tonnes in 2011).

### Harworth Estates

Harworth Estates produced an operating profit of £15.8m (2011: £8.4m) after a revaluation gain of £16.2m (2011: £3.3m).

Highlights for Harworth Estates included the sale of Harworth Power for £20.3m, the approval of planning permission at the 120 acre Rossington site near Doncaster, a lease to operate the Prince of Wales coal fines recovery project near Pontefract and

the start of construction on the first of potentially 3,900 new homes at Waverley, the site of the former Orgreave Colliery between Sheffield and Rotherham. On the same site, land was sold to Rolls-Royce and contracts exchanged with the University of Sheffield to enable the construction of a major new manufacturing facility and educational centre.

The Harworth Estates portfolio is currently valued at £260.1m (2011: £250.6m).

### Key Performance Indicators

Following the restructuring on the 10 December, the Group's Key Performance Indicators have changed dramatically. As we now have no control over, or expect any economic value from, the mining business (Mine Holdings) there is no reason for the Group to continue to report the metrics associated with that business. The Group is now focused on its investment in Harworth Estates. Again as the Group does not control Harworth Estates, although is an active investor, the previous property metrics, while remaining appropriate for Harworth Estates, are not appropriate for the Group as a non-controlling investor.

The Key Performance Indicator for the Group is now the net asset value of the Group's investment in Harworth Estates. As stated in the accounts this is £50.3m as at 29 December 2012.

The net asset value is monitored by the Company on a regular basis as it has two directors on the Board of Harworth Estates. As such they are briefed regularly and able to enter into discussion with Harworth Estates over business performance and strategy.

## Financial Review

Following the restructuring the Group now consists of the Parent Company, together with some minor subsidiaries, an investment of 24.9% in Harworth Estates valued at £50.3m, and an investment in the mining business Mine Holdings valued at a notional £1 (together the "Current Group").

This financial review is split into two parts. Firstly the activities, assets, liabilities and obligations of the Current Group are described, and secondly, the impact of the restructuring on the Group as it existed prior to restructuring (the "Former Group") is discussed.

### Current Group

#### Continuing Operations

The Group's continuing operations comprise those of an investment holding company. For the year ended 29 December 2012 the Group had operating profit of £0.1m (2011: operating loss £1.6m). Since the date of restructuring the Group's costs have been recharged to Harworth Estates and Mine Holdings on a monthly basis. Additionally the Group levied a monthly charge for company secretarial services to the two businesses at a small margin.

#### Balance Sheet

Following the restructuring, the Current Group's balance sheet reflects the following assets and liabilities at 29 December 2012:

	£m
<b>ASSETS</b>	
<b>Non-current assets</b>	
Investments in associates	50.3
<b>Total non-current assets</b>	50.3
<b>Current assets</b>	
Trade and other receivables	3.9
Assets classified as held for resale	21.3
Cash and cash equivalents	–
<b>Total current assets</b>	25.2
<b>Total assets</b>	75.5
<b>Current liabilities</b>	
Trade and other payables	(9.7)
Liabilities classified as held for resale	(16.7)
Provisions	(0.5)
<b>Total current liabilities</b>	(26.9)
<b>Net current liabilities</b>	(1.7)
<b>Non-current liabilities</b>	
Retirement benefit obligations	(0.7)
<b>Total non-current liabilities</b>	(0.7)
<b>Total liabilities</b>	(27.6)
<b>Net assets</b>	47.9

#### Investments in Associates

The Group contributed 75.1% of its holding in Harworth Estates to the Pension Schemes during the restructuring process. The Group holds the remaining 24.9% of Harworth Estates and accounts for its interest as an investment in associates valued at £50.3m. This represents 105% of the Group's net assets. The Group's share of net assets of Harworth Estates has been reduced by £5.0m to reflect the fact that, under the terms of the Shareholder Agreement, the first £5.0m of dividend income due to the Company will be paid to the Pension Schemes.

# Financial Review

continued

The balance sheet of Harworth Estates as at 29 December 2012 shows net assets of £221.7m as follows:

	£m
<b>ASSETS</b>	
<b>Non-current assets</b>	
Intangible assets	0.7
Investment property	260.1
Investments in joint ventures	1.8
Other	1.3
<b>Total non-current assets</b>	<b>263.9</b>
<b>Current assets</b>	
Trade and other receivables	17.7
Cash and cash equivalents	31.6
<b>Total current assets</b>	<b>49.3</b>
<b>Total assets</b>	<b>313.2</b>
<b>Current liabilities</b>	
Trade and other payables	(15.3)
Borrowings	(14.6)
Provisions	(0.1)
<b>Total current liabilities</b>	<b>(30.0)</b>
<b>Non-current liabilities</b>	
Derivative financial instruments	(0.8)
Borrowings	(60.7)
<b>Total non-current liabilities</b>	<b>(61.5)</b>
<b>Total liabilities</b>	<b>(91.5)</b>
<b>Net assets</b>	<b>221.7</b>

## Investments Classified as Available for Sale

In December 2012, as part of the restructuring, the Group acquired 33% of the voting rights and 90% of the economic rights of Mine Holdings. The investment in Mine Holdings is carried at fair value of £1.

Ordinarily it is presumed that where an investor holds 20% or more of the voting power of an entity, it has significant power over that entity. Management has concluded that post restructuring it has no control or significant influence over Mine Holdings and therefore has accounted for the investment as an available for sale investment rather than as an investment in an associate under IAS 39, "Financial instruments: Recognition and measurement". The main considerations by management were:

- Majority voting is held by the EBT with the Company retaining limited rights under the Shareholders' Agreement;
- Mine Holdings maintains its own independent Board, none of whom has served as directors of the Company and are explicitly prohibited from acting in the interests of the Company;
- Although the Company holds a 90% economic interest in Mine Holdings, the large pension deficit means Mine Holdings is unlikely to pay dividends in the near future and therefore the economic rights lack substance; and
- There is no economic incentive given that future dividends and investment value are limited until the Pension Schemes deficits are cleared.

These factors support the conclusion to value the investment at £1 as an investment available for sale.

## Trade and Other Receivables

The trade and other receivables balance of £3.9m includes £3.6m of amounts due from Mine Holdings. As disclosed in note 33 (post balance sheet events), Mine Holdings suffered a major underground fire at its Daw Mill colliery in February 2013. On 7 March Mine Holdings announced that it was closing Daw Mill colliery. These events may have an impact upon Mine Holdings' ability to settle the amounts due to the Company.

**Assets and Liabilities Classified as Held for Resale**

At restructuring the Company agreed a put and call option with Mine Holdings to acquire the entire issued share capital of one of its subsidiaries, Harworth Insurance Company Limited. The consideration for the option was £4.7m (shown as deferred income within trade and other payables). Exercise of the option is conditional upon obtaining FSA consent or the parties agreeing that such consent is no longer legally required. Since the option had not been exercised at the year end, the assets and liabilities of Harworth Insurance Company Limited have been presented as held for resale.

**Trade and Other Payables**

The balance of £9.7m includes £4.7m deferred income on the grant of the call option to Mine Holdings to acquire Harworth Insurance Company Limited, together with fees due to professional advisers in respect of restructuring.

**Provisions**

With the exception of a £0.5m redundancy provision, the Group has no provisions at the year end.

**Retirement Benefit Obligations**

The Blenkinsopp scheme, which shows a deficit of £0.7m at the year end, has been retained as a liability of the Group. The Group received an indemnity from UKCOL to cover the expected £0.2m annual contribution to the Blenkinsopp scheme. All other retirement benefit obligations have been passed to Mine Holdings. The Company received a charge at restructuring over the active collieries of Thoresby and Kellingley and over Daw Mill, which is subject to closure, in order to provide some security over this liability.

**Bank Facilities**

The restructured Group has no bank borrowings or bank facilities at the year end. All facilities relating to the Group were transferred to Harworth Estates or repaid upon restructuring.

Following the Daw Mill fire in February 2013, and the resultant liabilities this created for Mine Holdings, there is an increased risk that they will be unable to honour the indemnities given to the Company in the immediate future. As discussed in the Chairman's Statement, the Company has entered into negotiations to secure a one year bank facility that would enable it to meet these liabilities should they fall due. The Company has received a credit approved Heads of Terms for a suitable facility and based on this the Board believes that an appropriate facility will be entered into by the half year. The Company would look to repay the loan and raise sufficient funds to cover any liabilities not settled from the proceeds of an equity raising during 2013. The Board has received an informal commitment to underwrite an equity raising which provides comfort that the facility can be repaid.

**Tax**

The Group paid no corporation tax on continuing operations in 2012 (2011: £nil), although there was a tax charge in the prior year of £0.7m which related to changes in the rate at which deferred tax is provided.

The Group has no recognised deferred tax assets or liabilities, but has an unrecognised deferred tax asset of £3.4m at December 2012 in respect of unused tax losses (£2.5m), other timing differences (£0.7m) and the Blenkinsopp pension scheme (£0.2m).

**Contingent Liabilities**

Following restructuring the Group has a contingent liability in respect of guarantees that it has provided on behalf of Mine Holdings in respect of certain finance leases. At the year end the outstanding amount payable on these finance leases was £0.4m and they were due to be settled within one year. As disclosed in the Going Concern section of the Directors' Report and note 33 (post balance sheet events), the fire at Daw Mill colliery and the subsequent closure of the mine may have an impact on Mine Holdings' ability to settle the finance leases. The Board expects that should any of the guarantees be called the liability would be up to £0.4m.

Additionally the Group had a potential liability of £1.8m in respect of its former VAT group. This liability was settled immediately after the year end.

# Financial Review

continued

## Former Group

Following the restructuring which was completed on 10 December 2012, the mining, property and insurance activities of the Former Group ceased to form part of the consolidated financial statements with effect from that date. Additionally, as a result of the disposal of Harworth Power (Generation) Limited in October 2012, the Current Group no longer has any power generation activities. Accordingly, as required by IFRS 5, "Non-current assets held for sale and discontinued operations", these activities have been classified as discontinued operations within the Income Statement for 2012 and have also been classified as discontinued operations in the comparative period.

## Discontinued Operations

In the 49 weeks prior to restructuring, the mining business generated sales of £360.2m, £117.4m less than the 53 week comparative period in 2011. The reduction in revenue was as a result of significantly lower sales volume, combined with a lower average realised selling price achieved for the year. The lower sales volumes arose mainly from on-going production problems at Daw Mill. The mining business suffered a £126.3m operating loss during the year (2011: £70.7m profit) as a result of the volume shortfall and a £78.0m impairment charge in respect of Daw Mill following an impairment review of the mining business and the announcement of plans to consult on the closure of Daw Mill colliery in 2014.

Property disposals of £24.0m were made prior to restructuring, resulting in a loss on disposal of £0.4m. Net proceeds of £21.5m were received during the year. The property business recorded a £15.8m operating profit before tax in the year (2011: £8.4m) after a £16.2m revaluation gain (2011: £3.3m) was booked on the property portfolio.

In October 2012 Harworth Power (Generation) Limited was disposed of for aggregate consideration of £20.3m, of which £20.0m was payable upon completion, at a profit of £13.2m after fees. Prior to disposal the power generation business (comprising Harworth Power Limited and Harworth Power (Generation) Limited) generated a £0.6m operating profit (2011: £2.4m).

In light of the on-going losses in the mining business, the directors reviewed the appropriateness of the deferred tax asset relating to mining activities. They reached the conclusion that the deferred tax asset could no longer be supported and consequently £29.8m of deferred tax assets have been derecognised during the year, with £21.6m being charged to discontinued operations.

Loss after tax on discontinued operations amounted to £149.1m (2011: profit after tax £57.9m). Additionally a profit on disposal of discontinued operations, net of restructuring fees, of £143.1m has been recognised in the financial statements in 2012. This profit arose mainly as a result of shedding the net liabilities of the mining business.

## Financing Expenses

Net financing expenses relating to discontinued operations were £16.7m compared to £22.5m in 2011. Excluding one-off exceptional finance costs of £2.2m relating to refinancing, the reduction in average borrowings in the period and net gains on interest rate swaps accounted for the majority of the reduced interest charge.

## Tax

At December 2011, the Group had estimated gross trading losses of £230m and gross timing differences of £230m, the latter arising largely from unclaimed or disclaimed capital allowances, both of which were available to offset against future profits in the mining business. These gross trading losses and gross timing differences brought forward, together with those accumulated during the year, were transferred to Mine Holdings at restructuring and will be available to offset against future profits in that business.

The net deficit on the balance sheet in respect of retirement provisions at the date of restructuring of £94.1m resulted in an additional tax timing difference of £21.6m (at a tax rate of 23%) available to Mine Holdings.

Of the net deferred tax asset of £30.3m brought forward from 2011, £29.8m relating to the mining business was derecognised during the year, with £21.6m being charged to discontinued operations and the balance being charged to the Consolidated Statement of Comprehensive Income. The directors were of the view that there would be insufficient profits generated within the mining business from which the future reversal of timing differences could be deducted.

At the date of restructuring the Group had around £365m of capital losses which could be offset against profits arising on disposals of properties which were held by the Group in 2002. These capital losses will be used to offset a chargeable gains degrouping charge arising in Harworth Estates on restructuring, with the balance being carried forward in Harworth Estates post-restructuring. It is estimated that the value of losses available to Harworth Estates will be in excess of £150m. These losses remain available to Harworth Estates only while the Company retains control for tax purposes of UK Coal Mining Limited which is currently a subsidiary of Mine Holdings.

### Provisions

Of the £88.8m of provisions brought forward from December 2011, £14.8m were utilised and £0.3m were released during 2012. After additional provisions of £34.6m were made during the year and an unwind of discount of £1.7m applied, with the exception of £0.5m of redundancy provisions retained by the Group, the balance of £101.2m of provisions was transferred from the Group upon restructuring. Mine Holdings inherited £94.4m of provisions and Harworth Estates acquired £6.7m of provisions. Additionally, £8.3m of employer and public liabilities in the books of Harworth Insurance Company Limited have been transferred to liabilities held for resale.

### Retirement Benefit Obligations

At the beginning of the year the Group had a deficit, calculated under International Accounting Standards, on its defined benefit pension and retirement schemes of £144.7m. All new employees who joined after the privatisation in 1994 have been eligible to join defined contribution schemes.

The Blenkinsopp scheme, which showed a deficit of £0.7m at the year end, has been retained as a liability of the Group. The large defined benefit pension and retirement schemes comprising two funded industry wide schemes, together with an unfunded concessionary fuel scheme, were transferred to Mine Holdings upon restructuring. The brought forward deficit noted above included a liability of £43.7m in relation to the unfunded concessionary fuel scheme. All of these schemes are valued annually by our independent actuaries, the Government Actuary's Department.

For these financial statements the schemes have been valued under IAS19 "Employee Benefits", using the projected unit method and discounting future scheme liabilities on the basis of AA-rated corporate bond yields of over 15 years. The discount rate used, net of inflation, was 1.5% (2011: 2.0%).

Movements in the net liabilities of the schemes during 2012 are set out below:

	Pension*	Concessionary fuel	Total
	£m	£m	£m
<b>December 2011</b>	101.0	43.7	<b>144.7</b>
Contributions paid less current service cost	(2.1)	(0.9)	<b>(3.0)</b>
Change in fund value compared to expected return	(16.0)	2.1	<b>(13.9)</b>
Actuarial loss on liabilities	99.2	5.8	<b>105.0</b>
Contribution of 75.1% of property business to Pension Trustees	(138.0)	–	<b>(138.0)</b>
Transfer on restructuring	(43.4)	(50.7)	<b>(94.1)</b>
<b>December 2012</b>	0.7	–	<b>0.7</b>

\*Including Blenkinsopp scheme

Prior to the transfer of £43.4m of liabilities to the mining business upon restructuring, there was a significant decrease in the deficit on the pension schemes of £56.9m. The main movements were:

- An actuarial loss on the funds' liabilities of £99.2m arising from the change in actuarial assumptions. Principally this was due to a reduction of 0.5% in the discount rate, net of inflation, used to value future scheme liabilities.
- The transfer of 75.1% of the property business to the Pension Schemes, at a value of £138m (after a £30m equity injection from the Pension Schemes), is treated as a deficit contribution.
- A gain of £16.0m due to returns on the funds' assets being higher than expected.

£79.5m of the movement in the deficit on the pension schemes has been charged to the Consolidated Statement of Comprehensive Income ("SOCl") in the year.

Prior to restructuring there was an increase in the liability for the unfunded concessionary fuel scheme of £7.0m, of which approximately £4m was due to a reduction in discount rate used to value the scheme liabilities and £3m was due to fuel cost increases over and above the assumption made in 2011. £5.8m of the movement in the deficit has been charged to SOCl in the year. The deficit at the date of restructuring has been transferred to the mining business.

Details relating to retirement benefit obligations are shown in note 25 to the financial statements.

# Financial Review

continued

## Earnings Per Share

The loss per share for the period was 2.1 pence (2011: profit of 18.5 pence).

## Movement in Group Net Debt

A summary of movements in our Group net debt position is set out below:

	2012 £m	2011 £m
Operating profit/(loss) from continuing operations	0.1	(1.6)
Operating (loss)/profit from discontinued operations	(109.2)	66.8
Operating (loss)/profit before non-trading exceptionals	(109.1)	65.2
Revaluation of property	(16.2)	(3.3)
Profit on sale of investment properties, operating property, plant and equipment	(1.6)	(3.3)
Depreciation/impairments of property, plant and equipment	119.6	40.5
Cash impact of non-trading exceptionals	–	(0.3)
Non-cash movement in mining provisions	34.3	4.4
Net working capital movements	17.3	14.5
Finance costs/interest payments (including loan arrangement fees)	(13.6)	(21.2)
Other movements	5.4	1.3
	<b>36.1</b>	97.8
Deep mines		
Capital expenditure – cash	(19.8)	(31.8)
Payments against provisions	(11.7)	(10.8)
Disposal proceeds on operating property, plant and equipment	3.5	1.3
	<b>(28.0)</b>	(41.3)
Surface mines		
Amortisation of restoration assets	15.8	17.1
Pre-coaling expenditure	(4.4)	(2.6)
Deferred stripping adjustment	(18.5)	(0.9)
Restoration expenditure	(3.1)	(16.9)
	<b>(10.2)</b>	(3.3)
Harworth Estates		
Net proceeds of sales of investment properties	21.5	64.3
Planning and development expenditure	(5.2)	(4.8)
	<b>16.3</b>	59.5
Pension contributions in excess of current service cost	(2.1)	(10.0)
Proceeds from sale of business	52.6	–
Net movement in restricted funds	23.6	0.9
Generator loans	(33.5)	(17.1)
	<b>54.8</b>	86.5

The total decrease in net debt in the year was £54.8m (2011: decrease of £86.5m).

## Key Risks and Uncertainties

Following the restructure the key risks and uncertainties of the Group fundamentally changed from those facing an active operational mining and property developer into those facing an active investment holder, with non-controlling interests in a mining business and a property business.

### Property Risk

The Group now holds a non-controlling 24.9% investment in Harworth Estates. While the Group has no operational exposure the value of its investment is subject to the risks inherent in Harworth Estates. These are:

#### Property market downturn or volatility

Land values are potentially volatile to changes in the wider environment. Economic conditions affect both business and consumer investment confidence and both of these have a knock-on effect for residential and commercial land prices. The agricultural part of the Harworth Estates estate has proved less volatile in the past and we would expect it to remain so given the more mature nature of the land's usage.

The "immaturity", in planning terms, of Harworth Estates brownfield sites means that a considerable amount of value can be added by the work carried out in advancing them through the planning process. Harworth Estates continue to seek favourable planning outcomes across the development portfolio in order to increase and allow this value to be realised, both of which help to mitigate the carrying value risk of these properties.

#### Planning approvals

Any major changes in the planning regime could affect the value of Harworth Estates, either positively or negatively.

### Mining Risk

As shown in the financial statements, the Group does not recognise any economic value in its investment in Mine Holdings. As such the Group is no longer exposed to any risks from these operations. The Group does still have some exposure to residual financial liabilities and guarantees from Mine Holdings and UKCOL and these are explained more fully in the Going Concern statement included in the Directors' Report.

### Pension Risk

Following the restructure, the Group no longer bears any risks under the terms of the 1994 privatisation for those employees who transferred to the employment of UK Coal Mining Ltd and became members of one of two Pension Schemes. As disclosed in the accounts, the Group does still have some risk from fluctuations in the value of the Blenkinsopp section of the scheme. The liabilities of this scheme are disclosed in the financial statements under note 25. This scheme is closed to new members. The scheme deficit is, in accordance with International Accounting Standards, calculated using a discount rate in line with the market rate for corporate bonds. Under the Technical Provisions, which are the basis for the triennial calculation of the pension liabilities for the Pensions Regulator and for agreement on funding rates with the Trustees, different rates, based on gilt yields, are employed. Depending on changes in these rates prevailing at, and investment performance to, the next valuation date (being 31 December 2012), a higher deficit than that as at December 2009 could lead to higher deficit contributions being needed in later years.

### Financing Risk

The Group requires funding from its investments on an on-going basis to cover its operational costs (being mainly salaries, office running costs and cost associated with maintaining its Stock Exchange listing). This funding comes from contractual agreements to pay management charges. Should this management charge not be paid the Group would require external funding. This could be debt or equity. The Group is currently in the process of securing a debt facility to cover certain obligations in the event that Mine Holdings and/or UKCOL fail to honour certain indemnities – these are discussed in more detail in the Going Concern statement included in the Directors' Report. The ability to raise funds on reasonable terms depends on a number of factors, including general economic, political and capital market conditions and credit availability as well as business credit worthiness. There can be no assurance that debt financing in the longer term will be available or, if it is, that it will be available on acceptable terms for the Group.

## Corporate Social Responsibility

### **Reduced Impact**

Until the restructure in December 2012, the Group was a major employer, mining operator and landowner within Central and Northern England. The Group strived to minimise the impact of its operations by maintaining a corporate focus on the local environment, communities, economy and the safety of our employees.

A commitment to Corporate Social Responsibility saw the Group work with a range of stakeholders, including Business in the Community, to help deliver significant benefits to the areas in which they worked.

### **A Small Employer**

Following the restructure the Group employs only a small team of people to manage the investment in Mine Holdings and Harworth Estates. The executive team consists of four people: the Chairman, Finance Director, Company Secretary and Personal Assistant. The Chairman undertakes his duties to the Group on a part time basis and the Finance Director and the Company Secretary also provided support to Harworth Estates and Mine Holdings. The team is offered time to undertake continuous professional development and other forms of training although pressure of the recovery plan and restructuring have naturally precluded any such activities in recent years. The aim is to attract, retain and motivate high calibre employees and encourage personal and professional development.

Given the small size of the team all matters are communicated and shared within the team on a regular basis.

### **Health and Safety Risk Management**

Given the small size of the team, health and safety and operational risk are managed within an office environment. The offices are leased from Harworth Estates and shared with Mine Holdings who each provide an operational risk management review of their working environment.

### **Impact on the Environment**

Although the Group remains an investor in both Harworth Estates and Mine Holdings its direct impact on the environment and its ability to alter or change that impact is limited to its non-controlling influence as an investor. The Group actively seeks to ensure that the senior management of its investments are aware of their impact on the environment and take appropriate measures to comply with appropriate legislation and minimise their impact.

## Board of Directors

### **Jonson Cox**

Jonson Cox was appointed as Chairman with effect from 15 November 2010. He was formerly Group Chief Executive of Anglian Water Group from January 2004 until March 2010. For the same period he was Chairman of Anglian Water Services Limited and Morrison plc. He is a non-executive director of Wincanton plc. In November 2012 he was appointed as non-executive chairman of the Water Services Regulation Authority.

### **Jeremy Hague**

Jeremy was appointed as the Finance Director of the Company with effect from 1 January 2013 following the decision of David Brocksom to step down from that position after completion of the restructuring in December 2012. Jeremy joined the finance function of RJB Mining plc, a predecessor of UK Coal and Coalfield Resources, in May 1994 and has served in various capacities, most recently as the Finance Director of the Harworth Estates business, a role which it is expected he will return to and combine with his current role in the near future. Jeremy is a Chartered Management Accountant.

### **Peter Hickson**

Peter Hickson is Senior Independent Director and was appointed as a non-executive director and Chairman of the Remuneration Committee with effect from 1 July 2011. He is currently Chairman of Communisis plc and Chairman of Chemring Group plc. He was Chairman of Anglian Water Group from 2003 to 2009, and served as Finance Director of Powergen plc between 1996 and 2002. He was a non-executive director of Kazakhmys plc from 2009 to 2011, Scottish Power plc from 2006 to 2007, Marconi Corporation plc from 2004 to 2007 and RAC plc from 1994 to 2002. He was also Senior Independent Director of London & Continental Railways Ltd between 2007 and 2011. He is a trustee and Board member of Orbis Charitable Trust, the international sight saving charity, and a Fellow of the Institute of Chartered Accountants.

### **Lisa Clement**

Lisa Clement is a Chartered Accountant and was appointed as a non-executive director and Chair of the Audit Committee with effect from 15 December 2011. She was formerly Chief Financial Officer of Sea Containers Limited, Managing Director of Capita Learning and Development and has held senior divisional roles at Cendant Inc. and BPP Holdings Plc.

### **Steven Underwood**

Steven Underwood is Chief Executive of the Peel Group of companies, and was appointed to the Board as a non-executive director with effect from 1 August 2010. He is also currently a non-executive director of Pinewood Shepperton PLC, and an alternate director of Intu plc (formerly Capital Shopping Centres Group plc).

## Directors' Report

The directors present their annual report and the audited consolidated financial statements for 2012. These will be laid before the 2013 Annual General Meeting. Details of all resolutions to be proposed at the Annual General Meeting are set out in the notice calling the meeting, which is enclosed with this report.

### Principal Activities, Business Review and Future Developments

On 10 December 2012, the Company announced the completion of the restructuring process that began in March 2012. The Board performed the restructuring to provide a stable platform in the medium term for the former UK Coal Group's mining and property businesses and to achieve the best value for its stakeholders.

Under the restructuring, the Group's business was legally separated into the Mining Division under UK Coal Mine Holdings Limited ("Mine Holdings") and the Property Division under Harworth Estates Property Group Limited ("Harworth Estates") and the Group's main pension deficit became isolated as a liability of the Mining Division. The purpose of the separation was that the pension deficit became ring fenced from the Company and Property Division's assets and liabilities, so that the value of the Company and the Property Division was not subject to any change in the liability of the Pension Schemes.

Control of the Mining Division has passed to a newly established Employee Benefit Trust ("EBT") which holds shares representing 67% of the voting, and 10% of the economic rights in Mine Holdings for the benefit of current and future employees of the Mining Division. The Company retains 90% of the economic, and 33% of the voting, rights in Mine Holdings, but the Company's and EBT's shareholding both rank behind the debt due to the Pension Schemes.

The Company owns 24.9% of Harworth Estates, with 75.1% having passed to the Pension Schemes in return for a £30.0m cash injection into Harworth Estates. The Company is entitled to the benefit of the remaining 24.9%. The Company no longer guarantees the pension liabilities of the Mining Division but has agreed that the first £5.0m of dividend income due to the Company from Harworth Estates will be paid to the Pension Schemes.

On completion of the restructuring the Company changed its name from UK Coal plc to reflect the changed structure.

The principal activities of the Group during the period up to the date of restructure comprised surface and underground coal mining, property regeneration and management and power

generation. Following the restructure the principal activity of the Group was as an investment holding company. The principal activity of the Company during 2012 was that of a holding company.

The Chairman's Statement and the Operating and Financial Review are incorporated by reference. These provide a review of the former Group's business which includes the:

- Development and performance of the former Group in the period to the restructure and its position at the year end;
- Principal risks and uncertainties faced by the Company;
- Key Performance Indicators used to measure the Group's performance;
- Environmental and employee priorities facing the Group; and
- The restructured Group's future development and outlook for 2013.

### Dividends Per Ordinary Share

There was no interim dividend paid during the year (2011: £nil). The directors are not recommending the payment of a final dividend in respect of the 2012 financial year (2011: £nil).

### Directors

The directors who served during the year were: David Brocksom, Lisa Clement, Jonson Cox, Keith Heller, Peter Hickson, Owen Michaelson, Steven Underwood and Gareth Williams. The following changes in directors occurred during the year and since the year end:

- Keith Heller, Owen Michaelson and Gareth Williams resigned on 7 December 2012;
- David Brocksom resigned on 31 December 2012;
- Jeremy Hague was appointed on 1 January 2013 and will offer himself for re-election at the 2013 Annual General Meeting.

In accordance with the Articles of Association Jonson Cox will retire by rotation and seek re-appointment at the 2013 Annual General Meeting. The Board unanimously recommends both his and Jeremy Hague's re-election.

All executive directors have service contracts, which may be terminated by the Company on not more than twelve months' notice; for all non-executive directors the notice period is three months with the exception of Peter Hickson, Senior Independent Director, whose appointment is subject to six months' notice. There are no directors on fixed term contracts. There are no contractual clauses that give any of the directors an entitlement to compensation exceeding their due payment in lieu of notice.

Details of indemnities from the Company and insurance taken out for the benefit of the directors is set out in the Corporate Governance Report.

The interests of the directors in the shares of the Company are shown in the report on directors' remuneration.

#### **Charitable Donations**

The contributions made by the Group during the year for charitable purposes were £nil (2011: £nil). No political donations were made in 2012 (2011: £nil).

#### **Employees**

Subsequent to the restructuring, the number of employees in companies where the Company has control has fallen to four. In the period to the date of restructuring the Group consulted and discussed with employees matters likely to affect their interests. Internal news-sheets were produced and distributed free to all employees regularly. Information on matters of concern to employees was given periodically to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

#### **Disabled Persons**

The Company gives full and fair consideration to suitable applications for employment by disabled persons and all disabled persons are provided with training to assist in obtaining promotions and developing their career. Opportunities also exist for employees of the Company who become disabled, to continue in their employment or to be trained for other positions within the Company.

#### **Health and Safety**

The Company is committed to maintaining high standards of health and safety in every area of the business. Following the restructuring the responsibility for health and safety matters in the Group devolved to Mine Holdings and Harworth Estates. It is the aim of the Company to exceed the requirements of the Health and Safety at Work Act 1974 and all other relevant health and safety legislation. Details of the Company's commitment to health and safety are found in the Corporate Social Responsibility section.

During the period before restructuring UK Coal Mining Ltd ("UKCML") was ordered to pay the sum of £420,000, comprising £200,000 in fines and £220,000 in costs, in respect of breaches of health and safety legislation brought against it by the Health and Safety Executive ("HSE") following a fatality in 2009. In the period prior to the restructure UKCML pleaded guilty to a further

charge for breaches of health and safety legislation following a further fatality in 2009.

#### **Treasury Policy and Liquidity**

The Company is finalising a borrowing line estimated to be sufficient to cover forecast cash requirements. In this assessment, the Company only takes into account existing or renewing facilities and new facilities where these have received credit approval or equivalent.

Details of financial risks in respect of market risk, credit risk and liquidity risk are set out in note 24 to the financial statements.

#### **Supplier Payment Policy**

The Company and the Group does not follow any specific external code or standard on payment practice. Its policy is normally to pay suppliers according to terms of business agreed with them on entering into contracts and to keep to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts.

The Company had 57 days' purchases outstanding at 29 December 2012 (2011: 65 days) based on the average daily amount invoiced by suppliers during the period.

#### **Ethical Policy**

The Company is committed to working with its employees, customers, suppliers and contractors to promote responsible working and trading practices. Further information regarding how the Former Group addressed social and community issues is shown in the report on Corporate Social Responsibility.

#### **Quality and Integrity of Personnel**

It is the Company's policy to employ the highest calibre of management and staff and encourage the highest standards of personal integrity. Recruitment procedures are designed to identify and reward high calibre individuals.

#### **Share Capital, Voting Rights and Transfer of Shares**

Details of the structure of the Company's share capital and changes in the share capital during the year are disclosed in note 26 to the financial statements.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. In particular, subject to particular statutes and the Company's Articles of Association, shares may be issued with such rights or restrictions as the Board may determine.

# Directors' Report

continued

Shareholders are entitled to attend, speak and vote at general meetings of the Company, to appoint one or more proxies and, if they are corporations, to appoint corporate representatives. On a show of hands at a general meeting every holder of ordinary shares present in person shall have one vote and every proxy present who has been duly appointed by a member entitled to vote on the resolution has one vote and on a poll, every member present in person or by proxy, shall have one vote for every ordinary share held. Further details regarding voting, including deadlines for voting, at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting. No person is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other shareholder rights if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 and has failed to supply the Company with the requisite information within the prescribed period.

Shareholders may receive a dividend and on a liquidation may share in the assets of the Company. The Company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment.

The instrument of transfer of a certificated share may be in any usual form or in any other form which the Board may approve. The Board may refuse to register any instrument of transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of certificated share unless the instrument of transfer: (i) is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; (iii) is in favour of not more than four transferees. Transfers of uncertificated shares must be carried out using the relevant system and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of the relevant system and with UK legislation. Restrictions may also be imposed on certain Group employees who are required to seek approval from the Company before dealing in shares in accordance with the requirements of the Listing Rules of the United Kingdom Listing Authority.

There are no other limitations on the holding of ordinary shares in the Company and the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Details of major shareholdings are included in the Corporate Governance section of this Annual Report. Details of employee share schemes can be found in the Directors' Remuneration Report.

## Significant Agreements

The Companies Act 2006 requires us to disclose significant agreements that take effect, alter or terminate on a change of control of the Company. Following the termination or transfer of all previously disclosed banking facilities to Harworth Estates at restructuring these are, as such, no longer disclosed.

There are no agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

## Going Concern

These financial statements are prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares cash flow forecasts based upon its assumptions as to income streams and costs required to fulfil its objectives. Consideration is also given to known liabilities, as outlined below, which may become payable by the Group under certain circumstances. The resulting cash flows are then compared to available funding; both committed funding and funding which the Board reasonably expects to be available to the Group in a timeframe such that it meets any shortfall in the expected cash flows.

The key factors that have been considered in this regard relate to both on-going running costs of the Group and residual liabilities that the Group may have to settle:

- Income is predominantly in respect of management services supplied to Mine Holdings and Harworth Estates. This service income is covered by contractual agreements. Costs are mainly in relation to management and those costs associated with the administration of the Group including maintaining its Stock Exchange listing. Should Mine Holdings fail to pay its share of management services the Group could have a deficit against its running costs of up to £0.3m per annum;
- The Company remains guarantor to certain lease obligations of the Mining Group. The assets concerned are currently in use by UKCOL in their deep mine operations. The Board expects that should these guarantees be called the liability would be £0.5m; and
- The Group engaged a number of advisors to assist in the restructuring process. The Group received an indemnity from UKCOL for payment of these fees and other liabilities including the £0.2m annual Blenkinsopp pension scheme contribution. Should UKCOL not honour this indemnity then the Group would have to settle these liabilities out of its own resources. The expected balance still to be settled is £3.8m for costs associated with the restructuring process and the on-going annual pension scheme contribution.

Following the Daw Mill fire in February 2013, and the resultant liabilities this created for Mine Holdings, there is an increased risk that they will be unable to honour the indemnities given

to the Group (which includes on-going running costs) in the immediate future. As such the Group has entered into negotiations to secure a one-year bank facility that would enable it to meet these liabilities should they fall due. The Group has received a credit approved Heads of Terms for a suitable facility and based on this the Board believe an appropriate facility will be entered into by the half year. The Group would look to repay the loan and raise sufficient funds to cover any of these liabilities not yet settled from the proceeds of an equity raising during 2013. The Board has received an informal commitment to underwrite an equity raising which provides comfort that the facility can be repaid.

The Board notes that the matters set out above indicate the existence of material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern if current or expected funding and facilities are not received as envisaged. Nevertheless, the Board confirms its belief that it is appropriate to use the going concern basis of preparation for these financial statements. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

#### **Auditors and Disclosure of Information To Auditors**

Each of the directors at the date of approval of this report confirms that, so far as the director is aware, there is no relevant audit information (being information needed by the Company's auditors in connection with preparing its report) of which the Company's auditors are unaware. In addition, each director confirms that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

#### **Subsequent Events**

Since restructuring the Group has retained only a limited economic interest in its investment in Mine Holdings.

On 22 February 2013 Mine Holdings' Daw Mill colliery suffered a major underground fire. On 7 March 2013, Mine Holdings announced the closure of Daw Mill colliery, putting the workforce of 650 at risk of redundancy.

The fire and subsequent closure of Daw Mill has had a significant impact on the mining business. The Company has worked closely with Mine Holdings and the government led by the Department for Energy and Climate Change to help Mine Holdings manage the closure of Daw Mill and seek a way forward for the mining business.

The Company carries its investment in Mine Holdings at £1, so there is no risk to shareholder value arising from the fire. However Mine Holdings was due to contribute to the Company's on-going running costs and, at the date of signing of the Annual Report and Accounts 2012, owed £3.6m in respect of restructuring fees recharged by the Company. The directors consider that there is some uncertainty as to the recoverability of this receivable, as further disclosed in note 33 of the financial statements, whereby the value of Harworth Estates could be impacted by this event.

By order of the Board

**Geoff Mason**

Company Secretary

30 April 2013

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are detailed in the Company and Advisors section confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

## Corporate Governance

The Company recognises the importance of, and is committed to, high standards of Corporate Governance and the following sections explain how both the Company and the Group has applied the main and supporting principles set out in the UK Corporate Governance Code ("Code"), issued by the Financial Reporting Council in June 2010, a copy of which is publicly available at [www.frc.org.uk/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm). The Board confirms that the Company and the Group have complied with the provisions set out in the Code throughout the year ended 29 December 2012 save that in light of the need to develop the two distinct principal businesses within the Group prior to the restructuring it aligned the Board and management structure such that the Managing Directors of the Mining and Property Divisions respectively report to the Chairman, who retained overall leadership of the Group. Following the restructuring it is expected that over time the Chairmanship will reduce in commitment and revert to a non-executive position.

### The Board of Directors

The Company is headed by a Board of Directors, now comprising of the Chairman, one executive director and three non-executive directors, two of whom are determined by the Board to be independent. The Board recognises that Steven Underwood, who is a Director and representative of Peel Holdings, which is the major shareholder in the Group, is not independent. It is considered that his skills and experience are relevant to the business and he contributes to the realisation of the Group's strategy.

The Chairman has overall leadership of the Company, with responsibility for ensuring the development and implementation of the Board's strategies and policies. He is also responsible for the running of the Board including, but not limited to, ensuring that a fixed schedule of matters is exclusively retained for the Board's review and approval, and that a framework exists to allow the clear and timely dissemination of relevant information to all directors for such review to occur. The Senior Independent Director is Peter Hickson.

The Board of the Company is responsible for setting the Company's objectives and policies and for the stewardship of the Company's resources. The Board is responsible to the shareholders for the overall management of the Company and its investments in the former Property Division, Harworth Estates, (which is now 75.1% controlled by the trustees of the Pension Schemes in which the former Mining Division, Mine Holdings, participates) and Mine Holdings in which the Company now has only 33% of the voting rights, control having been ceded to an Employee Benefit Trust.

The Board considers its non-executive directors bring judgement, knowledge and experience to the Board's deliberations. They have no financial or contractual interests in the Company, other than interests in ordinary shares as disclosed in the Directors' Remuneration Report. Non-executive directors are offered the opportunity to attend meetings with major shareholders and would attend them if requested by major shareholders.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The appointment and removal of the Company Secretary are matters for the Board as a whole. The Board has established a procedure under which any director, wishing to do so in furtherance of his duties, may take independent advice at the Company's expense.

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors. Further, there are indemnities between the Company and certain directors in respect of costs and expenses suffered from an investigation by a regulatory body which are not covered by insurance.

The interests of the directors in the shares of the Company are shown in the Directors' Remuneration Report.

# Corporate Governance

continued

## Attendance at Board Meetings

Attendance by individual directors at Board meetings (including those convened and held as conference calls) and at Committees during 2012 is shown in the table below. Attendance by non-Committee members at Committee meetings is not included.

	Board		Audit		Remuneration		Nomination		Safety	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
J Cox	20	20	–	–	–	–	1	1	3	2
D Brocksom (resigned 31.12.12)	20	20	–	–	–	–	–	–	–	–
K Heller (resigned 7.12.12)	19	19	4	4	3	3	–	–	3	3
L Clement	20	20	4	4	–	–	–	–	–	–
P Hickson	20	19	–	–	3	3	1	1	3	2
O Michaelson (resigned 7.12.12)	19	19	–	–	–	–	–	–	–	–
S Underwood	20	19	–	–	–	–	–	–	–	–
G Williams (resigned 7.12.12)	19	18	–	–	–	–	–	–	–	–

## Committees

The Group's governance structure ensured that all decisions were made by the most appropriate people, in such a way that the decision making process itself does not unnecessarily delay progress. The Board delegated specific responsibilities to the Nomination, Remuneration, Audit and Safety Committees, as described below. Each committee had terms of reference that the whole Board had approved. Following the restructure the terms of reference have been reviewed in line with the revised circumstances of the Group and following the devolution of control of the mining business the Shareholders of Mine Holdings have agreed to the establishment of a Safety Committee within that business. Details of the current terms of reference for the Nomination, Remuneration and Audit Committees can be found on the Company's website. Board and committee papers are circulated in advance of each meeting so that all directors are fully briefed. Papers are supplemented by reports and presentations to ensure that Board members are supplied in a timely manner with the information they need.

### Nomination Committee

The Nomination Committee leads the process for Board appointments by making recommendations to the Board about filling Board vacancies and appointing additional persons to the Board. The Committee also considers and makes recommendations to the Board on its composition, balance and membership and on the re-appointment by shareholders of any director under the retirement by rotation provisions in the Company's Articles of Association.

The Committee's members are the independent non-executive directors and the Chairman. Although the Chairman is also

Chairman of the Committee, he will not chair the Committee when it deals with the appointment of a successor to the chairmanship. The Nomination Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the roles and capabilities required for a particular appointment.

During the year the Committee engaged the services of external search consultants to assist with the recruitment of a new finance director and chief executive for Mine Holdings.

The Board initially appoints all new directors, having first considered recommendations made to it by the Nomination Committee. Following such appointment, the director is required to retire and seek re-appointment at the next Annual General Meeting. There is a process of rotation, which ensures that approximately one third of all directors are required to retire and seek re-appointment at each Annual General Meeting.

The Nomination Committee considers succession planning for appointments to the Board and to senior management positions so as to maintain an appropriate balance of skills and experience both on the Board and in the Company.

### Remuneration Committee

The composition and work of the Remuneration Committee are described in the Directors' Remuneration Report.

### Audit Committee and Auditors

The Audit Committee comprises Lisa Clement (Chair), and Steven Underwood.

Keith Heller, who retired from the Board on 7 December 2012, was a member of the Committee until he resigned as a director.

The Board is satisfied that Lisa Clement and Steven Underwood have recent and relevant financial experience but recognise that Steven Underwood is not an independent non-executive director. The Chairman, Finance Director and the external auditors are invited to attend meetings. The minutes of meetings of the Committee are circulated to all directors. Going forward the Committee will meet at least twice a year to review the Group's accounting and financial reporting practices, the work of external auditors and compliance with policies, procedures and applicable legislation. The Audit Committee also reviews the half year and annual financial statements before submission to the Board. During the period under review the Committee reviewed the scope, remit and effectiveness of internal audit provision and the effectiveness of the Group's internal control systems. It also reviewed "whistle-blowing" arrangements by which employees of the Group could, in confidence, raise concerns about possible financial or other improprieties. Following the restructure and the consequent reduction in the size and complexity of the Company's reporting and systems of control it has been agreed that there is currently no need for an internal audit or whistle-blowing arrangement within the Company. The terms of reference of the Audit Committee are available to shareholders on request and are also available on the Company's website.

The auditors throughout 2012 have been PricewaterhouseCoopers LLP, at costs as detailed below:

	Year ended December 2012 £000	Year ended December 2011 £000
Audit services		
Fees payable to the Company auditors for the audit of the Parent Company and the consolidated accounts	135	75
Fees payable to the Company auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	195	244
– The auditing of the accounts of any associate of the Company	50	–
– Audit related assurance services	130	45
– All other assurance related services	47	17
– Tax advisory services	790	81
– Tax compliance services	80	–
– All other non-audit services	2,330	–
	<b>3,757</b>	462

The Board recognises the importance of safeguarding auditor objectivity and has taken the following steps to ensure that auditor independence is not compromised:

- The Audit Committee reviews the audit appointment periodically;
- It is Group policy that the external auditors will not, as a general rule, provide consulting services to the Group. The external auditors provide audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholder and other circulars. However the complexity of the restructuring which was undertaken by the Group and developed throughout the period under review meant that the Board recognised the financial prudence in appointing the audit firm as financial advisors to the restructuring thus ensuring that the complex transactions entered during this process could be more easily understood during the subsequent audit;
- The external auditors may undertake due diligence reviews and provide assistance on tax matters given their knowledge of the Group's businesses. Such provision will, however, be assessed on a case by case basis so that the best placed adviser is retained. The Audit Committee monitors the application of the policy in this regard and keeps the policy under review;
- The Audit Committee reviews on a regular basis all fees paid for audit, and all other fees, with a view to assessing reasonableness of fees, value of delivery, and any independent issues that may have arisen or may potentially arise in the future; and
- The independent auditors' report to the directors and the Audit Committee confirming their independence in accordance with Auditing Standards.

#### Safety Committee

During the period up to restructuring the Board had a Safety Committee to assist it in ensuring that the Group complied with its health and safety obligations and to review and recommend to the Board strategic options that could enhance the policies, standards and processes that operated within the Group. The Committee comprised Keith Heller (Chairman), Peter Hickson, Jonson Cox and Gareth Williams and meetings were attended by all relevant senior managers.

#### Other Meetings

In accordance with best practice, the Chairman has frequent meetings with the non-executive directors without the executive directors being present.

# Corporate Governance

continued

A meeting of the non-executive directors, chaired by the Senior Independent Director (without the Chairman), takes place at least annually, to appraise the Chairman's performance.

## Directors' Development

All directors receive induction on joining the Company and access to further training is made available. The Company provides the necessary internal and external resources to enable directors to develop and update their knowledge and capabilities.

## Performance Evaluation

The performance of the Board and its committees is considered and reviewed by the Board throughout the financial year with matters requiring attention identified and addressed. The Chairman's performance is reviewed by the non-executive directors, led by the Senior Independent Director, after consultation with the executive director. The Chairman holds responsibility for the appraisal of the performance of the non-executive directors together with responsibility to conduct a performance evaluation of executive directors and members of the Executive Management Committee.

## Executive Management Committee

Until the date of the restructure the Executive Management Committee was in being to manage and co-ordinate all strategic and key operational issues of the Former Group. It comprised the Chairman, Finance Director, Managing Director (Mining) and Managing Director (Property) with attendance by the Company Secretary, HR Director and Director of Communications.

Following the restructure the day to day management of the Company is carried out by the Chairman, Finance Director and Company Secretary who meet regularly to despatch business issues.

## Directors Conflict of Interest Procedures

A director has a duty under the Companies Act 2006 to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the existing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Company's Articles of Association allow the directors to authorise conflicts and potential conflicts. The Board has a procedure when deciding whether to authorise a conflict or potential conflict of interest. Firstly, only independent directors (i.e. only those that have no interest in the matter under consideration) will be able to take the relevant decision. Secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote

the Company's success. In addition, the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

## Relations with Shareholders

The Group maintains on-going dialogue with major shareholders through regular presentations and meetings to outline the Group's trading environment and objectives and also offers them the opportunity to meet non-executive directors. The Senior Independent Director is available to all shareholders. Private investors are encouraged to attend the Annual General Meeting where they have the opportunity to question the Board.

## Substantial Shareholdings in the Company

The directors have been notified of the following substantial shareholdings as at 13 March 2013:

Company	Number of Shares	% of Issued Share Capital
Goodweather Holdings Ltd*	87,234,470	29.15
Invesco Perpetual	24,861,080	8.31
Pelham Capital Management	22,376,560	7.48

\* Member of Peel Holdings

## Powers of Directors to Allot Shares

At the 2012 Annual General Meeting of the Company held on 22 June 2012, the directors were authorised to allot new shares up to an aggregate nominal amount of £997,660. In accordance with the latest institutional guidelines published by the Association of British Insurers, a resolution to seek authority to allot new shares up to an aggregate nominal value of £1,995,320 will be proposed at the next Annual General Meeting (full details are available in the 2013 Notice of Annual General Meeting).

## Purchase of Own Shares

At the 2012 Annual General Meeting of the Company, shareholders gave the Company permission, until the conclusion of the next Annual General Meeting of the Company, to purchase up to 29,929,815 ordinary shares of 1 pence each of the Company. No such purchases were made during the year. The directors will seek renewal of a similar authority at the next Annual General Meeting (full details are available in the 2013 Notice of Annual General Meeting).

## Internal Control Risk Assessment

Up to the date of the restructuring there was an on-going process for identifying, evaluating and managing the significant risks of the Group. Following the restructuring the risks to the Company are easier to review and this process is regularly undertaken by the management team. A strategic risk assessment of the Group's

risks and effectiveness of internal controls was reviewed on 27 March 2012; it was concluded that there were no strategic risks that had not been considered, nor any significant weaknesses in internal controls that had not been identified.

This assessment supplemented on-going dialogue between the Board and the directors of both Harworth Estates and Mine Holdings for monitoring risks within these investments. During the period up to the restructure the Board received internal audit reports and reviews by the Health & Safety Management department. These reports identified areas of risk exposure, recommendations made and actions implemented. They also highlighted new areas of legislation that would impact on the risk profile of the Group, and provided positive assurance that procedures were working and assisting in the attainment of business objectives.

Operational and financial risk management is now contained within the two investments (Harworth Estates and Mine Holdings) and is the responsibility of the directors and managers of those businesses who are responsible for the day to day management of the business. Key risks and uncertainties for the business were reviewed and agreed by the Board on 29 April 2013.

The following controls remain relevant:

*Environmental Management* – full details of the environmental policies and practices of the Group are set out in the Corporate Social Responsibility section.

*Financial* (which assist in the financial reporting and consolidation of the Group's financial statements) – these controls are considered under the following headings:

- *Cost budgeting*  
The cost budgets of both Harworth Estates and Mine Holdings are now reserved for shareholder approval under the agreements that have been entered into respectively with the Pension Trustees and the EBT. The annual budget setting process includes a review of each business unit and the final budgets for each of these businesses are approved by the shareholders. Performance is reported and monitored on a monthly basis against budgets within Harworth Estates and reported to the Company in line with the Shareholder Agreement. The management of Mine Holdings regularly reports to the Shareholder Committee of that business which reviews and advises but has limited day to day management authority within the mining business.
- *Treasury*  
Following the restructure the treasury actions of the Company are limited and controlled jointly by the Finance Director and Chairman who are responsible for placing deposits, for arranging borrowings and for making payments.

- *Insurance risk*

The Company holds insurance cover for all employer liability and public liability claims, which is currently issued by its captive insurance company, and which limits the Company's exposure to £250,000 per claim. Under the restructuring an option exists for the captive insurance company to be acquired by Mine Holdings. It is proposed that, going forward the Company will effect policies separately from the Mine Holdings business for its risks. All claims are subject to expert assessment and challenge and, where appropriate, independent medical and legal opinion.

- *Capital expenditure*

Board approval of any major capital projects is required. Smaller capital projects are approved in accordance with the Company's delegated authorities.

### **Assurance Procedures**

Until the date of the restructure, assurance was provided by an in-house team of Internal Auditors. Assurance was further provided by in-house Health & Safety Auditors and Environmental Auditors. This resource was supplemented by the HM Inspectorate of Mines (Health & Safety) and other Health & Safety Commission personnel, legal advisors and professional claims handlers (Insurance and Claims Management) and external environmental consultants (Environmental Management).

Reports were prepared and summarised at management level for reporting to the Board as either standing or intermittent agenda items. The Audit Committee reviewed internal audit reports and corporate governance matters. The Group appointed a new Head of Internal Audit during the year who, until restructuring, managed all external resources. Following restructuring, this role transferred to Mine Holdings.

### **Going Concern**

As set out more fully in the Directors' Report and note 1, the directors have formed the conclusion that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. The financial statements have, therefore, been prepared on the going concern basis.

### **Annual General Meeting**

The Board encourages shareholders to exercise their right to vote at the Annual General Meeting. The notice calling the meeting and related papers are sent to shareholders at least 20 working days before the meeting and separate resolutions are proposed on each substantially separate issue.

Shareholders are encouraged to participate through a question and answer session and individual directors or, where appropriate, the Chairman of the relevant committee, respond to those questions directly. Shareholders have the opportunity to talk informally to the directors before and after the formal proceedings.

# Directors' Remuneration Report

*\*Denotes auditable elements of the Remuneration Report*

## Context

This report is set following the completion of the restructuring of the Group, of which the principal objective was to provide a stable platform for the Group's mining and property businesses. This was undertaken with the intention to provide the greatest value for all stakeholders. As reported in the previous Annual Report, the Remuneration Committee aimed to incentivise key executives to meet operational targets and deliver the restructuring plan, thereby aligning executive reward to the challenges facing the Group.

## Introduction

This report has been prepared in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report also meets the relevant requirements of the Listing Rules and has complied with the provisions set out in The UK Corporate Governance Code relating to remuneration matters.

## Remuneration Committee

Responsibility for reviewing Group remuneration strategy and policy, recommending any changes and approving individual remuneration packages for the Chairman, executive director and any other senior executive rests with the Remuneration Committee (the "Committee"). The Committee consists of independent non-executive Directors and meets on at least two occasions each year.

The members of the Committee throughout the year were and continue to be:

- Peter Hickson – Committee Chairman; and
- Lisa Clement

The Committee may seek any information it requires from any employee or director, and all employees and directors are required to co-operate with any request made by the Committee. Colin Reed (Group HR director up to the date of the restructuring), Geoff Mason (Company Secretary) and Richard Cole (Company Secretary to May 2012), provided information to the Committee during the year.

The Committee also meets without management and exercises its judgement using publically available information. During the year Mr Reed received information and independent executive remuneration advice from specialist remuneration consultants, New Bridge Street, a trading name of Aon Corporation, who were appointed by the Committee. No director participates in discussions relating to their own remuneration. The Committee liaises with the Audit Committee where appropriate; this includes confirmation of the Group's financial performance to assist in determining whether performance targets and measures have been achieved and to ensure that the structure

for the incentive arrangements throughout the Group are appropriate from a risk perspective. It also liaised with the Safety Committee of the Group in respect of the safety element of the annual bonus scheme.

The Committee has terms of reference, approved by the Board, which are available from the Company Secretary and via the Group's website.

## Remuneration Policy

The policy for the period under review as well as current period for the remuneration and incentivisation of executive directors and other senior executives is as follows:

- To ensure that individual rewards and incentives are aligned with the performance of the Company and interests of shareholders;
- To ensure that performance-related elements of remuneration constitute an appropriate proportion of an executive's remuneration package; and
- To maintain a competitive remuneration package which enables the Company to attract, retain and motivate high calibre executives.

The Committee reviews executive remuneration and implements incentive arrangements to support the objective of rewarding those individuals who deliver shareholder value. In developing these arrangements the Committee and its advisers consider current best and market practice. The Committee reviewed remuneration arrangements after the restructuring was finalised to ensure that they remained appropriate for the Company and current smaller Group. This was particularly relevant with the transfer of employment of both Owen Michaelson and Gareth Williams together with their relevant management teams outside of the Group as part of the restructuring. Potential major changes going forward will continue to be discussed with major shareholders prior to adoption.

Executive director remuneration (excluding the Chairman) comprises a base salary, an annual performance bonus, participation in a long term incentive plan or arrangement, a car or car allowance plus fuel card, pension contributions to a defined contribution pension scheme or a pension allowance, life assurance and health insurance. Bonus payments and benefits in kind are not pensionable. An appropriate balance is maintained between fixed remuneration and performance-related remuneration.

Jonson Cox, Chairman, received, in place of the existing annual bonus and long-term incentive arrangements, bespoke share based awards, which were determined on appointment and awarded in February 2011, to reflect the nature of the role and the strategic and operational challenges presented by the Company over the three years following his appointment.

The following paragraphs explain the operation of the main constituents of the remuneration policy.

### Base Salaries

Executive directors' salaries are normally reviewed by the Remuneration Committee on an annual basis. In determining salary levels for executives the Committee has, principally, had regard to external comparators for roles of equivalent size and complexity and, for Mr Brocksom specifically, the number of years without an increase. Following a review of executive salary levels, Messrs Brocksom, Williams and Michaelson's base salaries were increased to £242,888, £240,350 and £236,900 respectively with effect from 1 January 2012. Following the restructuring and the departure of all three executives from the Board, Mr Hague was appointed as Finance Director on a part time basis, sharing his duties with that of Finance Director for Harworth Estates. His remuneration reflects the changed nature of the role.

### Annual Bonus for Executive Directors

With the exception of the Chairman, the Executive Directors participated in an annual bonus arrangement. The Committee sets both the performance measures and targets based on the Group's business priorities. These targets ensure that incentives are payable only for Group and individual performance.

However in light of the planned restructuring the Committee agreed one-off bonus arrangements for 2012, which replaced the normal potential awards, only in respect of Messrs Williams, Michaelson and Brocksom.

Messrs Williams and Michaelson had the opportunity to receive an enhanced bonus of up to 150% of base salary in the event of the restructuring plan announced on 14 March 2012 being successfully implemented. The first half of this bonus (of up to 75% of salary) would be payable at the end of 2012 for achievement of specific targets to improve the operational and financial performance of the business together with achieving key personal targets. The second half of the bonus (of up to 75% of salary) was to be paid on successful implementation of the restructure plan during 2012 but will be deferred until the end of 2013 and was conditional upon the continued employment of Messrs Williams and Michaelson.

As part of the restructuring process Messrs Williams and Michaelson transferred respectively to Mine Holdings and Harworth Estates. However, it was agreed and announced at the time of the completion of the restructuring that Mr Williams would leave the Mine Holdings business in early 2013. The Committee has determined that although Mr Williams broadly achieved the safety performance required, the operational and financial performance of the mines put the mines in such difficulties that they will not recommend to the directors of Mine Holdings that the bonus is payable (2011: £106,375). Mr Williams also benefitted in 2011 from an award of 500,000 shares which will vest during 2013 and which he will be required to hold for a minimum of 12 months.

The Committee reviewed Mr Michaelson's performance in the year and will recommend to Harworth Estates that a bonus of £152,500 (2011: £114,900) is payable in respect of the operational and financial performance in the year.

In anticipation that Mr Brocksom would leave the business on completion of the restructuring, his enhanced bonus for 2012 was agreed at a lower level of 100% of salary, with no deferred bonus, following the successful implementation of the restructuring plan. He will receive this enhanced bonus of 100% of his base salary of £242,888 (2011: £114,404) in due course. In reviewing his performance to the date of termination it was agreed that this will be payable under his settlement with the Company. David Brocksom also benefitted from a one-off award of shares to a maximum of 250,000 shares based upon the achievement of personal performance targets for the 2012 financial year and which he will be required to hold for a minimum of 12 months.

### Chairman

Mr Cox, Chairman, was recruited on a base salary of £350,000 per annum on the basis he provided three days per week. In the light of the time Mr Cox was required to provide in 2012 in relation to the restructuring and on-going business, the Committee agreed to supplement Mr Cox's base salary by £120,000 for 2012 only. However, this was not paid until the sufficient short term recovery of the mining business and the proposals for December 2012 restructuring were fully developed and tabled with key stakeholders. Going forward, Mr Cox's time commitment has been reduced by agreement to 2 days per week and his fee reduced broadly commensurately.

In connection with the Chairman's appointment and instead of his participation in the annual bonus and long-term incentive plan, share based awards were designed to reflect the specific challenges, of the role.

On 4 February 2011, and in connection with his appointment, Mr Cox was granted the following awards pursuant to the authority contained in Listing Rule 9.4.2R(2):

- A Long Term Award to acquire up to 2,800,000 ordinary 1 pence shares which will normally vest on 15 November 2013 (being the third anniversary of Mr Cox's appointment) subject to continued employment and satisfaction of performance criteria related to the turnaround and recovery of the Company.
- An Award over 1,520,000 shares which was to normally vest on an annual basis in three equal tranches subject to Mr Cox's continued employment and progress against the achievement of strategic key performance indicators over the three year period. These required the stabilisation of the mining business, delivery of short, medium and long-term value in the property business, creation of appropriate levels of financial headroom, achievement of financial stability with a de-leveraged balance sheet and development of a long-term strategy.

# Directors' Remuneration Report

continued

- Following the decision in March 2012 to restructure the business of the Former Group it was recognised that (i) the restructured Group would no longer control the financial and operational aspects of either Mine Holdings or Harworth Estates, (ii) Mr Cox in his role as Chairman of the Company would have significantly reduced ability to affect the outcome or the results of these businesses and (iii) the achievement of a solvent restructure of the Group represented a formidable challenge the Committee agreed that the two awards would vest on successful completion of the restructuring. The Committee has agreed that this was achieved in December 2012.

The awards may be satisfied with either existing shares (other than treasury shares) or, following shareholder approval at the 2012 Annual General Meeting through new issue, rather than existing, shares. Mr Cox has indicated his intention to hold the shares (net of those sold to pay tax) for at least a 12 month period from completion of restructuring.

## Long Term Incentive Plan ("2010 LTIP")

Under the 2010 LTIP an annual award of up to 100% of base salary is conditionally allocated to each executive director (excluding the Chairman). However the Remuneration Committee wrote to each of the directors in June 2012 confirming that due to business difficulties at the time and the proposed restructuring it did not consider it was appropriate to award further shares under the 2010 LTIP at this time.

The shares that have already been awarded are released to the executive three years from the date of grant of award, contingent upon predetermined performance targets being met. The performance conditions for awards in 2011 were based on a comparison of the Company's Total Shareholder Return ("TSR") against the constituents of the FTSE all share index excluding financial and investment companies over a three year period commencing at the beginning of the 2011 financial year. Twenty five per cent of the award will vest if TSR is ranked at the median of the comparator group rising on a straight-line basis to full vesting if the Company's TSR is ranked at or above the upper quartile. In addition the Company's absolute TSR has to be positive over the three year performance period and the Committee must be satisfied that there has been an underlying improvement in the Company's financial performance.

Awards may be satisfied with newly issued shares or existing shares.

In light of the restructure of the Group, it is not expected that any further awards will be granted under the 2010 LTIP and that a new long term incentive plan for executives will be put into place. No awards were made in 2012.

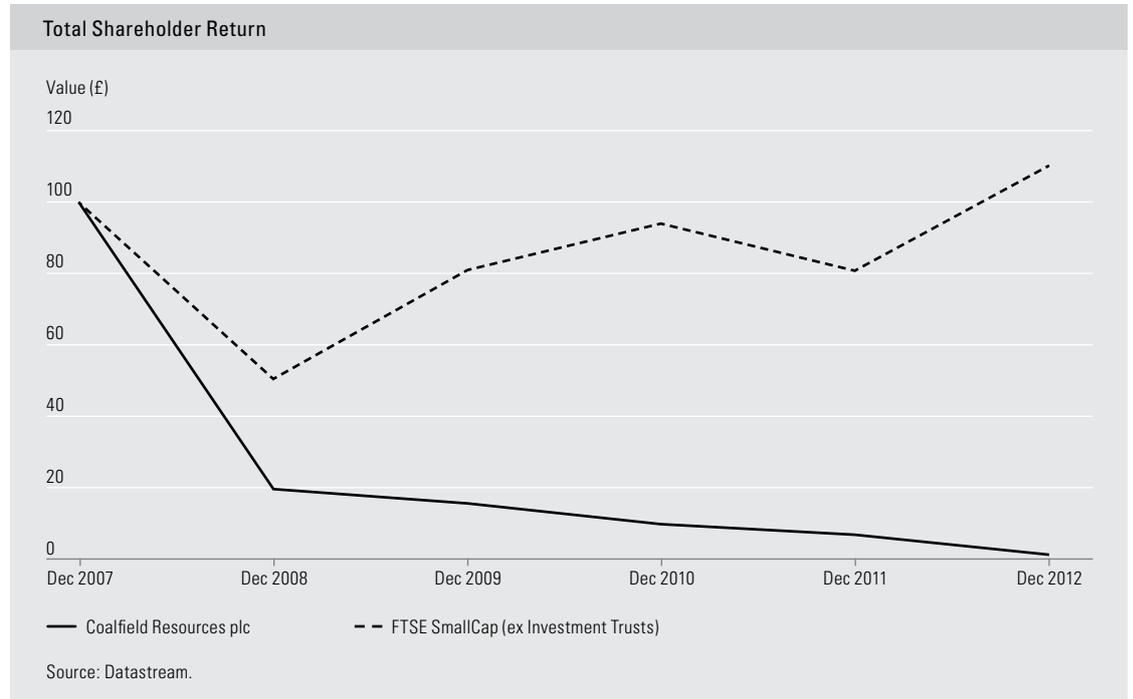
## Share Usage

The 2010 LTIP contains limits which control the issuance of new shares to satisfy share awards. This limit restricts the issue of new shares to an amount equivalent to no more than 5% of issued share capital over any ten year period. As at 29 December 2012 the level of issuance of new shares was at 0.4% of the current issued share capital.

## Shareholding Guideline

An executive shareholding guideline applies for executive directors and other selected senior executives. To the extent awards vest under the 2010 LTIP the Directors will be required to retain no less than 50% of the net of tax value of the shares until a holding equivalent to 100% of salary is attained (50% of salary for other senior executives). This same guideline applies to the Chairman and other directors in respect of the full net of tax value of any shares that vest under bespoke arrangements.

**Performance Graph**



The above graph displays the values, by the end of 2012, of £100 invested in the Company on 31 December 2007 compared with the value of £100 invested in the FTSE Small Cap Index (excluding investment trusts). The other points are the values at intervening financial year ends.

**Other Terms and Conditions of Service**

The executive directors’ service contracts, including arrangements for early termination, are considered carefully by the Committee and are designed to recruit, retain and motivate executive directors of the quality required to manage the Group. The Committee considers that a notice period of no more than one year is appropriate. It is the Company’s policy not to enter into service contracts that provide written notice of more than one year.

In respect of Jonson Cox, employment will continue until terminated by the Company giving not less than twelve months’ written notice, or by Mr Cox giving the Company not less than six months’ written notice. Jeremy Hague’s contract shall continue until either he or the Company terminate it by not less than 6 months’ notice in writing.

When calculating termination payments, the Committee takes into account a variety of factors including individual and Group performance, the obligation of the executive director to mitigate his own loss (for example by gaining new employment) and the best interests of the Group. Should the Company terminate the contract of an executive director, compensation for loss of office is limited to the amounts payable under these notice periods. There are no special provisions for payments on a change of control.

**Non-Executive Directors**

The Board aims to recruit non-executive directors of a high calibre with broad commercial and other relevant experience. non-executive directors are appointed for an initial three year period. The terms of their engagement are set out in a letter of appointment. The initial appointment and any subsequent re-appointment is subject to election or re-election by shareholders at the Annual General Meeting. The letters of appointment contain three months’ notice periods, with the exception of Peter Hickson, Senior Independent Director, whose appointment is subject to six months’ notice.

# Directors' Remuneration Report

continued

Compensation for loss of office is limited to the amounts payable under these notice periods. The Board considers these notice periods appropriate given the skills and expertise of the Directors.

To reflect the role fulfilled by Peter Hickson as Senior Independent Non-Executive Director in a business where the Chairman has had a part-executive role, he is paid a fee of £65,000 per annum; this includes his responsibilities as Chairman of the Remuneration Committee. Other non-executive directors are paid a basic fee of £40,000 per annum with an additional fee of £6,000 per annum payable for chairing a committee.

Non-executive directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.

## Directors' Service Contracts and Letters of Appointment

	Contract date	Unexpired term (as at December 2012)	Notice period
<b>Chairman</b>			
Jonson Cox	15.11.10	Rolling 1 year	1 year
<b>Executive Directors</b>			
Jeremy Hague	02.01.13	N/A	6 months
<b>Non-Executive Directors</b>			
Peter Hickson	30.6.11	1 year 6 months	6 months
Lisa Clement	29.11.11	1 year 11 months	3 months
Steven Underwood	27.7.10	7 months	3 months

There are no liabilities in respect of directors' service contracts that require disclosure. Copies of directors' service contracts and agreements are available to shareholders for inspection at the Company's registered office by application to the Company Secretary.

## Directors' Emoluments for the Year Ended December 2012\*

	Salary/fees <sup>8</sup> £000	Allowances £000	Annual bonus £000	Benefits in kind <sup>3</sup> £000	Compensation payment £000	Total 2012 £000	Total 2011 £000
<b>Chairman</b>							
Jonson Cox <sup>1</sup>	611	20	–	8	–	639	493
<b>Executive Directors</b>							
David Brocksom <sup>2</sup>	316	7	243	3	246	815	437
Owen Michaelson <sup>2</sup> (Resigned 07.12.12) <sup>6</sup>	282	9	153	3	–	447	457
Gareth Williams <sup>2</sup> (Resigned 07.12.12) <sup>6</sup>	286	9	–	4	–	299	420
<b>Non-Executive Directors</b>							
Peter Hickson	65	–	–	–	–	65	33
Lisa Clement	46	–	–	–	–	46	2
Keith Heller <sup>4</sup> (Resigned 07.12.12) <sup>6</sup>	42	–	–	–	–	42	32
Steven Underwood <sup>5</sup>	40	–	–	–	–	40	13

<sup>1</sup> Jonson Cox receives a car allowance of £20,000 per annum which is included in allowances above.

<sup>2</sup> Owen Michaelson and Gareth Williams each received a car allowance of £10,000 per annum which is included in allowances above. David Brocksom received a reduced car allowance of £6,666 in the year.

<sup>3</sup> Benefits in kind comprise car benefits, life assurance and health insurance.

<sup>4</sup> Fees in respect of the services provided by Keith Heller are paid to S/Dolo Inc.

<sup>5</sup> Fees payable for the services provided by Steven Underwood are paid to Peel Management Limited.

<sup>6</sup> Remuneration to Owen Michaelson, Gareth Williams and Keith Heller are shown to the date of resignation from the Board.

<sup>7</sup> The bonus for Owen Michaelson is payable by Harworth Estates.

<sup>8</sup> Salary and fees includes the amounts paid in respect of pension contributions. The comparatives for 2011 have been amended to include the relevant prior year figure.

### Pension Contributions\*

The Chairman and executive directors are entitled to receive an annual pension contribution at the rate of 30% of base salary. During the year Owen Michaelson was a member of the UK Coal money purchase pension scheme. The money purchase scheme does not provide additional post-retirement benefits (including contingent death benefits). Pension contributions on behalf of executive directors were as follows:

	Pension contributions 2012 £000	Pensions contributions 2011 £000
Jonson Cox <sup>1</sup>	141	114
David Brocksom <sup>2</sup>	73	70
Owen Michaelson <sup>3</sup>	65	69
Gareth Williams <sup>1,3</sup>	66	69
	<b>345</b>	<b>322</b>

<sup>1</sup> This was paid as an allowance.

<sup>2</sup> Of this, £73,000 was paid as an allowance to Mr Brocksom (2011: £3,000).

<sup>3</sup> Contributions for Messrs Michaelson and Williams are shown to the date of their departure from the Board.

### Long Term Incentive Plan\*

	Interest at Dec 2011	Interest awarded during the year	Interest lapsed during the year	Interest at Dec 2012	Vesting date	End of performance period
	No. of shares	No. of shares	No. of shares	No. of shares		
<b>David Brocksom</b>						
Executive LTIP 2010 <sup>2</sup>	586,687	–	–	586,687	26.08.13	Dec 2012
Executive LTIP 2011 <sup>1,2</sup>	680,217	–	–	680,217	20.04.14	Dec 2013
<b>Total</b>	<b>1,266,904</b>	<b>–</b>	<b>–</b>	<b>1,266,904</b>		
<b>Owen Michaelson</b>						
Executive LTIP 2010 <sup>2</sup>	575,000	–	–	575,000	26.08.13	Dec 2012
Executive LTIP 2011 <sup>1,2</sup>	666,665	–	–	666,665	20.04.14	Dec 2013
<b>Total</b>	<b>1,241,665</b>	<b>–</b>	<b>–</b>	<b>1,241,665</b>		
<b>Gareth Williams</b>						
Executive LTIP 2010 <sup>2</sup>	575,000	–	–	575,000	26.08.13	Dec 2012
Executive LTIP 2011 <sup>1,2</sup>	666,665	–	–	666,665	20.04.14	Dec 2013
<b>Total</b>	<b>1,241,665</b>	<b>–</b>	<b>–</b>	<b>1,241,665</b>		

<sup>1</sup> The share price at the date of the awards for Messrs Brocksom, Michaelson and Williams on 20 April 2011 was 34.5 pence.

<sup>2</sup> The performance conditions for 2010 and 2011 awards require relative TSR performance against the FTSE all share index excluding financial and investment companies over a three year period commencing at the beginning of the 2010 and 2011 financial years respectively. Twenty five per cent of the award will vest if TSR is ranked at the median of the comparator group rising on a straight-line basis to full vesting if the Company's TSR is ranked at or above the upper quartile. In addition the Company's absolute TSR has to be positive over the three year performance period and the Committee must be satisfied that there has been an underlying improvement in the Company's financial performance.

<sup>3</sup> Mr Hague, on appointment at 1 January 2013, holds LTIPs granted in 2010 and 2011 of 47,124 and 95,613 shares respectively.

# Directors' Remuneration Report

continued

## Jonson Cox – Share Awards\*

	Interest at Dec 2011	Interest awarded during the year	Interest at Dec 2012	Amended vesting date <sup>2</sup>
Annual Award <sup>1,3</sup>	1,520,000	–	<b>1,520,000</b>	10 Dec 2012
Long Term Award <sup>1,3</sup>	2,800,000	–	<b>2,800,000</b>	10 Dec 2012

<sup>1</sup> The share price at the date of the awards on 4 February 2011 was 45.5 pence.

<sup>2</sup> The vesting date was varied from 15.11.2013 on announcement of the intention to seek a restructuring in March 2012 with an agreement for a 12 month holding period for the full net of tax value of the shares.

<sup>3</sup> The performance conditions set out above were varied to provide for vesting on completion of the restructuring. The Committee confirmed the vesting. In April 2013, the shares have not been allotted at the date of the report.

## Compensation payments

During the year Owen Michaelson, Gareth Williams and David Brocksom stood down from the Board. Each received continuing benefits or compensation following their resignation.

Owen Michaelson stood down from the Board at the commencement of the restructuring process on 7 December. As part of the restructure, his employment transferred to Harworth Estates where he was appointed as Chief Executive on unchanged terms and conditions. As part of these continued benefits he will receive the bonus payment which accrued during his period as a director of the Company which will be paid by Harworth Estates.

Gareth Williams also stood down from the Board at the commencement of the restructuring process on 7 December. As part of the restructure, he took up the role of mining director with Mine Holdings on unchanged terms and conditions. At the time of the restructuring it was announced that Kevin McCullough would join the mining company as Chief Executive of Mine Holdings in early 2013 and that Mr Williams would exit the business.

Mr Williams' employment with Mine Holdings was terminated under a compromise agreement dated 20 February 2013 under which Mine Holdings agreed to make a payment to Mr Williams in the sum of £317,656 to be made in twelve equal monthly instalments. The payment included payment in lieu of contractual benefits and employer pension contribution but excluded private medical insurance, life insurance and bonus. Mine Holdings agreed to continue to provide private medical and life insurance for a twelve month period. It was further agreed that Mr Williams' contractual bonus of up to 150% of his basic salary, payable in two equal instalments on completion of the restructuring, would be paid when the Remuneration Committee advised the Board of Mine Holdings of its decision regarding the performance of the executive in the period to restructure. In April 2013, the Committee concluded that although the safety performance in the period had been satisfactory, the operational and financial performance of the mining business had been such that no bonus would be paid. Mr Williams' compromise agreement included a requirement to mitigate his loss through an obligation to seek alternative employment and to reduce outstanding monthly payments by 50% at the time of taking a new job if with a UK-based company.

David Brocksom stood down from the Board on 31 December 2012 having led the restructuring jointly with the Chairman. His employment with the Company was terminated under a compromise agreement dated 11 January 2013 under which he received a mitigated sum of 75% of his contractual notice and benefits equivalent to £246,192. In addition, having to the satisfaction of the Remuneration Committee completed the restructuring, Mr Brocksom became entitled to his bonus for 2012 of 100% of base salary and the vesting of an earlier retention award of 250,000 shares. Following the completion of the restructuring and to assist the handover of responsibilities, Mr Brocksom has continued to provide part-time assistance to the Company for the period up to 30 April 2013 under a consultancy agreement through a third party.

**Directors' Interests in Ordinary Shares\***

The directors' beneficial interests in ordinary shares of the Company and its subsidiaries at the end of the financial year were as set out below. None of the directors had an interest in shares of the Company's subsidiaries during the year.

	<b>Beneficial interest in ordinary shares at Dec 2012 or date of termination</b>	Beneficial interest in ordinary shares at Dec 2011
	<b>No. of shares</b>	No. of shares
Jonson Cox	<b>196,945</b>	196,945
David Brocksom	<b>47,090</b>	47,090
Peter Hickson	–	–
Lisa Clement	–	–
Keith Heller	<b>525,000</b>	525,000
Steven Underwood	<b>31,369</b>	31,369

There have been no changes in Directors' interests in shares between the end of the year and 30 April 2013.

The market value of the Company's shares during the year ranged from 3.75 pence to 34.0 pence. The market value on 31 December 2012 was 6.75 pence.

**External Appointments**

The Remuneration Committee recognises the importance of allowing executive directors to take non-executive director roles elsewhere. Mr Cox's business interests include a non-executive directorship of Wincanton PLC for which he received (and retained) fees of £45,000 in 2012. Mr Michaelson held a non-executive directorship within the Peel Group and the Peel Group has confirmed that he received no remuneration nor participates in any form of incentive arrangement which might benefit him currently or at any future time from his involvement with the Peel Group.

This report has been approved by the Board for submission to shareholders at the 2013 Annual General Meeting, and signed on behalf of the Board by Peter Hickson.

On behalf of the Board

**Peter Hickson**

Chairman

Remuneration Committee

30 April 2013

# Independent Auditors' Report to the Members of Coalfield Resources plc

(formerly UK Coal PLC)

We have audited the financial statements of Coalfield Resources plc (formerly UK Coal PLC) for the year ended 29 December 2012 which comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Shareholders' Equity, the Group and Company Balance Sheets, the Group and Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 29 December 2012 and of the Group's loss and of the Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures given in note 1 to the financial statements concerning the ability of the Group and Parent Company to continue as a going concern. The Group has entered into negotiations to secure funding to meet both on-going running costs and residual liabilities that it may have to settle, and would look to repay the loan and raise sufficient funds to cover any liabilities not yet settled from the proceeds of an equity raising. These matters indicate the existence of material uncertainties which may cast significant doubt over the ability of the Group and the Parent Company to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or the Parent Company were unable to continue as a going concern.

## Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are Required to Report by Exception**

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Parent Company.

**Matter on which we have Agreed to Report by Exception**

The Company voluntarily applies the UK Corporate Governance Code and therefore prepares a Corporate Governance Statement in accordance with the Disclosure Rules & Transparency Rules of the Financial Conduct Authority. The directors have requested that we review the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Company were a premium listed company. We have nothing to report in respect of this review.

**Richard Bunter (Senior Statutory Auditor)**

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

30 April 2013

**Notes:**

The maintenance and integrity of the Coalfield Resources plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated Income Statement

for the year ended 29 December 2012

	Note	Year ended 29 December 2012 £000	Restated Year ended 31 December 2011 £000
<b>Continuing operations</b>			
Revenue		8	–
Cost of sales		–	–
<b>Gross profit</b>		<b>8</b>	<b>–</b>
Other operating income and expenses	4	108	(1,585)
<b>Operating profit/(loss)</b>	3	<b>116</b>	<b>(1,585)</b>
Finance costs	6	(465)	(361)
<b>Loss before tax</b>		<b>(349)</b>	<b>(1,946)</b>
Tax credit/(charge)	8	10	(700)
<b>Loss for the year from continuing operations</b>		<b>(339)</b>	<b>(2,646)</b>
<b>Discontinued operations</b>			
(Loss)/profit for the year from discontinued operations (attributable to the owners of the parent)	2	(5,986)	57,887
<b>(Loss)/profit for the financial year</b>		<b>(6,325)</b>	<b>55,241</b>
<b>(Loss)/profit attributable to:</b>			
– owners of the parent		(6,325)	55,241
<b>(Loss)/earnings per share from continuing and discontinued operations attributable to owners of the parent during the year</b>			
		<b>pence</b>	pence
<b>Basic and diluted earnings per share</b>			
From continuing operations	11	(0.1)	(0.9)
From discontinued operations	11	(2.0)	19.4
<b>(Loss)/profit for the year</b>	11	<b>(2.1)</b>	<b>18.5</b>

Comparatives have been restated for the reasons shown in note 1 to the financial statements.

# Consolidated Statement of Comprehensive Income

for the year ended 29 December 2012

	Note	Year ended 29 December 2012 £000	Restated Year ended 31 December 2011 £000
<b>Loss for the financial year from continuing operations</b>		<b>(339)</b>	(2,646)
<b>Other comprehensive income:</b>			
Actuarial (loss)/gain on Blenkinsopp pension scheme	25	(290)	132
<b>Total other comprehensive (loss)/income (continuing operations)</b>		<b>(290)</b>	132
<b>Total comprehensive loss for the financial year (continuing operations)</b>		<b>(629)</b>	(2,514)
<b>(Loss)/profit for the year from discontinued operations</b>		<b>(5,986)</b>	57,887
<b>Other comprehensive income:</b>			
Actuarial (loss)/gain on industry wide pension schemes	25	(79,175)	10,633
Actuarial loss on concessionary fuel reserve	25	(5,803)	(7,463)
Amortisation of interest rate swaps recycled from reserves	23	–	372
Movement on deferred tax asset relating to retirement benefit obligations	8	(8,125)	–
Movement on deferred tax asset relating to cash flow hedges	8	–	(110)
Revaluation of property transferred from operating to investment properties	13	100	4,519
<b>Total other comprehensive (loss)/income (discontinued operations)</b>		<b>(93,003)</b>	7,951
<b>Total comprehensive (loss)/profit for the financial year (discontinued operations)</b>		<b>(98,989)</b>	65,838
<b>Total comprehensive (loss)/profit for the financial year</b>		<b>(99,618)</b>	63,324
Attributable to:			
<b>Owners of the Parent</b>		<b>(99,618)</b>	63,324

The notes are an integral part of the consolidated financial statements.

Comparatives have been restated for the reasons shown in note 1 to the financial statements.

## Consolidated Statement of Changes in Shareholders' Equity

	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
<b>Balance at January 2011</b>		<b>2,993</b>	<b>30,756</b>	<b>229,128</b>	<b>(181,484)</b>	<b>81,393</b>
Profit for the financial year to December 2011		–	–	–	55,241	55,241
<b>Other comprehensive income:</b>						
Actuarial gain on post retirement benefits	25	–	–	–	3,302	3,302
Fair value profit on revaluation of investment properties	13	–	–	3,325	(3,325)	–
Property revaluation on transfer to investment properties	13	–	–	4,519	–	4,519
Transfer of realised gain on disposed properties	28	–	–	(44,697)	44,697	–
Hedging reserve – amortised in period	28	–	–	372	–	372
Movement on deferred tax asset in relation to cash flow hedges	8	–	–	(110)	–	(110)
<b>Total comprehensive profit for the period ended December 2011</b>		–	–	(36,591)	99,915	63,324
<b>Transactions with owners:</b>						
Accrual for long term incentive plan liabilities	26	–	–	–	1,286	1,286
		–	–	–	1,286	1,286
<b>Balance at December 2011</b>		<b>2,993</b>	<b>30,756</b>	<b>192,537</b>	<b>(80,283)</b>	<b>146,003</b>
Loss for the financial year to December 2012		–	–	–	(6,325)	(6,325)
<b>Other comprehensive income:</b>						
Actuarial loss on post retirement benefits	25	–	–	–	(85,268)	(85,268)
Fair value profit on revaluation of investment properties	13	–	–	16,188	(16,188)	–
Property revaluation on transfer to investment properties	13	–	–	100	–	100
Movement on deferred tax asset in relation to retirement benefit obligations	8	–	–	–	(8,125)	(8,125)
Transfer of realised gain on disposed properties	28	–	–	(208,568)	208,568	–
<b>Total comprehensive loss for the period ended December 2012</b>		–	–	(192,280)	92,662	(99,618)
<b>Transactions with owners:</b>						
Accrual for long term incentive plan liabilities	26	–	–	–	1,544	1,544
		–	–	–	1,544	1,544
<b>Balance at December 2012</b>		<b>2,993</b>	<b>30,756</b>	<b>257</b>	<b>13,923</b>	<b>47,929</b>

## Company Statement of Changes in Shareholders' Equity

Company	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
<b>Balance at January 2011</b>		<b>2,993</b>	<b>30,756</b>	<b>257</b>	<b>316,056</b>	<b>350,062</b>
Loss for the financial year		–	–	–	(3,829)	(3,829)
<b>Other comprehensive income:</b>						
Actuarial gain on post retirement benefits	25	–	–	–	132	132
<b>Transactions with owners:</b>						
Accrual for long term incentive plan liabilities	26	–	–	–	1,286	1,286
<b>Balance at January 2012</b>		<b>2,993</b>	<b>30,756</b>	<b>257</b>	<b>313,645</b>	<b>347,651</b>
Loss for the financial year		–	–	–	(302,437)	(302,437)
<b>Other comprehensive income:</b>						
Actuarial loss on post retirement benefits	25	–	–	–	(290)	(290)
<b>Transactions with owners:</b>						
Accrual for long term incentive plan liabilities	26	–	–	–	1,544	1,544
<b>Balance at December 2012</b>		<b>2,993</b>	<b>30,756</b>	<b>257</b>	<b>12,462</b>	<b>46,468</b>

# Balance Sheets

at 29 December 2012

	Note	Group As at 29 December 2012 £000	Group As at 31 December 2011 £000	Company As at 29 December 2012 £000	Company As at 31 December 2011 £000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Operating property, plant and equipment	12	–	223,495	–	–
Surface mine development and restoration assets	12	–	25,745	–	–
		–	249,240	–	–
Investment properties	13	–	250,640	–	–
Investment in subsidiaries	14	–	–	3,374	300,310
Investment in associates	14	50,288	–	50,288	–
Investment in joint ventures	14	–	2,979	–	–
Deferred tax asset	8	–	31,509	–	–
Other receivables	15	–	3,357	–	–
		50,288	537,725	53,662	300,310
<b>Current assets</b>					
Inventories	16	–	34,754	–	–
Trade and other receivables	17	3,903	26,302	3,903	216,307
Cash and cash equivalents	19	51	25,278	51	419
Assets classified as held for sale	18	21,303	16,600	–	–
		25,257	102,934	3,954	216,726
<b>Total assets</b>		<b>75,545</b>	<b>640,659</b>	<b>57,616</b>	<b>517,036</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Borrowings – bank loans, overdrafts and finance leases	20	–	(37,541)	–	–
– generator loans and prepayments	20	–	(41,723)	–	–
Derivative financial instruments	23	–	(546)	–	–
Trade and other payables	21	(9,697)	(113,759)	(9,882)	(168,793)
Provisions	22	(546)	(13,480)	(546)	–
Liabilities classified as held for resale	18	(16,653)	–	–	–
		(26,896)	(207,049)	(10,428)	(168,793)
<b>Net current (liabilities)/assets</b>		<b>(1,639)</b>	<b>(104,115)</b>	<b>(6,474)</b>	<b>47,933</b>
<b>Non-current liabilities</b>					
Borrowings – bank loans, overdrafts and finance leases	20	–	(18,849)	–	–
– generator loans and prepayments	20	–	(42,386)	–	–
Derivative financial instruments	23	–	(4,470)	–	–
Trade and other payables	21	–	(736)	–	–
Deferred tax liabilities	8	–	(1,171)	–	–
Provisions	22	–	(75,290)	–	–
Retirement benefit obligations	25	(720)	(144,705)	(720)	(592)
		(720)	(287,607)	(720)	(592)
<b>Total liabilities</b>		<b>(27,616)</b>	<b>(494,656)</b>	<b>(11,148)</b>	<b>(169,385)</b>
<b>Net assets</b>		<b>47,929</b>	<b>146,003</b>	<b>46,468</b>	<b>347,651</b>
<b>SHAREHOLDERS' EQUITY</b>					
<b>Capital and reserves</b>					
Called up share capital	26	2,993	2,993	2,993	2,993
Share premium		30,756	30,756	30,756	30,756
Revaluation reserve	28	–	113,097	–	–
Capital redemption reserve	28	257	257	257	257
Fair value reserve	28	–	64,993	–	–
Amounts recognised in reserves relating to non-current assets held for sale	18	–	14,190	–	–
Retained earnings/(loss)	27	13,923	(80,283)	12,462	313,645
<b>Total shareholders' equity</b>		<b>47,929</b>	<b>146,003</b>	<b>46,468</b>	<b>347,651</b>

The financial statements were approved by the Board of Directors on 30 April 2013 and were signed on its behalf by:

**J Cox**  
Chairman

**J Hague**  
Finance Director

Company Registered Number 2649340

# Statements of Cash Flows

for the year ended 29 December 2012

	Note	Group Year ended 29 December 2012 £000	Group Year ended 31 December 2011 £000	Company Year ended 29 December 2012 £000	Company Year ended 31 December 2011 £000
<b>Cash flows from operating activities</b>					
(Loss)/profit for the financial year		(6,325)	55,241	(302,438)	(3,829)
Depreciation/impairment of property, plant and equipment	12	119,556	40,499	–	–
Amortisation of surface mine development and restoration assets	12	15,818	17,121	–	–
Net fair value increase in investment properties	13	(16,188)	(3,325)	–	–
Net interest payable/(receivable) and unwinding of discount on provisions		17,165	22,856	465	(156)
Net charge for share-based remuneration		1,544	1,286	1,544	1,286
Share of post-tax loss from joint ventures		900	431	–	–
Dividend income from subsidiary undertakings		–	–	(90,814)	–
(Loss)/profit on disposal of businesses		(143,095)	–	3,920	–
Losses arising on Restructuring		–	–	78,636	–
Loss/(profit) on disposal of investment properties		428	(2,685)	–	–
Impairment of investment		–	–	8,757	–
Impairment of investment in subsidiary undertaking		–	–	296,936	–
Profit on disposal of operating property, plant and equipment		(2,051)	(657)	–	–
Decrease in capitalised surface mine restoration assets		–	(3,684)	–	–
Increase/(decrease) in provisions		19,522	(19,635)	546	–
Pension contributions below/(in excess) of charge		2,819	(23,597)	(162)	(128)
Tax charge	8	22,281	2,742	–	701
Operating cash inflows/(outflows) before movements in working capital		32,374	86,593	(2,610)	(2,126)
Decrease in inventories		3,630	15,580	–	–
(Increase)/decrease in receivables		(10,472)	2,094	(14,619)	(4,998)
Decrease/(increase) in payables		24,178	(3,197)	16,826	7,159
Cash generated from/(used in) operations		49,710	101,070	(403)	35
Loan arrangement fees paid		(2,019)	(744)	–	–
Interest paid		(11,950)	(20,678)	(465)	–
<b>Cash generated from/(used in) operating activities</b>		<b>35,741</b>	<b>79,648</b>	<b>(868)</b>	<b>35</b>
<b>Cash flows from investing activities</b>					
Interest received		369	256	–	–
Net receipt from insurance and subsidence security funds		23,589	885	–	–
Dividends received from subsidiary undertakings		–	–	11,102	–
Proceeds on disposal of businesses		20,000	–	–	–
Cash and cash equivalents transferred on disposal of business		(19,898)	–	–	–
Cash and cash equivalents transferred to assets classified as held for resale		(14,973)	–	–	–
Fees payable on restructure of business		(15,215)	–	–	–
Proceeds on disposal of investment properties		21,496	64,342	–	–
Proceeds on disposal of operating property, plant and equipment		3,498	1,349	–	–
Acquisition of investment		–	–	(7,263)	–
Loan made to subsidiary undertakings		–	–	(3,339)	–
Development costs of investment properties		(5,263)	(4,774)	–	–
Pre-coaling expenditure for surface mines and deferred stripping costs		(22,961)	(3,507)	–	–
Purchase of operating property, plant and equipment		(19,816)	(31,815)	–	–
<b>Cash (used in)/generated from investing activities</b>		<b>(29,174)</b>	<b>26,736</b>	<b>500</b>	<b>–</b>
<b>Cash flows from financing activities</b>					
Net proceeds from/(repayment of) bank loans		28,541	(84,282)	–	–
Net repayment of generator loans and prepayments		(33,508)	(17,078)	–	–
Repayments of obligations under hire purchase and finance leases		(3,238)	(3,762)	–	–
<b>Cash used in financing activities</b>		<b>(8,205)</b>	<b>(105,122)</b>	<b>–</b>	<b>–</b>
<b>(Decrease)/increase in cash</b>		<b>(1,638)</b>	<b>1,262</b>	<b>(368)</b>	<b>35</b>
At January					
Cash		1,689	427	419	384
Cash equivalents		23,589	24,474	–	–
		25,278	24,901	419	384
Decrease in cash equivalents (net receipt from insurance and subsidence security funds)		(23,589)	(885)	–	–
(Decrease)/increase in cash		(1,638)	1,262	(368)	35
		51	25,278	51	419
At December					
Cash		51	1,689	51	419
Cash equivalents		–	23,589	–	–
<b>Cash and cash equivalents</b>	19	<b>51</b>	<b>25,278</b>	<b>51</b>	<b>419</b>

# Notes to the Financial Statements

for the year ended 29 December 2012

## 1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of Preparation

These consolidated financial statements have been prepared in accordance with European Union ("EU") Endorsed International Financial Reporting Standards ("IFRSs"), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Trading Financial Statements within the Group are made up to the last Saturday in December each year. For 2012, trading is shown for the year ended on 29 December 2012 (2011: year ended 31 December 2011).

Where a major line of business has been disposed of, or has been classified as held-for-sale, the business activity has been treated as a discontinued operation. Further to the sale of the Group's power generation business in October 2012 and the Group restructure that occurred in December 2012, the Group's mining, property, power generation and insurance businesses have been treated as discontinued operations. The post-tax profit or loss of discontinued operations for both the current and preceding period, together with the post-tax gain or loss on disposal of discontinued operations, are presented as a single line on the Consolidated Income Statement. Comparatives have been restated to show as discontinued operations those operations which were classified as discontinued in the current period.

### Restatement of Comparatives

As noted above, comparatives have been restated in accordance with IFRS 5, "Non-current assets held for resale and discontinued operations", to show as discontinued operations those operations which were classified as discontinued in the current period. The financial statements and notes impacted are:

- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Note 3 Operating profit /(loss) before tax
- Note 4 Other operating income and expenses
- Note 5 Employee information
- Note 6 Finance costs
- Note 8 Tax

### General Information

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is: Coalfield Resources plc, Harworth Park, Blyth Road, Harworth, Doncaster, South Yorkshire, DN11 8DB.

### Going Concern

These financial statements are prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares cash flow forecasts based upon its assumptions as to income streams and costs required to fulfil its objectives. Consideration is also given to known liabilities, as outlined below, which may become payable by the Group under certain circumstances. The resulting cash flows are then compared to available funding; both committed funding and funding which the Board reasonably expects to be available to the Group in a timeframe such that it meets any shortfall in the expected cash flows.

The key factors that have been considered in this regard relate to both on-going running costs of the Group and residual liabilities that the Group may have to settle:

- Income is predominately in respect of management services supplied to the Mining Group and Harworth Estates. This service income is covered by contractual agreements. Costs are mainly in relation to management and those costs associated with the administration of the Group including maintaining its stock exchange listing. Should the Mining Group fail to pay for these management services the Group could have a deficit against its running costs of around £300,000 per annum;
- The Company remains guarantor to certain lease obligations of the Mining Group. The assets concerned are currently in use by UKCOL in their deep mine operations. The Board expects that should these guarantees be called the liability would be £0.5m; and
- The Group engaged a number of advisors to assist in the Restructuring process. The Group received an indemnity from UKCOL for payment of these fees and other liabilities including the £200,000 annual Blenkinsopp pension scheme contribution. Should UKCOL not honour this indemnity then the Group would have to settle these liabilities out of its own resources. The expected balance still to be settled is £3,800,000 for costs associated with the Restructuring process and the on-going annual pension scheme contribution.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 1. ACCOUNTING POLICIES: continued

### Going Concern: continued

Following the Daw Mill fire in February 2013 and the resultant liabilities this created for the Mining Group, there is an increased risk that they will be unable to honour the indemnities given to the Group in the immediate future. As such the Group has entered into negotiations to secure a one-year bank facility that would enable it to meet these liabilities should they fall due. The Group has received a credit approved Heads of Terms for a suitable facility and based on this the Board believes an appropriate facility will be entered into. The Group would look to repay the loan and raise sufficient funds to cover any of these liabilities not yet settled from the proceeds of an equity raising during 2013. The Board has received an informal commitment to underwrite an equity raising which provides comfort that the facility can be repaid.

The Board notes that the matters set out above indicate the existence of material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern if current or expected funding and facilities are not received as envisaged. Nevertheless, the Board confirms its belief that it is appropriate to use the going concern basis of preparation for these financial statements. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

### Changes in Accounting Policy and Disclosures

#### (a) New and amended standards adopted by the Group and Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group or the Company.

#### (b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to IAS 1, "Financial statement presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group and Company are yet to assess the impact.
- IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess the full impact of the amendments.
- IAS 19, "Employee benefits", was amended in June 2011. The impact on the Group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments.
- IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.
- IFRS 10, "Consolidated financial statements", builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Parent Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014, subject to endorsement by the EU.
- IFRS 11, "Joint arrangements" is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2014.

**1. ACCOUNTING POLICIES:** continued**Changes in Accounting Policy and Disclosures:** continued*(b) New standards and interpretations not yet adopted: continued*

- IFRS 12, "Disclosures of interests in other entities", includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014.
- Amendment to IAS 12, "Income taxes". Currently IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, "Income taxes-recovery of revalued non-depreciable assets", would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The Group is yet to assess Amendment to IAS 12's full impact and intends to adopt Amendment to IAS 12 once endorsed by the EU.

**Consolidation**

The consolidated financial statements incorporate the financial statements of Coalfield Resources plc (formerly UK Coal PLC) ("the Company") and its subsidiaries, together "the Group".

Subsidiaries are entities over which the Group has power to govern the financial and operating policies. Control is presumed to exist where the Group owns more than half of the voting rights, unless in exceptional circumstances where it can be demonstrated that ownership does not constitute control. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the parent and its subsidiaries, after eliminating intercompany balances and transactions. The results of subsidiaries sold or acquired are included in the consolidated income statement up to, or from, the date control passes.

Where a major line of business has been disposed of, or has been classified as held-for-sale, the business activity has been treated as a discontinued operation. Further to the sale of the Group's power generation business in October 2012 and the Group restructure that occurred in December 2012, the Group's mining, property, power generation and insurance businesses have been treated as discontinued operations. The post-tax profit or loss of discontinued operations for both the current and preceding period, together with the post-tax gain or loss on disposal of discontinued operations, are presented as a single line on the Consolidated Income Statement. Comparatives have been restated to show as discontinued operations those operations which were classified as discontinued in the current period.

The Group uses the purchase method of accounting to consolidate subsidiaries. On acquisition, the identifiable assets, liabilities and contingent liabilities being acquired are measured at their fair values at the date of acquisition. Accounting policies are changed where necessary to bring them into line with those adopted by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement. Interests in joint ventures through which the Group carries on its business are classified as jointly controlled entities and accounted for using the equity method. This involves recording the investment initially at cost to the Group, and then in subsequent periods, adjusting the carrying amount of the investment to reflect the Group's share of the joint venture's results less any impairment in carrying value and any other changes to the joint venture's net assets such as dividends.

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is originally measured at cost, and the carrying amount is increased or decreased to recognise the investors' share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

Where the Group holds more than 20% of the voting power of an entity, but the directors can demonstrate that the Group does not have significant influence over that entity, the investment is classified as available for sale.

Where the directors have agreed to the sale of a business prior to the balance sheet date, but the completion date for the transaction is after the balance sheet date, the assets and liabilities of that business are presented as held for sale.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 1. ACCOUNTING POLICIES: continued

### Accounting policies applicable to both continuing and discontinued operations

Accounting policies that are applicable to both continuing and discontinued operations are shown below:

#### Investments

Investments held by the Company in subsidiary undertakings are carried at cost less impairments to write them down to their recoverable amount. An impairment to the carrying value of investments is made if there is an indication at the balance sheet date that the carrying value is not recoverable.

#### Revenue

Revenue from continuing operations arises from management and company secretarial services invoiced to related parties.

#### Borrowing Costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

#### Trade Receivables

Trade receivables are recognised initially at fair value and are subsequently reduced by any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group or Company will not be able to collect all amounts due. Indicators of impairment would include financial difficulties of the customer, likelihood of the customer's insolvency, default in payment or a significant deterioration in credit worthiness. Any impairment is recognised in the consolidated income statement within "other operating income and expenses". When a trade receivable is uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against "other operating income and expenses" in the consolidated income statement.

#### Trade Payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current if payment is due within one year or less, if not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### Cash and Cash Equivalents

In the preparation of the Group's and Company's cash flow statements, cash and cash equivalents represent short term liquid investments which are readily realisable. Cash which is subject to restrictions, being held to match certain liabilities, is included in cash and cash equivalents in the consolidated balance sheet.

#### Employee Benefits

##### *Pension obligations*

Prior to Restructuring the Group operated pension schemes providing benefits based on final pensionable pay for employees who joined the Group on privatisation in 1994. Employees within defined benefit schemes are members of industry wide schemes, being either the Industry Wide Coal Staff Superannuation Scheme ("IWCSST") or the Industry Wide Mineworkers' Pension Scheme ("IWMPS"), both of which commenced on privatisation following the Coal Industry Act 1994. The assets of the Schemes are held separately from those of the Group, being funds administered by Trustees of the Schemes. A qualified actuary assesses the cost of current service and revalues the Schemes annually under the provisions of IAS 19 using the Projected Unit Credit Method. A full valuation for funding purposes is carried out by the Schemes' actuaries triennially. The Group accounts for pensions and similar benefits under IAS 19 "Employee benefits". In respect of defined benefit plans, obligations are measured at discounted present value and plan assets are recorded at fair value. Certain additional benefits may become payable dependent upon the funding levels of the Schemes being at "sustainable levels". These liabilities are only provided if it is reasonably certain that the Schemes' funding, investment policy and growth assumptions mean that it is likely that the Scheme Actuary will be in a position, at a future date, to certify that the Schemes are at a "sustainable" level of funding. Service costs are charged systematically over the service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the Consolidated Statement of Comprehensive Income.

The Group also operates defined contribution schemes in respect of all employees who joined after the privatisation date in 1994. The cost of this is charged to the consolidated income statement as incurred.

Following completion of the Restructuring, the Company continues to have certain residual liabilities in respect of the Blenkinsopp Section of the Industry Wide Mineworkers' Pension Scheme (which has an IAS 19 deficit of £720,000 at 29 December 2012) and which is secured by first ranking security over certain deep mine sites owned by UK Coal Operations Limited.

**1. ACCOUNTING POLICIES:** continued**Employee Benefits:** continued*Share-based payments*

The fair value of share plans is recognised as an expense in the consolidated income statement over the expected vesting period of the grant. The fair value of share plans is determined at the date of grant taking into account any market based vesting conditions attached to the award. Non-market based vesting conditions (e.g. earnings per share targets) are taken into account in estimating the number of awards likely to vest. The estimate of the number of awards likely to vest is reviewed regularly and the expense charged adjusted accordingly. The fair value of employee share option plans is calculated using a generally accepted simulation model.

The proceeds received net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium (any increment) when the options are exercised.

**Tax***Current tax*

The charge or credit for current tax is based on the results for the year adjusted for items that are either not subject to taxation or for expenditure which cannot be deducted in computing the tax charge or credit. The tax charge or credit is calculated using taxation rates that have been enacted or substantively enacted at the balance sheet date.

*Deferred tax*

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax is recognised in respect of all taxable temporary timing differences, with certain limited exceptions:

- deferred tax is not provided on the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination; and
- deferred tax assets are only recognised if it is probable that there will be sufficient profits from which the future reversal of the underlying timing differences can be deducted. In deciding whether future reversal is probable, the directors review the Group's forecasts and make an estimate of the aggregate deferred tax asset that should be recognised. This aggregate deferred tax asset is then allocated into the different categories of deferred tax, taking account of the fact that the deferred tax asset in relation to the pension deficit will be recognised over a longer period, as the pension liability reverses over the average remaining service life of employees.

In relation to investment properties, a deferred tax liability is provided on the basis of normal income tax rules for the proportion of the property's carrying amount expected to be recovered through use and is provided using capital gains tax rules in respect of the remainder of the property's carrying amount (including all land) expected to be recovered through sale. Provision is made for gains on disposal of property, plant and equipment that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the consolidated income statement, except where it applies to items credited or charged to equity, in which case the deferred tax is also dealt with in equity.

**Share Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Dividend Distribution**

Dividend distribution to the Company's shareholders is recognised in the financial statements in the year in which the dividends are paid (in the case of interim dividends) or approved by the Company's shareholders (in the case of final dividends).

**Segment Reporting**

Since Restructuring, the Group has had only one operating activity, that of an investment holding company, and consequently no segmental analysis has been presented in respect of the Group's continuing operations.

**Accounting policies applicable to discontinued operations only**

Accounting policies that are applicable to discontinued operations only are shown below:

**Segment Reporting**

Prior to Restructuring the Group reported operating segments in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who was responsible for allocating resources and assessing performance of the operating segments, was identified as the Executive Management Committee.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 1. ACCOUNTING POLICIES: continued

### Segment Reporting: continued

The Group managed its business primarily by reference to operating segments. Deep mining comprised the underground mining operations of the Group and related labour services and the captive insurance company. Surface mining incorporated all mining activities at surface level, together with the plant hire operations of the Group. The Property Division, Harworth Estates, maintained, developed and rented the Group's property portfolio and operated the Group's methane generation activities. Any activity not falling into any of these categories was included in the Other segment.

### Foreign Currencies

The presentational currency of the Group is sterling. Transactions in other currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities are translated at year end exchange rates and the resulting exchange rate differences are included in the consolidated income statement within the results of operating activities if arising from trading activities and within finance cost/income if arising from financing.

All Group companies have a functional currency of sterling which is consistent with the presentational currency of the consolidated financial statements.

### Revenue

Revenue from discontinued operations comprises sales (excluding intra group sales) of coal, property rental income and other external sales, including sales of power and of labour services.

#### *Coal transactions*

Revenue is recognised when delivery of the product or service has been made and when the customer has a legally binding obligation to settle under the terms of the contract and has assumed all significant risks and rewards of ownership.

A large proportion of production is sold under medium to long term contracts. Revenue is only recognised on individual sales when all of the significant risks and rewards of ownership have been transferred to a third party. In most instances this is when the product is despatched, being the point at which title to the product is transferred to the purchaser.

#### *Service transactions*

Rental income is recognised during the period in which rents due to the Group accrue. Sales of power are recognised when electricity is transferred into the local distribution network.

### Exceptional Items

Items that are both material and non-recurring and whose significance is sufficient to warrant separate disclosure and identification within the consolidated financial statements are referred to as exceptional items and disclosed within their relevant income statement category within note 2, restructuring and discontinued operations.

Items that may give rise to classification as exceptional items include, but are not limited to, significant and material restructuring closures and reorganisation programmes, asset impairments, and profits or losses on the disposal of businesses.

Exceptional items are divided into non-trading and trading exceptional items, depending upon the impact of the event giving rise to the cost or income on the on-going trading operations and the nature of the costs or income involved. Non-trading exceptional items include costs and income arising from closure, rationalisation and business disposals.

Property related transactions, including changes in the fair value of investment properties, and profits and losses arising on the disposal of property assets are not included in the definition of exceptional items as they are expected to recur, but are separately disclosed on the face of the consolidated income statement, where material.

### Profit or Loss on Disposal

Disposals are accounted for when legal completion of the sale has occurred or there has been an unconditional exchange of contracts. Profits or losses on disposal arise from deducting the asset's net carrying value from the net proceeds (being net purchase consideration less clawback liability arising on disposal) and are recognised in the consolidated income statement. Net carrying value includes valuation in the case of investment properties and historic cost or deemed cost less accumulated depreciation in the case of all other property, plant and equipment.

In the case of investment properties, the revaluation reserve, which arose on transfer from operating property to investment property, for the property disposed of is treated as realised on disposal of the property and transferred to retained earnings.

Where a major line of business or subsidiary undertaking is sold, profit or loss on disposal is calculated by deducting the net carrying value of assets disposed of from the net proceeds (being the purchase consideration less costs of disposal), and is recognised in the income statement within profit or loss from discontinued operations.

**1. ACCOUNTING POLICIES:** continued**Investment Properties and Operating Properties**

The Group held the following types of freehold property up until completion of the Restructuring:

- Working deep mines in production;
- Working surface mines in production;
- Property held for administrative purposes; and
- Property held for rental income, capital appreciation or both.

Working deep mines in production, working surface mines in production, and property held for administrative purposes are held as operating properties (as these assets are used or intended to be used within the operations of the Group) and are accounted for at historic depreciated cost, in accordance with IAS 16 "Property, Plant and Equipment". All other freehold properties are held as investment properties (as these are held to earn rentals or for capital appreciation or both) and are accounted for at valuation, in accordance with IAS 40 "Investment Property".

**Investment Properties**

Investment properties comprise freehold land and buildings and are measured at fair value. The fair values are determined by obtaining an independent valuation prepared in accordance with the current edition of the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. External, independent valuation firms having appropriate, recognised professional qualifications and recent experience in the location and category of property being valued, are used to value the portfolio at each reporting date.

In accordance with IAS 40, for properties transferred from operating properties to investment properties, any difference between the book value and the first valuation on recognition as an investment property is taken to reserves. Subsequent gains or losses arising from changes in the fair values of assets are recognised in the consolidated income statement, net of any property clawback by DECC (see accounting policy on property clawback) on deemed disposal. Investment properties are not depreciated.

Properties being held for their long term rental income or capital appreciation but with the added potential for coal extraction are held as investment properties, being transferred to operating properties at fair value when planning permission to mine the site has been received and mining operations have commenced and are transferred back to investment properties once mining has terminated.

Where the development of investment property commences with a view to sale, the property is transferred from investment properties to non-current assets classified as held for sale, which is then considered to represent deemed cost.

**Operating Properties**

Operating properties which are acquired or constructed are initially recorded at cost, being the purchase price of the asset and other costs incurred to bring the asset into existing use, and subsequently stated at historic cost less accumulated depreciation (other than freehold land which is not depreciated). Where properties are transferred from investment properties to operating properties, this transfer is made at fair value, which is then considered to represent deemed cost.

Properties which have historically been used as working deep mines or working surface mines (operating properties) are transferred to property held for rental income or capital appreciation (investment properties), when there is a change in use, at the point when a decision is made to pursue planning with a view to future development (rather than for short term sale) or rental, and once mining has ceased. IAS 16 is applied up to the date of transfer and any difference at that date between the book value and fair value is taken to the revaluation reserve.

**Properties in the Course of Development**

Directly attributable costs incurred in the course of developing a property are capitalised as part of the cost of the property. For operating properties depreciation of these costs follows the depreciation policy for the property. Development costs on investment properties are capitalised and the change in value is recognised through the next revaluation.

**Exploration and Evaluation**

Exploration and evaluation expenditure comprises costs that are directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and/or
- Compiling prefeasibility and feasibility studies.

Exploration expenditure relates to the initial search for deposits with economic potential. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 1. ACCOUNTING POLICIES: continued

### Exploration and Evaluation: continued

Capitalisation of exploration and evaluation (pre-coaling) expenditure commences when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the Group. Such capitalised exploration and evaluation expenditure is reviewed for impairment when facts and circumstances indicate that its carrying value exceeds its recoverable amount.

Subsequent recovery of the resulting carrying value depends on successful development of the area of interest or sale of the project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off.

### Plant and Equipment

The cost of plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in accordance with agreed specifications. Plant and equipment is stated at historic cost less accumulated depreciation.

Once a mining project has been established as commercially viable, expenditure other than that on land, buildings, plant and equipment is capitalised under "mine development assets" together with any amount transferred from "exploration and evaluation".

During the development of a mine, before production commences, development stripping costs are capitalised as part of the investment in construction of the mine (see accounting policy on mining assets).

Costs associated with commissioning new assets are capitalised in the period before they are capable of operating in the manner intended by management. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

### Mining Assets

#### *Mine development*

The purpose of mine development is to access and establish infrastructure in order to allow the safe and efficient extraction of recoverable reserves. Depreciation on mine development is charged from the time when full production commences or from when the assets are put to use. On commencement of full production, depreciation is charged over the estimated tonnage of the recoverable reserves. Coal extracted prior to the commencement of full production is credited against the cost of mine development where it can be clearly shown that the production of saleable material is directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management; otherwise such revenue (and the costs of producing the saleable material) is recognised in the consolidated income statement.

#### *Mines and surface works*

Assets acquired on the privatisation of British Coal in 1994 were valued at discounted net recoverable value, based on the contemporary mining plans, in accordance with the accounting guidance existing at that time. Depreciation is charged over the estimated tonnage of the recoverable reserves. Subsequent additions to mines and surface works are accounted for at cost, and depreciated over their individual estimated reserves.

#### *Seismic and geological mapping costs*

Expenditure on seismic and geological mapping costs which increases the value of the reserves by identifying additional reserves over and above those previously recognised, or increases the value of the existing known reserves by providing information which enables reserve estimates to be increased, is capitalised. This expenditure is depreciated over the estimated tonnage of the recoverable reserves as these are extracted. If the information does not fulfil either of these criteria, the cost is charged to the consolidated income statement as incurred.

#### *Surface mine development and restoration assets*

Costs incurred prior to coaling for surface mines are capitalised as surface mine development and restoration assets within tangible fixed assets once a planning application is to be made and a separate provision for the outstanding restoration and rehabilitation obligations is established. Both of these costs are then charged to the consolidated income statement (net of any residual value) over the recoverable reserves of the mine.

#### *Deferred stripping costs*

Overburden and other mine waste materials are often removed during the initial development of a mine site in order to access the mineral deposit. This activity is referred to as development stripping. The directly attributable costs (inclusive of an allocation of relevant overhead expenditure) are capitalised as surface mine development assets and are amortised together with restoration and pre-coaling costs, once coaling commences, over the tonnage of coal expected to be extracted.

The Group defers stripping costs incurred subsequently, during the production stage of its operations, for those operations where this is the most appropriate basis for matching the costs against the related economic benefits and the effect is material.

The amount of stripping costs deferred is based on the ratio obtained by dividing the tonnage of waste mined by the quantity of coal mined. Stripping costs incurred during the period are deferred to the extent that the current period ratio exceeds the remaining life of mine ratio. Such deferred costs are then charged against reported profits to the extent that, in subsequent periods, the current period ratio falls short of the life of mine ratio. Changes to the life of mine ratio are accounted for prospectively.

**1. ACCOUNTING POLICIES:** continued**Mining Assets:** continued*Deferred stripping costs: continued*

If the Group were to expense the production stage stripping costs as incurred, there would be greater volatility in the year to year results from operations and excess stripping costs would be expensed at an earlier stage of a mine's operation.

**Depreciation**

The costs of operating properties, excluding freehold land, and the cost of all other plant and equipment, less estimated residual value, are written off on a straight line basis over the asset's expected useful life. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively. The costs of heavy surface mining and other plant and equipment are depreciated at varying rates depending upon their expected usage.

Indicative expected lives for non-current assets are set out below:

Freehold land	not depreciated
Operating properties (excluding land)	25 to 50 years
Mines and surface works - Heavy mining equipment	8 to 20 years
Plant and equipment	
– Plant and equipment	3 to 15 years
– Motor vehicles	3 to 5 years

**Impairment**

Operating property, plant and equipment are reviewed for impairment if there is any indication at the balance sheet date that their carrying amount may not be recoverable.

The carrying value of cash generating units (taking into account related liabilities and allocated central net assets) is tested for impairment by comparison with expected relevant future cash flows discounted at the pre-tax cost of capital taking into account appropriate risk and provision is made for any impairment identified. Cash generating units comprise individual mines or groups of mines depending upon the nature of the income streams derived from each.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of "value in use" (being the present value of expected future cash flows of the relevant cash generating unit) or "fair value less costs to sell". Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction.

Future cash flows are based on:

- Estimates of the quantities of the reserves and resources for which there is a high degree of confidence of economic extraction
- Anticipated production levels and costs
- Anticipated coal prices

Cost levels incorporated in the cash flow forecasts are based on the current long term mine plan for the cash generating unit. For impairment reviews, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business and which meet the requirements of IAS 36 "Impairment of assets". IAS 36 includes a number of restrictions on the future cash flows that can be recognised in respect of restructurings and improvement related to capital expenditure.

**Finance and Operating Leases – as lessee**

Leases which transfer substantially all the risks and rewards of ownership to the Group are treated as finance leases. All other leases are treated as operating leases. Assets held under hire purchase and finance lease arrangements are capitalised and depreciated according to the depreciation rate of the applicable asset category. The outstanding capital obligations are included in payables. Interest is allocated to accounting periods over the hire purchase or lease term to reflect a constant rate of charge on the remaining balance of the obligation. Costs in respect of the operating leases are charged to the consolidated income statement on a straight line basis over the term of the lease.

**Finance and Operating Leases – as lessor**

The Group grants leases over land and buildings in the course of its property business. These do not substantially transfer the risks and rewards of ownership to the lessee, and therefore they are accounted for as operating leases.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 1. ACCOUNTING POLICIES: continued

### Financial Instruments and Derivatives

The Group recognises financial instruments when it becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual right to receive the cash flows expire or it has transferred the financial asset and the economic benefit of the cash flows. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial instruments are used to support the Group's operations. Interest is charged to the consolidated income statement as incurred or earned. Issue costs for instruments subsequently recorded at amortised cost are netted against the fair value of the related debt instruments on initial recognition and are charged to the consolidated income statement over the term of the relevant facility.

Financial instruments are recorded initially at fair value. Subsequent measurement depends on the designation of the instrument, as follows:

- a) Financial assets/liabilities held for short term gain, including derivatives other than hedging instruments, are measured at fair value and movements in fair value are credited/charged to the consolidated income statement in the period.
- b) Loans and receivables/payables and non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market, are measured at amortised cost. These are included in current assets/liabilities except for instruments that mature after more than 12 months which are included in non-current assets/liabilities.

The Group holds derivative financial instruments ("derivatives") to manage exposure to fluctuations in interest rates. Derivatives are designated as hedges, when applicable, and treated as such from the inception of the relevant contracts. Amounts payable or receivable in respect of interest rate swap agreements are recognised as adjustments to the interest expense over the period of the contracts.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity, and the ineffective portion is recognised immediately in the income statement as a finance cost. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in recognition of an asset or a liability, amounts deferred in equity are recognised in the consolidated income statement in the same period in which the hedged item affects net profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated income statement in the period.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as a finance cost.

### Inventories

Inventories are valued at the lower of cost and net realisable value. Values of spares and consumables are based on average purchase prices. Appropriate provisions are made for slow moving and obsolete inventories. Coal is recognised as inventories when delivered to the surface and is valued at the average cost of extraction.

### Property Clawback

Under the terms of the 1994 privatisation Sale and Purchase Agreement, DECC is entitled to a percentage of any property gain (above certain thresholds and after deducting an amount representing corporation tax thereon) accruing, or treated as accruing to the Group, as a result of the disposal or deemed disposal or major development of certain properties acquired at privatisation. The percentage applied was 18% for 2012, reducing by 3 percentage points per annum until 31 March 2015, when it reduces to zero. If properties are disposed of, or are deemed to have been disposed of during this period, a part of the relevant gain will become payable to DECC.

DECC agreed that on implementation of the Restructuring, all historic Clawback liabilities incurred by the Company as at the date of the Restructuring would be transferred to the Mining Division and that all Clawback liabilities relating to properties sold by the Property Division after that date would be the responsibility of the Property Division. The Company and DECC agreed that the total amount of liability otherwise due as a result of the disposal of properties over the period from 1994 to 31 March 2015 will remain unaltered as a consequence of this reallocation of liabilities, notwithstanding the Restructuring.

### Provisions for Restoration, Rehabilitation and Environmental Costs

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. These costs consist of shaft treatment and pit top restoration, spoil heap restoration, pumping activities and ground and ground water contamination at deep mines and soil excavation and surface rehabilitation at surface mines.

**1. ACCOUNTING POLICIES:** continued**Provisions for Restoration, Rehabilitation and Environmental Costs:** continued

Such costs arising from the decommissioning of plant and other site restoration work, discounted to their estimated present value, are provided for and capitalised within operating property, plant and equipment at the start of each project, as soon as the obligation to incur such costs arises. These provisions do not include any additional obligations which are expected to arise from future damage and are estimated on the basis of a closure plan. These costs are charged against income over the life of the operation, through the depreciation of the asset as an operating cost and the unwinding of the discount on the provision as a financing cost.

Costs for restoration of subsequent site damage which is created on an on-going basis during production are provided for at their estimated present values and charged against income as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work that result from changes in the estimated timing or amount of the cash flow, or a change in the discount rate are added to, or deducted from, the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy above.

**Other Provisions***Surface damage (subsidence)*

Provision is made for the estimated present value of the cost of damage to structures on the surface as a result of settlement during the production phase of underground mining. The provision is calculated in respect of each colliery, location of mining activity and type of property affected or likely to be affected based on claims expected and claims submitted and using historical settlement experience. These costs are charged to the consolidated income statement. Movements in the provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a financing cost.

*Employer and public liability claims*

The Group has established a DECC approved and Financial Services Authority ("FSA") regulated UK based insurance subsidiary (Harworth Insurance Company Limited). This insures employer and public liability risks, buying reinsurance with third parties above certain levels. Provision is made for the estimated value of both known, and incurred but not reported, third party claims on an actuarially determined basis taking into account expected reinsurance recoveries.

*Redundancy*

Provision is made for the estimated present value of redundancy costs when there is a demonstrable commitment to terminate the employment of either an employee or group of employees. The expected amounts of redundancy payments, including any amounts in respect of ex gratia payments, are provided where the employment terminations have been communicated to employees. These costs are charged to the consolidated income statement. Movements in the provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a financing cost.

Where contributions to redundancy costs have been firmly committed by third parties, these contributions are credited to the consolidated income statement in the same period to the extent, that the related redundancy cost has been recognised.

**Employee Benefits***Concessionary fuel*

Prior to Restructuring the Group made provision for the estimated liability arising from the obligation to provide concessionary fuel benefits to certain retired and current employees. The costs of the concessionary fuel benefits are determined annually by a qualified actuary using the same Projected Unit Credit Method adopted for the pension schemes. The arrangement is unfunded so no assets are held directly to meet the obligations. The regular service cost and interest on the scheme liabilities are charged to the consolidated income statement. Actuarial gains and losses are charged to the Consolidated Statement of Comprehensive Income, representing the difference between actual and expected performance.

**Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty**

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements, and the key areas summarised overleaf.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 1. ACCOUNTING POLICIES: continued

### Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty: continued

Areas of judgement and sources of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements, split between those applicable to continuing operations and those applicable to the discontinued operations of the Group, are:

#### Applicable to continuing operations

##### *Carrying value of investment in Harworth Estates Property Group Limited (the property business) as an associate*

The Group accounts for its 24.9% investment in Harworth Estates Property Group Limited as an associate and values its investment based on its share of net assets, subject to a reduction in the carrying value of £5,000,000 to reflect the fact that the first £5,000,000 of shareholders' dividend income, which would otherwise be due to the Group, will be paid to the Pension Schemes. The carrying value of the investment in Harworth Estates Property Group Limited is linked to the underlying value of the property assets within that company, and so any reduction in property values will lead to a fall in the carrying value of the investment in the Group's financial statements.

##### *Carrying value of investment in UK Coal Mine Holdings Limited (the mining business)*

The Group recognises that the investment that it holds in the mining business in which it has a 33% share of voting rights is subject to significant economic risk, and over which it does not have significant control. Consequently the Group recognised the carrying value of its investment at a fair value of £1, and accounts for its interest in the mining business as an available for sale investment rather than as an associate. Future profits and losses arising in the mining business will not be recognised in the Group's income statement or balance sheet in respect of the mining business' operating activity.

##### *Classification of investments in Harworth Estates Property Group Limited and UK Coal Mine Holdings Limited*

The Group has used its judgement in classifying its investment in Harworth Estates Property Group Limited as an associate and its investment in UK Coal Mine Holdings Limited as an available for sale investment for the reasons outlined above. Further details are given in note 14 (Investments).

##### *Estimation of post-retirement benefit obligations*

Retirement benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Retirement benefit accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made by the Group. These are subject to actuarial estimates of, amongst other items, rate of return on investments, rate of salary increases, rate of price inflation, the cost of funding future liabilities and post retirement life expectancy. Details of the significant estimates used are set out in note 25.

#### Applicable to discontinued operations

##### *Estimation of future production levels*

Along with estimations required as part of the going concern review, estimates of future production are used in the forecasting process which is used in the assessment of the carrying value of certain assets, impairment charges, colliery asset lives and coal reserve estimates.

##### *Review of asset carrying values and impairment charges*

The Group performs impairment testing in accordance with the accounting policy stated in note 1. The calculation of recoverable amount requires the use of estimates and assumptions consistent with the most recent budgets and plans that have been formally approved by management. Significant factors considered when using estimates to assess the carrying value of assets include future coal prices, expected annual production, expected colliery operating costs, remaining colliery lives and coal reserves and discount rates. Refer to note 12 for the key assumptions used in the calculations.

##### *Estimation of colliery asset lives*

Capitalised mine development costs (deep and surface mines) are amortised over the tonnage of coal expected to be extracted in the future.

If the amount of coal expected to be extracted varies, this will impact on the amount of the asset which should be carried in the consolidated balance sheet. See accounting policy stated in note 1.

##### *Determination of coal reserve estimates*

Reserves are used in the calculation of depreciation, amortisation and impairment charges, the assessment of life of mine stripping ratios and for forecasting the timing of the payment of close down and restoration and clean-up costs.

In assessing the life of a mine for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction. There are numerous uncertainties inherent in estimating coal reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

##### *Deferral of stripping costs*

See accounting policy note 1.

**1. ACCOUNTING POLICIES:** continued

Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty: continued

Applicable to discontinued operations: continued

*Capitalisation of exploration and evaluation costs*

See accounting policy note 1.

*Estimation of fair value of investment property*

The fair value of investment property reflects, amongst other things, rental income from our current leases, assumptions about rental income from future leases and the possible outcome of planning applications, in the light of current market conditions. The valuation has been arrived at primarily after consideration of market evidence for similar property, although in the case of those properties where it is considered market value will be informed by their ultimate redevelopment potential, development appraisals have been undertaken to estimate the residual value of the landholding after due regard to the cost of, and revenue from the development of the property.

In such instances, on account of the sensitivity of the market value to the detail of any future planning consent, and the potential for material variance in the actuality of development costs, as compared with our own estimates, together with the subjective nature of hope value, the values reported are subject to material uncertainty, and a change in fair values could have a material impact on the Group's results. Investment properties are disclosed in note 13.

*Estimation of other provisions (including clawback liabilities)*

Provisions are dependent on assessments of whether the criteria for recognition have been met, including estimates of the outcome and the amount of the potential cost of resolution. Provisions are recognised by a charge against income when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated.

*Estimation of close down and restoration costs*

Estimated provisions are established in the consolidated balance sheet and amortised in proportion to the coal expected to be extracted from a site. If that expected tonnage or the actual cost varies, then the provision may be under or over stated. Estimates for environmental restoration provisions are based on the nature and seriousness of the contamination as well as on the technology required for clean-up. The provisions are disclosed in note 22.

*Recoverability of deferred tax assets*

The recognition of deferred tax assets requires considerable judgement as to the future profitability of the mining business. The recognition of a deferred tax liability in relation to property revaluations requires an estimate to be made of the proportion of the value of a property which will be recovered through use, compared to the proportion of the value which will be recovered through sale. Deferred tax is disclosed in note 8.

**2. RESTRUCTURING AND DISCONTINUED OPERATIONS****a) Restructuring of the Company's Business ("Restructuring")****Summary**

On 10 December 2012 the Company announced that it had restructured into two separate businesses comprising the Mining Division (under a newly incorporated company UK Coal Mine Holdings Limited ("Mine Holdings")) and the Property Division (under a newly incorporated company Harworth Estates Property Group Limited ("Harworth Estates")). Control of the Mining Division passed to a newly established Employee Benefit Trust ("EBT") which holds shares representing 67% of the voting, and 10% of the economic rights in Mine Holdings for the benefit of current and future employees of the Mining Division. The Company retained 90% of the economic, and 33% of the voting, rights in Mine Holdings, but the Company's and EBT's shareholding both rank behind the debt to the UK Coal Mining Limited ("UKCML") section of each of the Industry-Wide Coal Staff Superannuation Scheme and the Industry-Wide Mineworkers' Pension Scheme ("Pension Funds").

The Company owns 24.9% of Harworth Estates, with 75.1% having passed to the Pension Funds in return for a £30,000,000 cash contribution by the Pension Funds into Harworth Estates and their agreement to defer deficit contributions for 2012 and 2013 representing approximately £40,000,000 of support to the Mining Division.

**Separation of the Company's business**

The Company's pension funding deficit has been isolated as a liability of the Mining Division and ring-fenced from the Property Division's assets and liabilities. Save for finance lease debt of approximately £7,000,000, a £10,000,000 loan that was provided by Harworth Estates to provide the Mining Division with additional working capital headroom (to be secured by second ranking security over certain freehold deep mines) and security granted over a cash account in respect of the property and cash backed bonding facility, the Mining Division was left free of bank debt and bank security and with an amended pension deficit repayment schedule. This was expected to create a more stable platform, more likely to release the value in the Mining Division.

As part of the Restructuring, the Pension Trustees no longer have a claim on the assets of the Property Division and have lost the benefit of statutory parent company guarantees from the Company, UK Coal Holdings Limited, Harworth Group Limited and Harworth Power Limited. Following the Restructuring, the UK Coal Operations Limited ("Mineco") section of each of the Industry-Wide Coal Staff Superannuation Scheme and the Industry-Wide Mineworkers' Pension Scheme ("Mining" Sections) has the benefit of a statutory parent company guarantee only from companies in the Mining Division.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 2. RESTRUCTURING AND DISCONTINUED OPERATIONS: continued

### a) Restructuring of the Company's Business ("Restructuring"): continued

#### Property Division

As part of the plan to address the pension deficit, the Pension Trustees received a direct stake of 75.1% in the Property Division (through a shareholding in Harworth Estates) in consideration for a £30,000,000 cash contribution and agreement to defer deficit contributions for 2012 and 2013 representing approximately £40,000,000 of support to the Mining Division.

The cash contribution was intended to ensure that the property operations had adequate funding to enable the release of the latent undeveloped value in the property portfolio. The Company is entitled to the benefit of the remaining 24.9%. This stake would no longer guarantee the pension liability. In addition, the first £5,000,000 of shareholders' dividend income which would otherwise be due to the Company will be paid to the Pension Trustees.

#### Mining Division

The legal structure necessary to facilitate the ring-fencing of the Company's pension deficit from the Property Division requires that the Company retains less than one third of the voting power at any general shareholders meeting of the holding company of the Mining Division, Mine Holdings. Consequently 67% of the voting rights in Mine Holdings and 10% of its economic rights were transferred to the EBT for nominal consideration. Although necessary to facilitate the implementation of the ring-fence structure, the Board believes that the transfer of voting and economic rights to the EBT will also better align the interests of the Mining Division's employees with its economic performance. The remaining 33% of the voting rights in Mine Holdings and 90% of its economic rights are held by the Company (see note 14(d) explaining why the Group does not exercise significant control over Mine Holdings).

#### Pension Scheme Changes

The Company operated several different pension schemes. The two main schemes are Pension Funds. The Restructuring has had a significant impact on the Pension Funds by amending the Mining Division's statutory funding plans so that only the Mining Division will be liable to fund the Company's defined benefit pension liabilities.

The pension aspects of the Restructuring involved a "bulk transfer", on a without consent basis, of all of the assets and liabilities of the Pension Funds (including deferred and pensioner liabilities) to the Mining Sections. The principal employer (and only participating employer) in the Mining Sections is Mineco. UKCML's liability in respect of the Pension Funds was reduced to zero as a result of this "bulk transfer", which, as a consequence, also reduced the Company's liability in respect of its guarantee relating to the Pension Funds to zero.

The Mining Division remains liable to the Company in respect of the Blenkinsopp Section of the Industry Wide Mineworkers' Pension Scheme (secured over certain deep mine sites owned by Mineco).

#### The Company

Following completion of the Restructuring, the Company continues to have certain residual liabilities in respect of the Mining Division. These include the Blenkinsopp Section (which had an IAS 19 deficit of £720,000 at 29 December 2012 and which is secured by first ranking security over certain deep mine sites owned by Mineco), certain guarantees in respect of liabilities in certain mining leases of approximately £4,000,000 at completion of the Restructuring and costs and expenses incurred prior to the Restructuring.

#### Treatment of Mining and Property Activities in the Financial Statements

In accounting for the Restructuring, the transfer of the Mining and Property activities of the Group to Mine Holdings and Harworth Estates has been treated as a disposal. The subsequent acquisition of 24.9% of Harworth Estates by the Company has been accounted for as an acquisition of an associated undertaking, and of the Company's interest in Mine Holdings as an available for sale investment for the reasons outlined in note 14.

### b) Disposal of Harworth Power (Generation) Limited

On 1 October 2012 the Company announced that its wholly owned subsidiary, Harworth Power Limited, had completed the disposal of its subsidiary undertaking Harworth Power (Generation) Limited ("HPGL") to Red Rose Infrastructure Limited for aggregate consideration of £20,300,000, of which £20,000,000 was payable upon completion and payment of the remaining £300,000 would be contingent upon future rights to gas extraction being granted to HPGL by The Department for Energy and Climate Change. The Group realised a £13,200,000 profit on disposal after deduction of fees.

### c) Harworth Insurance Company Limited

On 7 December 2012 the Company agreed a put and call option with Mine Holdings to acquire the entire issued share capital of Harworth Insurance Company Limited. The consideration for the option was £4,650,000. Exercise of the option is conditional on obtaining Financial Services Authority consent or the parties agreeing that such consent is no longer legally required. Since the call option had not been exercised at the year end, the assets and liabilities relating to Harworth Insurance Company Limited have been presented as held for sale.

**2. RESTRUCTURING AND DISCONTINUED OPERATIONS:** continued

## d) Discontinued Operations and Profit on Disposal

The combined cash flows of the discontinued operations noted above were as follows:

Group	2012 £000	2011 £000
Operating cash flows	36,610	79,613
Investing cash flows	(29,675)	26,736
Financing cash flows	(8,205)	(105,122)
Total cashflows	(1,270)	1,227

Analysis of discontinued operations, and the results recognised on the remeasurement of assets of disposal group are as follows:

Discontinued operations 2012	Mining £000	Property £000	Insurance £000	Power Generation £000	Total £000
Revenue	360,178	6,484	–	2,111	368,773
Expenses	(486,450)	(6,892)	721	(1,530)	(494,151)
Change in fair value of investment properties	–	16,188	–	–	16,188
Operating (loss)/profit from discontinued operations	(126,272)	15,780	721	581	(109,190)
Finance costs					(16,700)
Share of post-tax loss from joint ventures					(900)
Tax					(22,291)
Loss after tax from discontinued operations					(149,081)
Pre-tax profit on disposal					150,877
Remeasurement loss on insurance business					(7,782)
Tax					–
Post-tax profit on disposal					143,095
Loss for the year from discontinued operations					(5,986)

The remeasurement loss of £7,782,000 relating to the insurance discontinued operation represents the difference between the net assets of the insurance business of £12,432,000 and the fair value of the business based on the consideration received from Mine Holdings of £4,650,000 for the granting of a put and call option to acquire the entire issued share capital of Harworth Insurance Company Limited.

Discontinued operations 2011	Mining £000	Property £000	Insurance £000	Power Generation £000	Total £000
Revenue	477,613	7,105	85	3,413	488,216
Expenses	(422,996)	(2,066)	1,246	(978)	(424,794)
Change in fair value of investment properties	–	3,325	–	–	3,325
Operating profit from discontinued operations before exceptional items	54,617	8,364	1,331	2,435	66,747
Non-trading exceptional item	16,108	–	–	–	16,108
Operating profit from discontinued operations	70,725	8,364	1,331	2,435	82,855
Finance costs					(22,495)
Share of post-tax loss from joint ventures					(431)
Tax					(2,042)
Profit after tax from discontinued operations					57,887

Non-trading exceptional items consist of professional fees in respect of refinancing of £1,700,000, a curtailment gain of £1,430,000 and an accounting adjustment relating to past service costs in pension schemes of £16,378,000 following changes to the scheme rules in the year.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 2. RESTRUCTURING AND DISCONTINUED OPERATIONS: continued

### d) Discontinued Operations and Profit on Disposal

The consideration received and fair value of the assets and liabilities of the discontinued operations disposed of during the year, and the resulting profit or loss on disposal, is shown below:

Consideration	Mining £000	Property £000	Power Generation £000	Total £000
Cash	–	–	20,000	<b>20,000</b>
Fair value of equity interest retained	–	50,288	–	<b>50,288</b>
Release of the Company pension obligation	–	138,000	–	<b>138,000</b>
<b>Total consideration</b>	–	188,288	20,000	<b>208,288</b>
<b>Recognised amounts of identifiable assets and liabilities disposed</b>				
Property, plant and equipment (note 12)	136,437	–	4,936	<b>141,373</b>
Investment properties (note 13)	–	273,357	–	<b>273,357</b>
Investment in joint ventures (note 14c)	–	2,079	–	<b>2,079</b>
Inventories	31,125	–	–	<b>31,125</b>
Trade and other receivables	21,841	15,359	–	<b>37,200</b>
Restricted cash	8,985	–	–	<b>8,985</b>
Cash	7,430	1,907	1,576	<b>10,913</b>
Borrowings	(62,920)	(76,249)	–	<b>(139,169)</b>
Corporation tax	(100)	29	–	<b>(71)</b>
Trade and other payables	(109,593)	(17,233)	(1,075)	<b>(127,901)</b>
Provisions (note 22)	(94,418)	(6,748)	–	<b>(101,166)</b>
Derivative financial instruments	–	(458)	–	<b>(458)</b>
Retirement benefit obligations (note 25)	(94,071)	–	–	<b>(94,071)</b>
<b>Total identifiable net (liabilities)/assets</b>	<b>(155,284)</b>	<b>192,043</b>	<b>5,437</b>	<b>42,196</b>
<b>Profit/(loss) on disposal</b>	<b>155,284</b>	<b>(3,755)</b>	<b>14,563</b>	<b>166,092</b>
Costs associated with disposal				<b>(15,215)</b>
<b>Profit on disposal after costs associated with disposal</b>				<b>150,877</b>

Costs associated with disposal comprise legal and adviser fees, refinancing fees and salary and personnel costs. Restructuring fees relating to the disposal of the Mining, Property and Insurance businesses all arose from the Restructuring and it has not been possible to allocate these costs to specific disposal groups. Disposal costs associated with the Power Generation business amounted to £1,374,000.

## 3. OPERATING PROFIT/(LOSS)

	Note	Year ended December 2012 £000	Restated Year ended December 2011 £000
Operating profit/(loss) before tax is stated after charging:			
Staff costs – continuing operations	5	<b>3,828</b>	3,434

Comparatives have been restated for the reasons shown in note 1 to the financial statements.

#### 4. OTHER OPERATING INCOME AND EXPENSES

	Year ended December 2012 £000	Restated Year ended December 2011 £000
Administrative expenses	(4,839)	(5,725)
Other operating income	4,947	4,140
Other operating income and expenses	108	(1,585)

Comparatives have been restated for the reasons shown in note 1 to the financial statements.

#### 5. EMPLOYEE INFORMATION

The average number of persons (including the Board of Directors) employed by the Group during the year was:

	Group Year ended December 2012 Number	Year ended December 2011 Number
Deep mining	1,946	2,026
Surface mining	455	517
Property	34	26
Other	32	36
	2,467	2,605

The average monthly number of employees relates to both continuing and discontinued operations during the year. The average number of employees of the Group and Company in 2013 is expected to be 4 (excluding non-executive directors).

Total staff costs for the Group were:

	Group		Company	
	Year ended December 2012 £000	Restated Year ended December 2011 £000	Year ended December 2012 £000	Restated Year ended December 2011 £000
<b>Staff costs (including the Board of Directors) – continuing activities only</b>				
Wages and salaries	1,448	1,810	1,448	1,810
Social security costs	210	185	210	185
Pension and post retirement benefit costs	80	153	80	153
Termination benefits	546	–	546	–
Share-based payments	1,544	1,286	1,544	1,286
	3,828	3,434	3,828	3,434

Comparatives have been restated for the reasons shown in note 1 to the financial statements.

The staff costs shown above relate only to continuing activities.

#### Directors' Remuneration and Interests

Detailed information relating to directors' remuneration and their interests in share options is indicated by \* in the Directors' Remuneration Report and forms part of these financial statements.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 6. FINANCE COSTS

	Year ended December 2012 £000	Restated Year ended December 2011 £000
Interest expense		
– Facility fees	(465)	(361)
Finance costs	(465)	(361)

Comparatives have been restated for the reasons shown in note 1 to the financial statements.

## 7. AUDITORS' REMUNERATION

During the year the Group obtained the following services from its auditors, PricewaterhouseCoopers LLP, at costs as detailed below:

	Year ended December 2012 £000	Year ended December 2011 £000
Audit services		
– Fees payable to the Company auditors for the audit of the parent Company and the consolidated accounts	135	75
– Fees payable to the Company auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	195	244
– The auditing of the accounts of any associate of the Company	50	–
– Audit related assurance services	130	45
– All other assurance related services	47	17
– Tax advisory services	790	81
– Tax compliance services	80	–
– All other non-audit services	2,330	–
	3,757	462

All other non-audit services relate predominantly to the refinancing and restructuring of the Group during the year.

From time to time, the Group employs PricewaterhouseCoopers LLP on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. They are awarded assignments on a competitive basis. The Audit Committee reviews non-audit assignments quarterly, and approves all assignments above a predetermined cost threshold.

## 8. TAX

	Year ended December 2012 £000	Restated Year ended December 2011 £000
<b>Analysis of tax (credit)/charge in the year</b>		
Corporation tax – current year	–	700
Deferred tax – prior year	(10)	–
Tax charge	(10)	700

Comparatives have been restated for the reasons shown in note 1 to the financial statements.

**8. TAX: continued**

The tax for the year is different to the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	<b>Year ended December 2012 £000</b>	Year ended December 2011 £000
Loss before tax	<b>(349)</b>	(1,946)
Loss before tax multiplied by rate of corporation tax in the UK of 24.5% (2011: 26.5%)	<b>(86)</b>	(516)
Effects of:		
Expenses not deducted and income not chargeable for tax purposes	<b>143</b>	1,216
Deferred tax not recognised	<b>(40)</b>	–
Group relief not paid for	<b>(17)</b>	–
Prior year deferred tax movement	<b>(10)</b>	–
Total tax (credit)/charge	<b>(10)</b>	700

**Deferred tax**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 25%). A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. The potential deferred tax assets are therefore shown at 23%.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement.

Deferred tax assets and liabilities are offset when there is a legally enforced right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. At December 2012 the Group had neither deferred tax assets nor deferred tax liabilities, but in 2011 the Group's deferred tax liability in respect of fixed assets was all offset in this way, apart from the liability of £1,171,000 in respect of revaluation gains on investment properties expected to be recovered through future use.

	<b>As at December 2012 £000</b>	As at December 2011 £000
Deferred tax asset – to be recovered after more than 12 months	–	31,509
Deferred tax liability – to be paid after more than 12 months	–	(1,171)
Net deferred tax asset	–	30,338

The movement on the net deferred tax asset is shown below:

	<b>Year ended December 2012 £000</b>	Year ended December 2011 £000
At the beginning of the year	<b>30,338</b>	33,209
Amounts charged to the consolidated income statement (discontinued operations)	<b>(22,213)</b>	(2,761)
Amounts charged to the consolidated statement of comprehensive income	<b>(8,125)</b>	(110)
At the end of the year	–	30,338

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 8. TAX: continued

A deferred tax asset of £nil (2011: £31,509,000) has been recognised to the extent that it is expected to be recovered, based on forecasts of future taxable profits. Further deferred tax assets have not been recognised owing to the uncertainty as to their recoverability. If these deferred tax assets were recognised, the total asset would be £3,387,000 (2011: £152,459,000) as set out below:

	As at December 2012 Total amount recognised £000	As at December 2012 Total potential asset £000	As at December 2011 Total amount recognised £000	As at December 2011 Total potential asset £000
Fixed asset timing differences	–	–	(1,171)	47,264
Other timing differences	–	683	–	11,199
Tax losses	–	2,538	22,139	57,683
Retirement benefit liabilities	–	166	8,125	36,176
Cash flow hedges	–	–	1,245	137
Net deferred tax asset	–	3,387	30,338	152,459

The fixed asset timing difference recognised in 2011 related to the deferred tax liability arising from the directors' estimate of the proportion of revaluation gains on investment properties which it was anticipated would be recovered through use. No tax liability was recognised in relation to the balance of the gain which was expected to be realised through sale, due to the fact that the Group had unrecognised capital losses brought forward of £350,000,000.

The movement on the deferred tax asset charged to equity during the year is as follows:

	2012 £000	2011 £000
Movement on deferred tax asset relating to retirement benefit liabilities in the period	(8,125)	–
Movement on deferred tax asset relating to cash flow hedges in the period	–	(110)
Deferred tax asset movement charged to equity	(8,125)	(110)

The Company has no recognised deferred tax in 2012 (2011: £nil), but has a potential deferred tax asset of £3,387,000 in respect of the Blenkinsopp pension scheme (£166,000), other timing differences (£683,000) and unused tax losses (£2,538,000).

## 9. LOSS FOR THE FINANCIAL YEAR FOR THE PARENT ENTITY

As permitted by section 408 of the Companies Act 2006, the Company's income statement and statement of comprehensive income have not been included separately in these financial statements. The loss for the financial year was £302,437,000 (2011: £3,829,000).

## 10. DIVIDENDS

No dividends have been paid or proposed in relation to 2012 or 2011.

## 11. (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share has been calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of shares in issue and ranking for dividend during the year.

There is no dilutive effect of share options potentially issuable under the Group's employee share option plans.

	Year ended December 2012 £000	Year ended December 2011 £000
Loss from continuing operations attributable to owners of the parent	(339)	(2,646)
(Loss)/profit from discontinued operations attributable to owners of the parent	(5,986)	57,887
(Loss)/profit for the year	(6,325)	55,241
Weighted average number of shares used for basic earnings per share calculation	299,298,160	299,298,160
Dilutive effect of share options	–	–
Weighted average number of shares used for diluted earnings per share calculation	299,298,160	299,298,160
Basic and diluted (loss)/earnings per share (pence)	(2.1)	18.5

Basic and diluted earnings per share, as adjusted to exclude tax, for the year is 5.3 pence (2011: 19.4 pence).

## 12. OPERATING PROPERTY, PLANT AND EQUIPMENT

Group	Operating properties £000	Deep mines including surface works £000	Plant and equipment £000	Sub total £000	Surface mine development and restoration assets £000	Total £000
<b>Cost:</b>						
At January 2012	19,727	889,008	80,822	989,557	61,227	1,050,784
Additions	47	18,284	1,485	19,816	22,961	42,777
Disposals	(688)	(45,304)	(17,552)	(63,544)	–	(63,544)
Transfer from investment properties (note 13)	3,109	–	–	3,109	–	3,109
Transfer to investment properties (note 13)	(21,000)	–	–	(21,000)	–	(21,000)
Disposal of Power Generation business (note 2)	–	–	(12,460)	(12,460)	–	(12,460)
Disposals arising from Group Restructuring (note 2)	(1,195)	(861,988)	(52,295)	(915,478)	(84,188)	(999,666)
<b>At December 2012</b>	–	–	–	–	–	–
<b>Accumulated depreciation:</b>						
At January 2012	4,607	694,247	67,208	766,062	35,482	801,544
Charge for the year (discontinued operations)	149	39,599	1,792	41,540	15,818	57,358
Impairment charge (discontinued operations)	–	78,016	–	78,016	–	78,016
Disposals	(688)	(45,304)	(16,105)	(62,097)	–	(62,097)
Transfer to investment properties (note 13)	(4,068)	–	–	(4,068)	–	(4,068)
Disposal of Power Generation business (note 2)	–	–	(7,524)	(7,524)	–	(7,524)
Disposals arising from Group Restructuring (note 2)	–	(766,558)	(45,371)	(811,929)	(51,300)	(863,229)
<b>At December 2012</b>	–	–	–	–	–	–
<b>Net book amount:</b>						
<b>At December 2012</b>	–	–	–	–	–	–
<b>Cost:</b>						
At January 2011	23,984	857,365	89,470	970,819	55,416	1,026,235
Additions	13	30,174	1,618	31,805	7,191	38,996
Disposals	(167)	–	(8,797)	(8,964)	(1,380)	(10,344)
Transfers	–	1,469	(1,469)	–	–	–
Transfer to investment properties	(4,103)	–	–	(4,103)	–	(4,103)
At December 2011	19,727	889,008	80,822	989,557	61,227	1,050,784
<b>Accumulated depreciation:</b>						
At January 2011	4,444	655,848	73,374	733,666	19,741	753,407
Charge for the year (discontinued operations)	163	37,390	2,946	40,499	17,121	57,620
Transfers	–	1,009	(1,009)	–	–	–
Disposals	–	–	(8,103)	(8,103)	(1,380)	(9,483)
At December 2011	4,607	694,247	67,208	766,062	35,482	801,544
<b>Net book amount:</b>						
At December 2011	15,120	194,761	13,614	223,495	25,745	249,240
At January 2011	19,540	201,517	16,096	237,153	35,675	272,828

Surface mine development and restoration assets net book amounts include capitalised pre-coaling costs of £nil (2011: £9,216,000), restoration/rehabilitation costs of £nil (2011: £14,223,000) and deferred stripping costs of £nil (2011: £2,306,000). These are depreciated over the estimated tonnage of the recoverable reserves as these are extracted.

Surface mine asset additions in the period of £22,961,000 (2011: £7,191,000) comprise £4,409,000 (2011: £2,606,000) for pre-coaling expenditure, £16,449,000 (2011: £3,685,000) recognised as a non-current asset on the creation of a corresponding provision for restoration and rehabilitation costs and £2,103,000 (2011: £900,000) of deferred stripping costs. Upon the Restructuring surface mine development and restoration assets were transferred to the Mining Division.

Included in operating property, plant and equipment is £nil (2011: £9,131,000) of capitalised work in progress which is not depreciated.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 12. OPERATING PROPERTY, PLANT AND EQUIPMENT: continued

Assets under finance leases, disclosed under deep mines including surface works and plant and equipment, have the following net book amounts:

	As at December 2012 £000	As at December 2011 £000
Cost	–	21,894
Aggregate depreciation	–	(14,999)
Net book amount	–	6,895

In accordance with IAS 36, operating property, plant and equipment are reviewed for impairment if there is any indication that their carrying amount may not be recoverable. An impairment review has been performed for the operating property, plant and equipment of the deep and surface mining business as a result of movements in the coal price and other assumptions. The estimates of recoverable amount were based on value-in-use calculations, using a pre-tax discount rate of 10%. These calculations use cash flow projections based on financial budgets approved by management covering a five year period, but reflecting the anticipated shortened life of Daw Mill.

Prior to the Restructuring, and following the announcement of plans to consult on the closure of Daw Mill colliery in 2014, an impairment charge of £78,016,000 was booked in respect of fixed assets.

### Sensitivity analysis

No further impairment of operating property, plant and equipment would be recognised by the Group if any of the following occurred in isolation:

- The revised estimated pre-tax discount rate applied to the discounted cash flows was increased to over 20%;
- The estimated long-term price of coal of \$97/tonne assumed in calculating the discounted cash flows decreased by 7.5%; or
- The estimated level of annual production assumed in calculating the discounted cash flows decreased by 5%.

## 13. INVESTMENT PROPERTIES

	As at December 2012 £000	As at December 2011 £000
<b>At valuation – Group</b>		
At the beginning of the year	250,640	314,237
Additions	5,263	4,774
Disposals	(7,224)	(63,718)
Fair value increase	16,188	3,325
Transfer from operating property, plant and equipment at net book amount (note 12)	16,932	4,103
Transfer to operating property, plant and equipment at net book amount (note 12)	(3,109)	–
Transfer to non-current assets held for sale (note 18)	(5,433)	(16,600)
Revaluation of property transferred to investment properties	100	4,519
Disposal of investment properties on Restructuring of Group (note 2)	(273,357)	–
At the end of the year	–	250,640

The properties were valued at December 2011, in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors, by three firms, BNP Paribas Real Estates, Smiths Gore and Bell Ingram, all independent firms with relevant experience of valuations of this nature. The valuation excludes any deduction of rehabilitation and restoration costs which are stated within provisions in the balance sheet. At Restructuring an internal review of the valuation of investment properties was carried out. The review was undertaken by suitably qualified employees with both appropriate professional qualification (FRICS/ MRICS) and a comprehensive knowledge of these properties and associated markets. The valuation basis and assumptions were consistent with those used as at 31 December 2011.

Upon Restructuring investment properties were transferred to the Property Division.

Key assumptions within the basis of fair value were:

- The sites will be cleared of redundant buildings, levelled and prepared ready for development.
- The values are on a basis that no material environmental contamination exists on the subject or adjoining sites, or where this is present the sites will be remediated to a standard consistent with the intended use, the costs for such remediation being separately provisioned.
- No deduction or adjustment has been made in relation to clawback provisions, or other taxes which may be payable in certain events.

Had the above investment properties been carried at historic cost, rather than fair value, their value would be £nil (2011: £80,630,000).

Land and buildings with a value of £nil (2011: £282,335,000) are subject to fixed charges to cover borrowings against those assets and £nil (2011: £6,390,000) are subject to restrictions as they cover insurance requirements. Other property, plant and equipment was subject to floating charges to cover liabilities due to bank borrowings.

**14. INVESTMENTS**

## (a) Investment in subsidiaries

<b>Company</b>	<b>£000</b>
<b>Cost:</b>	
At January 2012	473,224
Additions	250,779
Disposals	(250,779)
<b>At December 2012</b>	<b>473,224</b>
<b>Provision for impairment:</b>	
At January 2012	172,914
Additions	296,936
<b>At December 2012</b>	<b>469,850</b>
<b>Net book amount:</b>	
<b>At December 2012</b>	<b>3,374</b>
<b>Cost:</b>	
At January and December 2011	473,224
<b>Provision for impairment:</b>	
At January and December 2011	(172,914)
<b>Net book amount:</b>	
At December 2011	300,310

During the year the Company entered into the following transactions involving its subsidiary undertakings:

- (i) its indirect subsidiary undertaking, Harworth Power Limited, disposed of 100% of its interest in Harworth Power (Generation) Limited for consideration of £20,000,000.
- (ii) as part of the Restructuring, disposed of its direct and indirect interest in the following principal subsidiary undertakings:
- Harworth Group Ltd
  - Mining Services Limited
  - UK Coal Mining Ltd
  - Centechology (UK) Ltd
  - EOS Inc. Ltd
  - Harworth Estates (Agricultural Land) Limited
  - Harworth Estates (Waverley Prince) Ltd
  - Potland Burn Limited
- (iii) additionally the Company agreed a put and call option with Mine Holdings to acquire the entire issued share capital of its subsidiary undertaking, Harworth Insurance Company Limited. Exercise of the option is conditional upon obtaining FSA consent or the parties agreeing that such consent is no longer required.

Investments in subsidiaries are stated at cost less provision for impairment. As permitted by section 616 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 14. INVESTMENTS: continued

### (a) Investment in subsidiaries: continued

Particulars of the Group undertakings at December 2012 are as follows:

Company name	Activity	Description of shares held	Proportion of nominal value of issued share capital held by the Company %
Harworth Insurance Company Limited*	Insurance	Ordinary	100
Harworth Properties Limited**	Property investment	Ordinary	100
UK Coal Holdings Limited	Non-trading	Ordinary	100
Harworth Guarantee Company Ltd	Non-trading	Ordinary	100
Harworth Trustees Limited	Dormant	Ordinary	100
Harworth Secretariat Services Limited (formerly UK Coal Secretariat Services Limited)	Company secretarial services	Ordinary	100

\* see (iii) on previous page – the Company has granted a call option to UK Coal Mine Holdings Limited to acquire this entity.

The Group owns 100% of the issued share capital and voting rights of all of the above companies, except those marked \*\* where the holding is indirect.

All of the above companies are incorporated in England and Wales. They are all included in the Group's consolidated results.

### (b) Investment in associates

	Group £000	Company £000
<b>Cost</b>		
At January 2012	–	–
Additions	50,288	50,288
<b>At December 2012</b>	<b>50,288</b>	<b>50,288</b>
<b>Net book amount:</b>		
<b>At December 2012</b>	<b>50,288</b>	<b>50,288</b>
<b>Net book amount:</b>		
At December 2011	–	–

In December 2012, as part of the Restructuring, the Company acquired a 24.9% interest in Harworth Estates Property Group Limited, a private company incorporated in England and Wales, at a fair value of £50,288,000 (see note 2). The Group has not recorded its 24.9% share of losses in the three week period post Restructuring on the grounds of materiality. The Group accounts for its investment in Harworth Estates Property Group Limited as an associate because it considers that it has significant control over that entity due to its 24.9% shareholding and representation on the Harworth Estates Board.

The Group's share of net assets of Harworth Estates has been reduced by £5.0m to reflect the fact that, under the terms of the Shareholder Agreement, the first £5.0m of dividend income due to the Company will be paid to the Pension Schemes.

The Group's share of the results of its associate, and its share of the assets (including goodwill and liabilities) are as follows:

	Country of incorporation	Assets £000	Liabilities £000	Revenues £000	Profit £000	Interest held at period end %
<b>2012</b>						
Harworth Estates Property Group Limited	England and Wales	313,177	(91,451)	–	–	24.9
Total		313,177	(91,451)	–	–	

**14. INVESTMENTS: continued**
**(c) Investment in joint ventures**

Up until the date of Restructuring, the Group held 50% of the issued ordinary shares in UK Strategic Partnership Limited as a joint venture company with Strategic Sites Limited for the development of certain investment properties. The first development was at the Advanced Manufacturing Park at Waverley, South Yorkshire.

The Group also held 50% of the issued ordinary shares in Bates Regeneration Limited as a joint venture company with Banks Property Limited for the development of an investment property at Blyth, Northumberland.

	2012 £000	2011 £000
At the beginning of the year	2,979	3,410
Share of loss	(900)	(431)
Disposal of joint ventures upon restructuring (note 2)	(2,079)	–
At the end of the year	–	2,979

The Group's share of the results of its joint ventures, which are included within discontinued operations, and its share of the assets (including goodwill and liabilities) are as follows:

	Country of incorporation	Assets £000	Liabilities £000	Revenues £000	Profit/(loss) £000	Interest held %
<b>2012</b>						
UK Strategic Partnership Limited	England and Wales	–	–	493	286	–
Bates Regeneration Limited	England and Wales	–	–	–	(1,186)	–
<b>Total</b>		–	–	<b>493</b>	<b>(900)</b>	
<b>2011</b>						
UK Strategic Partnership Limited	England and Wales	3,362	(2,784)	830	(454)	50
Bates Regeneration Limited	England and Wales	3,570	(1,169)	–	23	50
<b>Total</b>		6,932	(3,953)	830	(431)	

The joint venture companies are unlisted.

**(d) Available for sale investments**

In December 2012, as part of the Restructuring, the Company acquired a 33% of the voting rights, and 90% of the economic rights, of UK Coal Mine Holdings Limited, a company incorporated in England and Wales, at a fair value of £1.

Ordinarily it is presumed that where an investor holds 20% or more of the voting power of an entity, it has significant power over that entity. Management has concluded that post restructuring it has no control or significant influence over Mine Holdings and therefore has accounted for the investment as an available for sale investment rather than as an investment in an associate under IAS 39, "Financial instruments: Recognition and measurement". The main considerations by management were:

- a. Majority voting is held by the Employee Benefit Trust with the Company retaining limited rights under the Shareholders' agreement;
- b. Mine Holdings maintains its own independent Board, none of whom has served as Directors of the Company and are explicitly prohibited from acting in the interests of the Company;
- c. Although the Company holds a 90% economic interest in Mine Holdings, the large pension deficit means Mine Holdings is unlikely to pay dividends in the near future and therefore the economic rights lack substance; and
- d. There is no economic incentive given that future dividends and investment value are limited until the Pension Schemes deficits are cleared.

These factors support the conclusion to value the investment at £1 as an investment available for sale.

Management will reassess on a regular basis the classification of the investment in Mine Holdings in accordance with International Accounting Standards.

## Notes to the Financial Statements

for the year ended 29 December 2012: continued

### 15. OTHER RECEIVABLES – NON-CURRENT

Amounts classed as non-current are as follows:

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
Other receivables	–	3,357	–	–

Other receivables include £nil (2011: £2,422,000) of long-term deposits held as security for surface mines. Long-term deposits held as security for surface mines were transferred to the Mining Division upon Restructuring.

### 16. INVENTORIES

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
Coal stocks	–	15,238	–	–
Spares and consumables	–	19,516	–	–
	–	34,754	–	–

The cost of spares and consumables recognised as an expense and included in expenses within discontinued activities amounted to £39,123,000 (2011: £29,165,000).

A net realisable value provision credit of £nil (2011: £nil) against coal stocks was included in cost of sales in the year.

All inventories were transferred to the Mining Division upon Restructuring.

### 17. TRADE AND OTHER RECEIVABLES – CURRENT

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
Trade receivables	–	21,599	–	–
Less: provision for impairment of trade receivables	–	(79)	–	–
Net trade receivables	–	21,520	–	–
Other receivables	336	1,161	336	64
Prepayments and accrued income	–	3,621	–	–
Amounts owed by related parties (note 32)	3,567	–	3,567	–
Amounts owed by subsidiary undertakings	–	–	–	216,243
	3,903	26,302	3,903	216,307

The carrying amount of trade and other receivables approximate to their fair value due to the short time frame over which the assets are realised. All of the Group's and Company's receivables are denominated in sterling.

Due to the nature of the Group's activities prior to Restructuring, a substantial amount of the Group's sales were to a limited number of large industrial customers within the power generation sector. Whilst this concentration provided an increased credit risk, due to the financial strength of the power sector, management did not believe that this was significant.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables as disclosed in note 23. The Group and Company do not hold any collateral as security.

**17. TRADE AND OTHER RECEIVABLES – CURRENT:** continued

Movements on the Group provisions for impairment of trade receivables are as follows:

	<b>Group</b>	
	<b>2012</b>	2011
	<b>£000</b>	£000
At the beginning of the year	79	97
Receivables written off during the year as uncollectable	–	(12)
Unused amounts reversed	–	(6)
Unused amounts transferred upon Restructuring	(79)	–
At the end of the year	–	79

The creation and releases of the provision for impaired receivables have either been included in cost of sales or other operating income and expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of any additional recoveries.

The other classes of assets within trade and other receivables do not contain impaired assets.

Amounts owed by related parties includes £3,567,000 due from UK Coal Mine Holdings Limited and its subsidiaries, as noted in note 33 (post balance sheet events) the Mining Division suffered a major underground fire at its Daw Mill colliery in February 2013. On 7 March UK Coal Mine Holdings Limited announced that it was closing Daw Mill colliery. These events may have an impact on UK Coal Mine Holdings Limited's ability to settle the amounts due to the Group and the Company.

As of December 2012, there were provisions against trade receivables of £nil (2011: £79,000) which were impaired. The ageing of these receivables is as follows:

	<b>Group</b>	
	<b>As at</b>	As at
	<b>December</b>	December
	<b>2012</b>	2011
	<b>£000</b>	£000
Over 6 months	–	79

As of December 2012, trade receivables of £nil (2011: £21,186,000) were fully performing.

As of December 2012, trade receivables of £nil (2011: £334,000) were past due but not impaired. These related to a number of customers for whom there was no recent history of default and consequently there were no indications at the reporting date that they will not meet their payment obligation. The ageing analysis of these trade receivables is as follows:

	<b>Group</b>	
	<b>As at</b>	As at
	<b>December</b>	December
	<b>2012</b>	2011
	<b>£000</b>	£000
Up to 3 months	–	213
Over 3 months	–	121
	–	334

**18. ASSETS CLASSIFIED AS HELD FOR SALE**

a) Assets of disposal group classified as held for resale

	<b>Group</b>	
	<b>As at</b>	As at
	<b>December</b>	December
	<b>2012</b>	2011
	<b>£000</b>	£000
Investment properties	5,433	16,600
Trade and other receivables	897	–
Cash and cash equivalents	14,973	–
Total	21,303	16,600

## Notes to the Financial Statements

for the year ended 29 December 2012: continued

### 18. ASSETS CLASSIFIED AS HELD FOR SALE: continued

#### b) Liabilities of disposal group classified as held for resale

	Group	
	As at December 2012 £000	As at December 2011 £000
Trade and other payables	600	–
Provisions	8,271	–
Remeasurement loss on carrying value of Harworth Insurance Company Limited	7,782	–
<b>Total</b>	<b>16,653</b>	<b>–</b>

The assets and liabilities of the disposal group held for resale at the year end relate to Harworth Insurance Company Limited. As described in note 2, the Company granted a call option to UK Coal Mine Holdings Limited to acquire the entire issued share capital of its subsidiary undertaking, Harworth Insurance Company Limited, and UK Coal Mine Holdings Limited has granted the Company a put option to require UK Coal Mine Holdings Limited to acquire Harworth Insurance Company Limited. Exercise of the call option is conditional upon obtaining FSA consent or the parties agreeing that such control is no longer required. The consideration for the call option was £4,650,000.

Conditional sales contracts were exchanged during 2011 for the disposal of investment properties, held within the property reporting segment, with fair value of £16,600,000. The conditions for these sales were not satisfied until 2012. Consequently these properties were classified as assets held for sale and were presented separately in the balance sheet in 2011.

### 19. CASH AND CASH EQUIVALENTS

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
Cash deposited to cover insurance requirements	–	14,735	–	–
Subsidence security fund	–	8,854	–	–
	–	23,589	–	–
Cash held and other cash balances	51	1,689	51	419
	51	25,278	51	419

Total cash held subject to restrictions to cover insurance and surface damage liabilities at the year end amounts to £nil (2011: £23,589,000). Following the granting of an option for UK Coal Mine Holdings Limited to acquire the Group's insurance business, cash held subject to restrictions to cover insurance and surface damage liabilities is held within assets classified as held for resale (note 18). In addition to this, security to cover surface damage liabilities in the form of an insurance bond for £nil (2011: £10,000,000) is in place. The subsidence security fund was transferred to the Mining Division upon Restructuring.

### 20. BORROWINGS

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
<b>Current</b>				
Bank loans, overdrafts and finance leases due within one year or on demand:				
Secured – bank loans and overdrafts	–	31,007	–	–
Finance lease obligations	–	6,534	–	–
	–	37,541	–	–
Generator loans and prepayments due within one year	–	41,723	–	–
<b>Total borrowings – due within one year or on demand</b>	<b>–</b>	<b>79,264</b>	<b>–</b>	<b>–</b>

**20. BORROWINGS:** continued

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
<b>Non-current</b>				
Bank loans, overdrafts and finance leases due after more than one year:				
Secured – bank loans and overdrafts	–	15,712	–	–
Finance lease obligations	–	3,137	–	–
	–	18,849	–	–
Generator loans and prepayments due after more than one year	–	42,386	–	–
<b>Total borrowings – due after more than one year</b>	–	61,235	–	–

In April 2012 the Group renewed and extended its banking facilities, with the following principal changes:

- Extensions to the maturity of the RCF, the Additional Revolving Facilities (“ARF”), the Harworth Estates (Waverly Prince) Limited (“HEWPL”) facility and the EOS Inc. Ltd facility to the end of December 2013 were all agreed;
- The financial profile of the ARF was modified so that the amount available to be drawn, which was initially increased to £27,500,000, reduced by £7,500,000 on 30 September 2012 and amortised over the period June 2013 to November 2013. The facility reduced from £20,000,000 to £12,500,000 for a short period at the end of 2012, before reverting to £20,000,000.

Over and above these extended bank facilities, the term of a further £10,000,000 of unsecured stand-by facility from Peel Holdings Finance Limited was extended, which was available for drawing in the event that both the RCF and part of the ARF were fully drawn. This facility, which amortised gradually over the period August 2013 to November 2013, was also extended to mature in November 2013.

During 2012 the Group borrowed an additional £28,541,000 from its bankers, but at Restructuring all bank loans were transferred to the Property division and all finance lease and generator loans were transferred to the Mining Division.

At the year end, and further to the disposal of the mining and property businesses, the Group no longer has any bank facilities, finance leases or generator loans.

As at December 2011 the carrying value of the Group’s external borrowings, which consisted of floating rate and fixed rate short-term borrowings, approximated to fair value. At that date all of the Group’s borrowings were denominated in sterling.

As at December 2011 bank loans and overdrafts due within one year or on demand were stated after deduction of unamortised borrowing costs of £989,000.

Non-current bank loans and overdrafts were stated after deduction of unamortised borrowing costs of £nil.

The Group was party to certain contracts for coal supply which resulted in increased cash flows to the business in the past four years. These benefits, together with accrued implied interest, were treated as generator loans and prepayments, and were to be repaid either out of later revenue or as separate repayments which commenced in October 2010 and end in 2015. Interest was charged on these outstanding amounts using actual or implied interest rates. The average interest rate on these balances was 11%. All generator loans and prepayments were transferred to the mining business upon Restructuring.

The bank loans and overdrafts were secured by way of fixed and floating charges over certain assets of the Group.

The maturity profile of the Group’s drawn and undrawn external bank facilities is as follows:

	2012 £000	2011 £000
Expiring within 1 year	–	81,253
Expiring between 1 and 2 years	–	15,712
	–	96,965

These facilities were all nominally at floating interest rates, but interest rate swaps/caps with principal value of £nil (2011: £67,150,000) were held to convert an element of these borrowings to fixed/capped interest rates.

## Notes to the Financial Statements

for the year ended 29 December 2012: continued

### 20. BORROWINGS: continued

The maturity profile of the Group's bank and finance lease borrowings is as follows:

Group	2012				2011			
	Debt £000	Generator loans and prepayments £000	Finance leases £000	Total £000	Debt £000	Generator loans and prepayments £000	Finance leases £000	Total £000
Within 1 year	–	–	–	–	31,007	41,723	6,534	79,264
Between 1 and 2 years	–	–	–	–	15,712	17,461	2,253	35,426
Between 2 and 5 years	–	–	–	–	–	24,925	884	25,809
	–	–	–	–	46,719	84,109	9,671	140,499

The minimum lease payments under finance leases fall due as follows:

	As at December 2012 £000	As at December 2011 £000
Within 1 year	–	7,176
Between 1 and 5 years	–	3,337
	–	10,513
Future finance charges on finance leases	–	(842)
Present value of finance lease liabilities	–	9,671

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Lease liabilities transferred to the mining business upon Restructuring. Post Restructuring the Company continues to guarantee the finance lease liabilities which were transferred to the Mining Division.

Following the Daw Mill fire in February 2013 and the resultant liabilities that this created for UK Coal Mine Holdings Limited (see note 33 – post balance sheet events), there is an increased risk that UK Coal Mine Holdings Limited will be unable to honour the indemnities given to the Group in the immediate future. As such the Group has entered into negotiations to secure a one year bank facility that would enable it to meet these liabilities as they fall due. The Group has received a credit approved Heads of Terms for a suitable facility and based on this the Board believes that an appropriate facility will be entered into. The Group would look to repay the loan and raise sufficient funds to cover any of these liabilities not yet settled from the proceeds of an equity raising during 2013. The Board has received an informal commitment to underwrite an equity raising which provides comfort that the facility can be repaid.

### 21. TRADE AND OTHER PAYABLES

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
<b>Current</b>				
Trade payables	1,281	51,688	1,281	–
Amounts owed to subsidiary undertakings	–	–	185	158,409
Taxation and social security	344	14,262	344	–
Accruals and deferred income	8,072	47,809	8,072	10,384
	9,697	113,759	9,882	168,793
<b>Non-current</b>				
Trade payables	–	736	–	–

**22. PROVISIONS**

Group	At January 2012 £000	Provided in year £000	Released in year £000	Utilised in year £000	Unwinding of discount £000	On disposal of business £000	Transfer to liabilities held for resale £000	At December 2012 £000
Employer and public liabilities	8,452	1,209	–	(1,390)	–	–	(8,271)	–
Surface damage	16,492	5,774	–	(7,223)	286	(15,329)	–	–
	24,944	6,983	–	(8,613)	286	(15,329)	(8,271)	–
Claims	15	1,500	–	–	–	(1,515)	–	–
Redundancy	445	3,013	–	(2,783)	–	(129)	–	546
Restoration and closure costs of surface mines	41,159	18,124	(326)	(3,084)	978	(56,851)	–	–
Restoration and closure costs of deep mines:								
– shaft treatment and pit top	9,646	2,700	–	(81)	190	(12,455)	–	–
– spoil heaps	2,484	–	–	(224)	48	(2,308)	–	–
– ground/groundwater contamination	10,077	2,313	–	–	189	(12,579)	–	–
<b>Total</b>	<b>88,770</b>	<b>34,633</b>	<b>(326)</b>	<b>(14,785)</b>	<b>1,691</b>	<b>(101,166)</b>	<b>(8,271)</b>	<b>546</b>
<b>Company</b>								
Redundancy	–	546	–	–	–	–	–	546
<b>Total</b>	<b>–</b>	<b>546</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>546</b>

In accordance with IAS 37 “Provisions, contingent liabilities and contingent assets”, discounting has not been applied against the insurance provisions in respect of employer and public liabilities.

The total of provisions created, net of provisions released, is £34,307,000 (2011: £13,088,000).

Provisions have been analysed between current and non-current as follows:

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
Current	546	13,480	546	–
Non-current	–	75,290	–	–
	<b>546</b>	<b>88,770</b>	<b>546</b>	<b>–</b>

All provisions, save for £546,000 relating to redundancy and £8,271,000 transferred to liabilities held for resale, have been transferred to the Mining Division upon Restructuring.

The nature of the Group’s obligations and an indication of the uncertainties surrounding each of the above provisions are provided below:

**Employer and Public Liabilities**

Provisions are made for current and estimated obligations in respect of claims made by employees, contractors and the general public relating to accident or disease as a result of the business activities of the Group. These relate primarily to the claims held by the Group’s captive insurance company, Harworth Insurance Company Limited. Ownership over land and buildings and dedicated cash deposits, as set out in notes 13 and 19, has been granted to cover these provisions.

## Notes to the Financial Statements

for the year ended 29 December 2012: continued

### 22. PROVISIONS: continued

#### Surface Damage

Provision is made for the Group's liability to compensate for subsidence damage arising from past mining operations. Claims can be lodged by the public up to six years after the date of the relevant damage. The estimate is based on historical claims experience, following a detailed assessment of the nature of the damage foreseen. Security over dedicated cash deposits and an insurance bond, as set out in note 19, has been granted to cover these provisions.

#### Claims

Where surface mine sites owned by the Group are mined by external contractors and mining conditions vary from those specified in the contract, the external contractors may be entitled to claim further costs incurred. Claims are settled with individual contractors, generally at the completion of a surface mining site. All claims provisions are based on known mining conditions encountered, historical experience and contracted rates.

Provision has been made in the period against a restoration claim under a lease on a former site.

#### Redundancy

Provision is made for current estimated future costs of redundancy and ex-gratia payments to be made where this has been communicated to those employees concerned.

#### Restoration and Closure Costs of Surface Mines

Provisions are made for the total costs of reinstatement of soil excavation and for surface restoration, such as topsoil replacement and landscaping. Costs become payable after coal mining has been completed. Further liabilities for aftercare can extend after restoration, for a period of up to six years.

#### Restoration and Closure Costs of Deep Mines:

*Shaft treatment and pit top* – provisions are made to meet the Group's liability to fill and cap all mine shafts and return pit top areas to a condition consistent with the required planning permission. No liabilities will arise until decommissioning of each individual colliery. The current pit top provision reflects existing planning permissions that require pit areas to be restored to former use, usually agricultural. The Group will, where possible, seek planning permission for development use, which, if successful, may reduce the expected cost.

*Spoil heaps* – provisions are made for the costs payable to bring spoil heaps to a condition consistent with the required planning permission and to complete approved restoration schemes. An element of spoil heap restoration is ongoing, although the majority of costs will be incurred after the decommissioning of a colliery.

*Pumping costs* – there is a legal requirement to continue pumping activities at certain mine sites following closure and for a period into the future. The provision is based on current experience and the net present value of future cost projections. Pumping costs on continuing operations are expensed as incurred.

*Ground/groundwater contamination* – provisions are made for the Group's legal or constructive obligation to address ground and groundwater pollutants at its operating sites. The provision is based on estimates of volumes of contaminated soil and the historical contract costs of ground contamination treatment. These costs will usually be incurred following the decommissioning of a site.

### 23. FINANCIAL INSTRUMENTS AND DERIVATIVES

The Group's principal financial instruments during the year included derivative financial instruments, trade and other receivables, finance leases, cash and cash equivalents, interest bearing borrowings and trade and other payables.

#### Derivative Financial Instruments

	Assets £000	Liabilities £000
At the end of the year		
Fair value – 2012	–	–
Fair value – 2011	–	5,016

Prior to Restructuring, the Group used interest rate swaps in order to fix the interest payable on a large proportion of its variable rate borrowings. The fair value of derivative financial instruments was valued, where possible, using quoted market prices. The fair value of these instruments equalled the book value at December 2011. There are no existing swaps in place after Restructuring.

For those swaps which were effective cash flow hedges under IAS 39 the effective portion of their fair value movements was deferred in reserves. Exposures were presented as net positions by a counterparty whenever there was the intention and ability to legally set off assets and liabilities.

Under IFRS 7 "Financial Instruments: Disclosures" all derivative financial instruments were classed as level 2 as they were not traded in an active market and the fair value is therefore determined through discounting future cash flow.

**23. FINANCIAL INSTRUMENTS AND DERIVATIVES:** continued**Hedging Relationships**

As at December 2012 the Group had no cash flow hedges. Prior to Restructuring the Group had cash flow hedges in place up to July 2013. None of these hedging relationships were effective for hedge accounting purposes.

The movement in the fair value of contracts which were not effective for hedge accounting purposes, or which were not designated as cash flow hedges, being a gain of £550,000 (2011: £445,000) in the year is presented within finance costs in discontinued operations (see note 2).

The application of hedge accounting in the year resulted in no movement in reserves (2011: £nil) for effective hedge relationships and no charge to income (2011: £372,000), for the amortisation of reserves for discontinued hedging relationships.

In 2010, the Group entered into a notional principal £40,000,000 fixed interest cap agreement at a rate of 4.75% effective between 29 July 2011 and 31 July 2013. The terms of the agreement provided that the initial notional principal was amortised by £20,000,000 per year. At the year end, the notional principal was £nil (2011: £35,000,000). The agreement was terminated upon Restructuring.

In 2011, the Group entered into a fixed interest/interest rate cap agreement with a total initial notional principle of £46,000,000, amortising down to £16,500,000 in May 2013. The average fixed interest rate swap element over the lifetime of the agreement was 38%. The agreement was terminated upon Restructuring.

As at December 2012 the Group had no fixed interest rate swaps. At December 2011 the total notional principal of outstanding fixed interest rate swaps that the Group was committed to was £32,650,000, with weighted average fixed interest rate of 8.15% and 0.8 years to maturity.

The Company has no interest rate swaps.

**Other Financial Assets and Liabilities**

Group	December 2012		December 2011	
	Book value £000	Fair value £000	Book value £000	Fair value £000
<b>Assets</b>				
Cash and cash equivalents	51	51	25,278	25,278
Trade and other receivables	3,903	3,903	29,659	29,659
<b>Liabilities</b>				
Bank borrowings	–	–	46,719	46,719
Finance lease liabilities	–	–	9,671	9,671
Generator loans and prepayments	–	–	84,109	93,746
Trade and other payables	9,353	9,353	100,233	100,233
Derivative financial instruments	–	–	5,016	5,016

In accordance with IAS 39, the Group classifies the assets and liabilities in the analysis above as “loans and receivables” and “other financial liabilities”, respectively. At the 2012 and 2011 year ends, the Group did not have any “held to maturity” or “available for sale” financial assets or “held for trading” financial assets and liabilities as defined by IAS 39.

At the year end, the Company held cash and cash equivalents of £51,000 (2011: £419,000).

The carrying value of the Group’s external borrowings, which consisted of floating rate and fixed rate short-term borrowings, approximated to fair value. Details of the maturity profile of these financial liabilities are included in note 20.

The carrying value of other long-term receivables approximates to fair value.

For other financial assets and liabilities, which are all short-term in nature, the carrying value approximates to fair value.

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 24. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Historically the Group has used derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury function under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's mining and property businesses. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk and investment of excess liquidity.

### Credit Risk

The Group is subject to credit risk arising from outstanding receivables and committed cash and cash equivalents and deposits with banks and financial institutions. The Group's policy is to manage credit exposure to trading counterparties within defined trading limits. All of the Group's significant counterparties are assigned internal credit limits.

The Group is exposed to counterparty credit risk on cash and cash equivalent balances. The Group and Company hold all of their cash deposits with their principal bankers.

### Liquidity Risk

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its on-going business. The Group manages its liquidity requirements with the use of both short and long-term cash flow forecasts.

The net debt position, excluding restricted cash, of £138,810,000 at the beginning of the year was transferred to the mining and property businesses upon Restructuring, so that at 29 December 2012 the Group had no net debt. The Group generated cash from operating activities and investing activities for the year of £6,567,000 (2011: generated £106,384,000).

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the gross contractual undiscounted cash flows.

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
<b>At December 2012</b>			
Trade and other payables	9,353	–	–
<b>At December 2011</b>			
Bank borrowings	36,377	16,695	–
Finance lease liabilities	7,176	2,426	911
Generator loans and prepayments	49,348	21,060	27,355
Trade and other payables	99,497	736	–
Derivative financial instruments	3,291	2,289	–

### Capital Risk Management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Historically the Group has monitored capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including borrowings as shown in the consolidated balance sheet) less unrestricted cash and cash equivalents.

The gearing ratios for the Group at December 2012 and December 2011 were as follows:

	2012 £000	2011 £000
Total borrowings	–	140,499
Less: Unrestricted cash and cash equivalents (note 19)	–	(1,689)
Net debt	–	138,810
Total equity	47,929	146,003
Gearing ratio	0.0%	95.1%

The gearing ratio has fallen to 0% at the end of 2012 due to the transfer of all borrowings to the mining and property businesses upon Restructuring.

## 25. RETIREMENT BENEFIT OBLIGATIONS

### Defined Contribution Pension Schemes

The Group operates defined contribution pension schemes in respect of all employees who joined after the privatisation date in 1994. Contributions to defined contribution schemes in the year amounted to £1,257,000 (2011: £1,425,000).

### Defined Benefit Obligations

Prior to the Restructuring that was completed on 10 December 2012, the Group had three pension schemes providing benefits based on final pensionable pay. Under the Protected Persons Regulations established on privatisation the Company was, as a wholly owning Parent Company, a statutory guarantor of UK Coal Mining Limited's liabilities to the scheme. The majority of the employees within defined benefit schemes were members of one or other of the two industry wide schemes. Separately the Group and Company has defined benefit obligations in respect of the Blenkinsopp section of the Industry-Wide Mineworkers' Pension Scheme (the Blenkinsopp scheme).

Under the terms of the Restructuring, all of the assets and liabilities of the pension schemes (with the exception of the Blenkinsopp scheme) were transferred to the UK Coal Operations Limited section of each of the Industry-Wide Coal Staff Superannuation Scheme and the Industry-Wide Mineworkers' Pension Scheme. The only principal employer in respect of these two schemes is UK Coal Operations Limited, a subsidiary of UK Coal Holdings Limited which is not, and never has been, a subsidiary of the Company. Consequently the Company has no liability in respect of the liability of UK Coal Operations Limited. As all of the liabilities of UK Coal Mining Limited have been transferred, whilst the Company continues to guarantee the liabilities these are now of £nil value.

Prior to Restructuring the Group operated a concessionary fuel arrangement in the United Kingdom. Provision for concessionary fuel was made to cover the future retirement costs for those employees who were benefiting as part of their regular terms of employment, or former employees who were benefiting in retirement. Upon Restructuring all obligations in respect of concessionary fuel benefits have transferred to UK Coal Operations Limited and are therefore no longer liabilities of the Group. They were never liabilities of the Company.

The balance sheet amounts in respect of retirement benefit obligations are:

	Group		Company	
	As at December 2012 £000	As at December 2011 £000	As at December 2012 £000	As at December 2011 £000
<b>Relating to continuing activities</b>				
Blenkinsopp	720	592	720	592
<b>Relating to discontinued activities</b>				
Industry wide schemes	–	100,417	–	–
Concessionary fuel	–	43,696	–	–
	<b>720</b>	<b>144,705</b>	<b>720</b>	<b>592</b>

Contributions to defined benefit schemes during the year amounted to £150,878,000 (including the contribution of 75.1% of Harworth Estates Property Group Limited valued at £138,000,000) (2011: £23,836,000). At December 2012, contributions of £867,000 remained unpaid (2011: £2,066,000).

### Industry Wide Schemes

The majority of employees within the defined benefit schemes operated by the Group were members of the two industry wide schemes, being either the Industry Wide Coal Staff Superannuation Scheme ("IWCS") or the Industry Wide Mineworkers' Pension Scheme ("IWMPS"), both of which commenced on privatisation following the Coal Industry Act 1994. The pension schemes are valued annually by qualified independent actuaries for the purposes of IAS 19 and the preparation of financial statements. The assumptions which usually have the most significant effect on the results of the valuation are the discount rate, which is based on bond yields, and the rates of increases in salaries and pensions. The main assumptions underlying the valuations of the Group sections of each scheme were as follows:

	As at 8 December 2012	As at 31 December 2011
Discount rate	4.3% p.a.	4.9% p.a.
Rate of salary increases – IWMPS	2.0% p.a.	1.9% p.a.
Rate of salary increases – IWCS	2.8% p.a.	2.9% p.a.
Rate of price inflation (RPI)	2.8% p.a.	2.9% p.a.
Rate of return on equities	5.8% p.a.	6.0% p.a.
Rate of return on debt	3.4% p.a.	3.7% p.a.
Rate of cash commutation	20.0%-25.0%	20.0%-25.0%

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 25. RETIREMENT BENEFIT OBLIGATIONS: continued

	Year ended December 2012	Year ended December 2011
Longevity at age 60 for current pensioners (years)		
IWMPS and IWCSSS		
– Men	<b>22.3 - 25.1</b>	22.5 - 25.1
IWCSSS		
– Women	<b>27.4</b>	27.4
Longevity at age 60 for future pensioners (years)		
IWMPS and IWCSSS		
– Men	<b>23.3 - 25.8</b>	23.4 - 25.8
IWCSSS		
– Women	<b>28.2</b>	28.2

IWCSSS pensions in payment are assumed to increase in line with retail price inflation in respect of service to December 2011. For the IWMPS, the assumed pension increases depend on the period of service accrual (before April 1997: no increases, after 1997: in line with statutory minimum increases based on consumer price inflation). In the case of both schemes, following changes in the schemes' rules in 2011, future salary increases exceeding the rate of inflation are not taken into account (RPI in respect of the IWCSSS, CPI in respect of the IWMPS) in respect of benefits accrued from service to December 2011.

The overall expected rate of return on assets is based on an historic view of the yields from equities and the rates prevailing on applicable bonds at the balance sheet date.

The amounts recognised in the consolidated balance sheet are as follows:

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Fair value of plan assets	–	448,937	431,746	379,949	316,464
Present value of funding obligations	–	(549,354)	(566,015)	(564,822)	(390,543)
Net liability recognised in the balance sheet	–	(100,417)	(134,269)	(184,873)	(74,079)

None of the pension schemes own any shares in the Company.

The amounts recognised in the consolidated income statement (within discontinued operations) are:

	Year ended December 2012 £000	Year ended December 2011 £000
Current service cost	<b>(9,431)</b>	(12,660)
Interest cost	<b>(26,654)</b>	(31,034)
Expected return on plan assets	<b>23,031</b>	28,174
Effect of curtailment or settlement	–	1,430
Past service cost	–	14,814
	<b>(13,054)</b>	724

Current service cost and interest cost less expected return on plan assets are included within expenses in note 2 (restructuring and discontinued operations) and the effect of curtailment is included in non-trading exceptional items. A further £79,175,000 loss (2011: £10,633,000 gain) has been reflected in the statement of comprehensive income in the year. This represents the net effect of experience and actuarial gains and losses on the schemes in the year.

**25. RETIREMENT BENEFIT OBLIGATIONS:** continued

In the case of both schemes, for service after December 2011, pensions in payment increases will be in line with the statutory minimum based on consumer price inflation.

	Year ended December 2012 £000	Year ended December 2011 £000
<b>Change in assets</b>		
Fair value of plan assets at the start of the year	448,937	431,746
Expected return on plan assets	23,031	28,174
Actuarial gains/(losses) on assets	19,698	(17,272)
Contribution of 75.1% of Harworth Estates Property Group Limited (note 2)	138,000	–
Employer contributions	11,292	22,495
Plan participants' contributions	3,385	3,044
Benefits paid	(23,635)	(19,250)
Disposal arising from Group Restructuring (note 2)	(620,708)	–
Fair value of plan assets at the end of the year	–	448,937

The major categories of the schemes' assets are as follows:

	As at December 2012 £000	As at December 2011 £000
Equity securities	–	289,253
Debt securities	–	159,684
	–	448,937

The actual return on plan assets was a gain of £42,729,000 (2011: £10,902,000).

	Year ended December 2012 £000	Year ended December 2011 £000
<b>Change in defined benefit obligations</b>		
Present value of defined benefit obligation at the start of the year	(549,354)	(566,015)
Current service cost	(9,431)	(12,660)
Interest cost	(26,654)	(31,034)
Plan participants' contributions	(3,385)	(3,044)
Curtailment gain	–	1,430
Actuarial (loss)/gain	(98,873)	27,905
Benefits paid	23,635	19,250
Past service cost	–	14,814
Disposal arising from Group Restructuring (note 2)	664,062	–
Present value of defined benefit obligation at the end of the year	–	(549,354)

	Year ended December 2012 £000	Year ended December 2011 £000
<b>Analysis of the movement of the balance sheet liability</b>		
At the start of the year	(100,417)	(134,269)
Total amounts recognised in the income statement (within discontinued operations)	(13,054)	724
Contributions	138,000	–
Employer contributions	11,292	22,495
Net actuarial (loss)/gain recognised in the year	(79,175)	10,633
Disposal arising from Group Restructuring (note 2)	43,354	–
At the end of the year	–	(100,417)

	Year ended December 2012 £000	Year ended December 2011 £000
<b>Cumulative actuarial gains and losses recognised in equity</b>		
At the start of the year	(67,955)	(78,588)
Net actuarial (loss)/gain in the year	(79,175)	10,633
At the end of the year	(147,130)	(67,955)

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 25. RETIREMENT BENEFIT OBLIGATIONS: continued

	Year ended December 2012 £000	Year ended December 2011 £000
<b>Experience gains and losses</b>		
Actual return less expected return on schemes' assets	19,698	(17,272)
Experience (losses)/gains arising on schemes' liabilities	(6,853)	5,472
Changes in assumptions underlying present value of liabilities	(92,020)	22,433
<b>Net actuarial (loss)/gain</b>	<b>(79,175)</b>	10,633

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
<b>History of experience gains/(losses)</b>					
Actual return less expected return on schemes' assets	19,698	(17,272)	17,155	31,840	(92,915)
Percentage of year end scheme assets	4%	(4)%	4%	8%	(29)%
Experience gains/(losses) arising on schemes' liabilities	(6,853)	5,472	7,386	(7,412)	(2,914)
Percentage of the present value of schemes' liabilities	1%	1%	1%	1%	1%

Contributions are determined by a qualified actuary on the basis of triennial valuations, using the projected credit unit method. The most recent valuations for the purpose of determining contributions were at 31 December 2009, which were agreed in September 2011.

No contributions will be paid to the schemes in the year ending December 2013 because, post Restructuring, liability for the funding of the schemes has passed to UK Coal Operations Limited.

### Blenkinsopp

Blenkinsopp is a section of the IWMPs covering the pension arrangements of the various companies comprising parts of the former British Coal. Blenkinsopp Collieries Limited was sold by the Group in 1998. However, it has since gone into liquidation and the retirement liabilities have reverted to the Group and Company. The liability as at December 2012 is £720,000 (2011: £592,000), employer's contributions for the year were £215,000 (2011: £192,000), the amount recognised in the income statement is £53,000 (2011: £64,000) (current service costs £15,000 (2011: current service cost £16,000) and interest cost less expected return on plan assets £38,000 (2011: £48,000)) and the actuarial loss recognised in the statement of comprehensive income is £290,000 (2011: gain £132,000). Cumulative actuarial gains recognised in equity for this Blenkinsopp section were £327,000 (2011: £617,000).

These are the only defined benefit obligations held by the Company.

### Concessionary Fuel

The Group operated a concessionary fuel arrangement in the UK up until the date of Restructuring. Provision for concessionary fuel was made to cover the future retirement costs for those employees who currently benefit as part of their regular terms of employment, or former employees who are benefiting in retirement. This relates only to employees who transferred under privatisation. A 1% annual allowance was made to reduce the provision for employees who were expected to be unable to take the benefits.

An actuarial valuation for the purpose of IAS 19 was carried out by an independent actuary at December 2012 in order to establish the value of the scheme liabilities to be transferred at the date of Restructuring. The major assumptions used by the actuary were:

	Year ended December 2012	Year ended December 2011
Discount rate	4.3% p.a.	4.9% p.a.
Inflation assumption	2.8% p.a.	2.9% p.a.

The amounts recognised in the balance sheet are as follows:

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Net liability recognised in the balance sheet	–	(43,696)	(36,482)	(34,879)	(29,277)

The amounts recognised in the consolidated income statement are:

	Year ended December 2012 £000	Year ended December 2011 £000
Current service cost	(470)	(476)
Interest cost	(2,119)	(1,988)
Past service cost	–	1,564
	<b>(2,589)</b>	(900)

**25. RETIREMENT BENEFIT OBLIGATIONS:** continued

Current service cost and interest cost are included within discontinued activities. A further loss of £5,803,000 (2011: £7,463,000 loss) has been reflected in the statement of comprehensive income in the year. This represents the net effect of experience and actuarial gains and losses on the schemes in the year.

	Year ended December 2012 £000	Year ended December 2011 £000
<b>Analysis of the movement of the balance sheet liability</b>		
Concessionary fuel reserve at the start of the year	(43,696)	(36,482)
Current service cost	(470)	(476)
Benefits paid to former employees during the year	1,371	1,149
Interest cost	(2,119)	(1,988)
Actuarial loss	(5,803)	(7,463)
Past service cost	–	1,564
Disposal arising from Group Restructuring (see note 2)	50,717	–
Concessionary fuel reserve at the end of the year	–	(43,696)

The valuation of the balance sheet liability has been based on market prices for the related coal products at the end of the year.

	Year ended December 2012 £000	Year ended December 2011 £000
<b>Cumulative actuarial gains and losses recognised in equity</b>		
At the start of the year	(17,823)	(10,360)
Net actuarial loss in the year	(5,803)	(7,463)
At the end of the year	(23,626)	(17,823)

	Year ended December 2012 £000	Year ended December 2011 £000
<b>Experience gains and losses</b>		
Experience loss on concessionary fuel reserve	(2,041)	(6,795)
Changes in assumptions underlying present value of liabilities	(3,762)	(668)
Total amount in statement of comprehensive income	(5,803)	(7,463)

<b>History of experience gains and losses</b>	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Experience (loss)/gain on concessionary fuel reserve	(2,041)	(6,795)	942	3,559	(8,510)
Percentage of concessionary fuel reserve	(5)%	(16)%	3%	10%	(29)%

**26. CALLED UP SHARE CAPITAL**

<b>Group and Company</b>	2012		2011	
	Number of shares	£000	Number of shares	£000
<b>Authorised share capital</b>				
At the start and end of the year				
Ordinary shares of 1 pence each	Unlimited	Unlimited	Unlimited	Unlimited
<b>Issued and fully paid</b>				
At the start and end of the year				
Ordinary shares of 1 pence each	299,298,160	2,993	299,298,160	2,993

No shares vested during 2012 or 2011 under the Long Term Incentive Plan ("LTIP").

# Notes to the Financial Statements

for the year ended 29 December 2012: continued

## 26. CALLED UP SHARE CAPITAL: continued

### Long Term Incentive Plan

A Long Term Incentive Plan was introduced in 2000 for Executive Directors and Senior Executives. Details of the plan are set out in the Directors' Remuneration Report. During the year, nil (2011: nil) shares were reserved against the award of shares under the LTIP. The shares are awarded at an exercise price of £nil. Shares outstanding at December 2012 are as follows:

	<b>2012 Number</b>	Restated 2011 Number
Exercisable from 2013	<b>7,871,837</b>	7,871,837
Exercisable from 2014	<b>4,477,801</b>	4,477,801

There were no awards granted in the year. A Monte Carlo simulation utilising Black-Scholes methodology has been used to value awards granted in previous years as follows:

	2011	2011	2011	2010	2010
Grant date	3 November	31 August	20 April	15 November	26 August
Share price at grant date	£0.33	£0.47	£0.35	–	£0.39
Exercise price	£nil	£nil	£nil	£nil	£nil
Number of employees	1	2	18	1	19
Shares under option	50,000	202,659	4,225,142	4,320,000	3,551,837
Vesting period (years)	3	3	3	3	3
Expected volatility	60.7%	59.8%	59.3%	N/A	57.8%
Option life (years)	3	3	3	3	3
Expected life (years)	2.84	2.66	2.30	1.87	2.35
Risk free rate	0.78%	0.98%	1.68%	N/A	0.88%
Possibility of ceasing employment before vesting	5%p.a.	5%p.a.	5%p.a.	5%p.a.	5%p.a.
Fair value per option	£0.20	£0.35	£0.23	£0.40	£0.11

The expected volatility is based on historical volatility over the last five years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to December 2012 is shown below:

	<b>Year ended December 2012 Number</b>	Restated Year ended December 2011 Number
Outstanding at the start of the year	<b>12,349,638</b>	8,725,806
Granted	–	4,477,801
Expired	–	(853,969)
Outstanding at the end of the year	<b>12,349,638</b>	12,349,638

### Cessation of Employment

If an award holder ceases to be employed within the Group by reason of injury, ill health or disability (evidenced to the satisfaction of the Remuneration Committee), redundancy, retirement, or upon the sale or transfer out of the Group of the Company or undertaking employing the award holder (each "a Good Reason" and such an award holder, a "Good Leaver"), then:

As regards awards for which the vesting date has not by then occurred, he or she must normally wait until the normal vesting date in respect of the award before being permitted to exercise it (save that the Remuneration Committee will have the discretion instead to allow the award holder to exercise some or all of such unvested awards within the period of 12 months, or such shorter period as is determined by the Remuneration Committee, following the date of cessation of employment); and

Ordinarily, where an award holder ceases to be employed within the Group (or gives notice to terminate his or her employment) for any reason other than a Good Reason, any awards held by him or her (whether vested or not) will lapse and cease to be exercisable. However, the Remuneration Committee will have the discretion, subject to such additional conditions as it determines (including a power to reduce the number of shares under award whether such award has vested or not), to permit the award holder to exercise some or all of his or her awards on the same basis as a Good Leaver.

The leavers who have transferred out of the Company as a result of the restructure in the year are considered to be Good Leavers. All vesting associated with these awards has therefore been accelerated and expensed in the Consolidated Income Statement within continuing operations.

The total charge for the year relating to employee share-based payment plans was £1,544,000 (2011: £1,286,000) all of which related to equity settled share-based payment transactions.

**27. RETAINED EARNINGS/(LOSS)**

Group	Note	2012 £000	2011 £000
<b>At January</b>		<b>(80,283)</b>	(181,484)
(Loss)/profit for the financial year		<b>(6,325)</b>	55,241
Actuarial (loss)/gains on post retirement benefits	25	<b>(85,268)</b>	3,302
Movement on deferred tax asset relating to retirement benefit liability	8	<b>(8,125)</b>	–
Fair value loss on revaluation of investment properties	13	<b>(16,188)</b>	(3,325)
Transfer of realised gain on disposed properties	28	<b>208,568</b>	44,697
Accrual for long term incentive plan liabilities	26	<b>1,544</b>	1,286
<b>At December</b>		<b>13,923</b>	(80,283)

Company	Note	2012 £000	2011 £000
<b>At January</b>		<b>313,645</b>	316,056
Loss for the financial year		<b>(302,437)</b>	(3,829)
Actuarial (loss)/gain on post retirement benefits	25	<b>(290)</b>	132
Accrual for long term incentive plan liabilities	26	<b>1,544</b>	1,286
<b>At December</b>		<b>12,462</b>	313,645

**28. OTHER RESERVES**

Group	Note	Hedging reserve £000	Revaluation reserve £000	Capital redemption reserve £000	Assets held for sale £000	Fair value reserve £000	Total £000
At January 2011		(262)	129,420	257	–	99,713	229,128
Revaluation on recognition of investment properties	13	–	4,519	–	–	–	4,519
Transfer of realised gain on disposed properties		–	(6,652)	–	–	(38,045)	(44,697)
Fair value gain on revaluation of investment properties	13	–	–	–	–	3,325	3,325
Hedging reserve - amortised in period	23	372	–	–	–	–	372
Amounts recognised in reserves relating to non-current assets held for sale	18	–	(14,190)	–	14,190	–	–
Movement in deferred tax asset on cash flow hedges	8	(110)	–	–	–	–	(110)
<b>At January 2012</b>		<b>–</b>	<b>113,097</b>	<b>257</b>	<b>14,190</b>	<b>64,993</b>	<b>192,537</b>
Revaluation on recognition of investment properties	13	–	100	–	–	–	100
Transfer of realised gain on disposed properties	27	–	(113,197)	–	(14,190)	(81,181)	(208,568)
Fair value gain on revaluation of investment properties	13	–	–	–	–	16,188	16,188
<b>At December 2012</b>		<b>–</b>	<b>–</b>	<b>257</b>	<b>–</b>	<b>–</b>	<b>257</b>

Company	Capital redemption reserve £000	Total £000
<b>At January 2011 and 2012 and December 2011 and 2012</b>	<b>257</b>	<b>257</b>

None of the other reserves balances at either the 2012 or 2011 year ends represented realised reserves.

**29. CAPITAL AND OTHER FINANCIAL COMMITMENTS**

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

Group	As at December 2012 £000	As at December 2011 £000
Property, plant and equipment	–	11,895
Investment property	–	559
	–	12,454

## Notes to the Financial Statements

for the year ended 29 December 2012: continued

### 30. OPERATING LEASE COMMITMENTS

#### Group

The minimum lease payments due to the Group under non-cancellable operating leases, all of which relate to property rentals, are as follows:

	<b>As at December 2012 £000</b>	As at December 2011 £000
Lease expiring:		
Within 1 year	–	2,988
Later than 1 year and less than 5 years	–	7,273
After 5 years	–	25,130
	–	35,391

The minimum lease payments due by the Group under non-cancellable operating leases, which relate to rights over land usage and plant hire, are as follows:

	<b>As at December 2012 £000</b>	As at December 2011 £000
Lease expiring:		
Within 1 year	–	3,453
Later than 1 year and less than 5 years	–	13,617
After 5 years	–	814
	–	17,884

The Company had no interest in any operating leases (2011: £nil).

### 31. CONTINGENT LIABILITIES

Following Restructuring the Group has a contingent liability in respect of guarantees that it has provided on behalf of Mine Holdings in respect of certain finance leases. At the year end the outstanding amount payable on these finance leases, some of which may have guarantees attached, was £500,000, and they were due to be settled within one year. As disclosed in note 33 (post balance sheet events), the fire and subsequent closure of Daw Mill colliery may have an impact on Mine Holdings' ability to settle the finance leases. The directors expect that should any of the guarantees be called the liability would be up to £500,000.

Should the mining business fail to pay for the management services provided by the Company, the Group could have a deficit against its annual running costs of around £300,000. Additionally the Group received indemnities from the mining group for payment of restructuring fees and other liabilities including the Blenkinsopp pension scheme contribution. Should the mining group be unable to honour the indemnities given to the Group, the Group would have to settle these liabilities out of its own resources. The expected balance still to be settled is £3,800,000 for costs associated with the Restructuring process and the on-going annual pension scheme contribution.

In last year's Annual Report and Accounts a guarantee for an insurance bond for £10,000,000 which was used as security to surface damage liabilities was reported. The insurance bond matured during 2012 and the related liabilities were transferred to the Mining Division upon Restructuring.

Following Restructuring no guarantees have been given in the normal course of business for performance bonds (2011: £5,619,000) to cover the performance of work under a number of Group contracts.

### 32. RELATED PARTY TRANSACTIONS

#### Group

During the year, the Group made various payments to industry wide defined benefit pension schemes. Details of these transactions are set out in note 25 to the financial statements.

Other than the directors of the Company, who are the key management of the Group and whose remuneration is disclosed in the Directors' Remuneration Report, there is no other key management compensation to disclose.

#### Transactions with Associates

Since the date of Restructuring the Group has invoiced company secretarial services of £5,000 (2011: £nil) to its associated company Harworth Estates Property Group Limited.

**32. RELATED PARTY TRANSACTIONS:** continued**Transactions with Available for Sale Investments**

Since the date of Restructuring the Group has invoiced company secretarial services of £5,000 (2011: £nil) and recharged £3,557,000 (2011: £nil) of legal and professional fees to its available for sale investment UK Coal Mine Holdings Limited and its subsidiaries.

**Transactions with Joint Ventures**

The Group did not carry out any transactions with joint ventures during the year (2011: none). There were no balances owing to / from joint ventures at the year end.

**Company**

The Company carried out the following transactions with related parties during the year. Until the date of Restructuring, all parties were subsidiary undertakings.

*Management charges*

During the year the Company raised management charges of £5,008,000 on related parties (2011: £4,199,000).

*Dividends received*

During the year the Company received dividends of £90,815,000 (2011: £nil) from related parties whilst they were subsidiary undertakings.

*Interest*

During the year the Company received interest income of £7,434,000 (2011: £8,720,000) from related parties and paid interest of £7,057,000 (2011: £8,206,000) to related parties. All transactions occurred whilst the related parties were subsidiary undertakings. The Group manages its financing arrangements centrally, and amounts were transferred within the Group dependent on the operational needs of individual companies. All amounts were repayable on demand, carried no security and incurred interest at LIBOR +2%, except UK Coal Mining Ltd at LIBOR +3.5%. All loan balances with related parties had been settled at the year end.

*Receivables and indebtedness*

During the year the Company wrote off £179,497,000 (2011: £nil) as part of the Restructuring process.

Details of the Company's receivables and indebtedness are set out in notes 17 and 21 and amounts due from or owed to related parties are set out below:

	<b>As at December 2012 £000</b>	As at December 2011 £000
<b>Owed to:</b>		
UK Coal Mining Ltd	–	(93,873)
Harworth Power Limited	–	(10,824)
Centechology (UK) Limited	–	(1,813)
Harworth Park Services Ltd	–	(7)
UK Coal Holdings Limited	<b>(137)</b>	(36)
Harworth Group Limited	–	(6,578)
Harworth Guarantee Co. Limited	<b>(48)</b>	(48)
Potland Burn Limited	–	(21,349)
Dormant and non-trading companies	–	(23,881)
	<b>(185)</b>	(158,409)

	<b>As at December 2012 £000</b>	As at December 2011 £000
<b>Owed by:</b>		
UK Coal Operations Limited	<b>3,557</b>	–
UK Coal Mine Holdings Limited	<b>5</b>	–
Harworth Estates Property Group Limited	<b>5</b>	–
Mining Services Limited	–	5,511
LHTC Ltd	–	2,987
Harworth Mining Ltd	–	6,981
EOS Inc. Ltd	–	12,258
Harworth Estates (Agricultural Land) Limited	–	6,821
Harworth Estates (Waverley Prince) Limited	–	97,928
Harworth Insurance Company Limited	–	335
Dormant and non-trading companies	–	83,422
	<b>3,567</b>	216,243

## Notes to the Financial Statements

for the year ended 29 December 2012: continued

### 32. RELATED PARTY TRANSACTIONS: continued

#### Peel Group

The £10,000,000 unsecured facility from Peel Holdings Finance Limited, was extended in April 2012 until November 2013, amortising in value by £2,500,000 per month from August 2013 to November 2013. No interest was payable in 2012 as the facility was undrawn in the period. Total fees of £465,000 were incurred in 2012 in relation to the facility. The facility was terminated upon Restructuring in December 2012.

### 33. POST BALANCE SHEET EVENTS

Since Restructuring in late 2012, the Group has retained only a limited economic interest in its investment in Mine Holdings.

On 22 February 2013 Mine Holdings' Daw Mill colliery suffered a major underground fire. Mine Holdings safely evacuated 92 underground workers from the mine in accordance with standard emergency procedure, while a specialised team of 14 underground workers, trained in fire fighting, remained at the scene to extinguish the fire. After four hours it became clear that due to the severity of the fire, all remaining miners should be evacuated from the mine. On 7 March 2013, as the fire continued to burn ferociously, Mine Holdings announced the closure of Daw Mill colliery, putting the workforce of 650 at risk of redundancy.

The fire and subsequent closure of Daw Mill has had a significant impact on the mining business. The Company has worked closely with Mine Holdings and the government led by the Department for Energy and Climate Change to help Mine Holdings manage the closure of Daw Mill and seek a way forward for the mining business.

The Company carries its investment in Mine Holdings at £1, so there is no risk to shareholder value arising from the fire. However the mining business was due to contribute to the Company's on-going running costs and, at 29 December 2012 and also at the date of signing of the Annual Report and Accounts 2012, owed £3,600,000 in respect of restructuring fees recharged by the Company. The directors consider that there is some uncertainty as to the recoverability of this receivable.

Harworth Estates, the Company's associate, has certain exposures to Mine Holdings through arrangements put in place as part of the Restructuring. These include:

- a £10m loan;
- providing security to the Coal Authority for part of Mine Holdings deep mine subsidence liability. The value of security provided is £21.5m against a liability of £9.1m; and
- providing security to Lloyds TSB Bank in respect of a bonding facility for Mine Holdings surface mines operations. This facility is currently drawn by £4.2m but can go up to £8.0m.

There is a risk that Harworth Estates may be impacted by the fire at Daw Mill in terms of Mine Holdings' ability to service loan repayments and meet its cash funding requirements in respect of the Coal Authority and surface mine bonding arrangements and so indirectly the Company's investment in Harworth Estates may be impacted.



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