Interim Report 2011

UK COAL PLC
Interim Report 2011

UK Coal is the largest producer of coal in the UK, and a significant supplier of energy to the UK's electricity industry. In the last year we mined approximately 14% of the total amount of coal burned in the UK, which is equivalent to the energy needed to provide around 5% of the country's electricity requirements.

Highlights

	H1 2011	H1 2010	Full year 2010
Total Group revenue (£m)	**256.1**	141.3	351.2
Average sale price per Gigajoule (£/GJ)	**2.36**	1.97	1.97
Non-cash property revaluation reduction (£m)	**–**	(10.1)	(34.2)
Operating profit/(loss) before non-trading exceptional items (£m)	**35.2**	(61.4)	(74.3)
Profit/(loss) after tax (£m)	**22.2**	(92.0)	(125.1)
Total Group debt including generator balances (£m)	**(207.3)**	(257.0)	(242.4)

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Chairman's Statement

Introduction

Our 2010 Annual Report identified the key issues facing UK Coal and set out our intention to address these with the development of a clear Strategic Recovery Plan. As reported at the AGM in June 2011, and in our July 2011 trading update, we finalised our plans in May and the work streams which relate to all key drivers of performance for the Group are underway and on track.

The key objectives for the Strategy Recovery Plan are to:

- Improve the safety performance of UK Coal;
- Review the strategy for the sale of coal;
- Overhaul operating costs and, in particular, terms, conditions and flexibility of employment;
- Increase the predictability/reliability of production and over-ground operations;
- Improve the process for the development of new coal faces;
- Create the surface mining business as a profitable, sustainable, standalone business;
- Reform the level and form of pension provision, cost and deficit funding;
- Develop a strategy for releasing the value of the property portfolio; and
- Generate a plan for the exploitation of the Group's coal reserves beyond those accessible from the current infrastructure.

Results for the first half of 2011 show a helpful start towards returning the Group to reliable and consistent operational performance, but should not be read as anything other than a first step in restoring a focus on performance to UK Coal. Many further challenges remain.

Results

The Group reports an overall pre-tax profit of £22.1m (H1 2010: £93.2m loss, FY 2010: £124.6m loss) arising from an 81% increase in first half revenues to £256.1m (H1 2010: £141.3m, FY 2010: £351.2m). This is indicative both of higher volumes arising from more reliable mining performance and an increase in average realised sales prices for the first half of £2.36/GJ compared with 2010 (H1 & FY 2010: £1.97/GJ).

We have made good progress on reducing debt through the sale of property assets. Disposals with a net book value of £51.7m were made in the first half, realising net proceeds of £53.8m, of which £34.9m was received in the period. The bulk of this, together with proceeds received from December 2010 property disposals, has been applied to our debt resulting in a reduction in Group net debt to £207.3m at 25 June 2011 (December 2010: £242.4m). However, without the benefit of the property disposal receipts, net debt actually increased marginally, as a result of an increase in working capital. The priority remains for the business to generate cash.

Production Levels

First half production was 4.1 million tonnes (H1 2010: 2.7 million tonnes, FY 2010: 7.2 million tonnes). Our three deep mines produced 3.1 million tonnes (H1 2010: 2.0 million tonnes, FY 2010: 5.6 million tonnes). Daw Mill, Kellingley and Thoresby all achieved higher levels of output than in the first half of 2010.

As reported previously, we developed a detailed plan to mitigate the expected repeat of a face gap at Daw Mill this year. The challenges have been considerable. This new plan extends production on the current panel, 32s, beyond 2011 to early 2012 although production will be at reduced rates as we mine through a geological fault. The new panel, 303s, is being installed and will be fully operational in Q4. The ability to operate two faces reduces the production risk for 2011. This approach has also enabled development to continue on the subsequent face (required for late 2012).

Surface mine production for the first half was 1.0 million tonnes (H1 2010: 0.5 million tonnes, FY 2010: 1.4 million tonnes), with better than expected weather conditions assisting operations.

Recovery Plan

The Group is making progress on each strand of the Recovery Plan:

(i) Safety

Our focus on the delivery of the safety improvement plan remains a core priority. Behavioural change is the most significant challenge as recognised in our 'Safety at the Heart' programme. Overall accident rates improved modestly but lost time injury rates are proving stubborn to improve.

(ii) Operational performance

The improved performance in the first half reflects, in part, progress in the deep mines, particularly at Kellingley and Thoresby. Focus continues on planning and delivery, especially at Daw Mill.

(iii) Property

Historically, the Group has relied heavily on the potential of its property portfolio both to underpin future value and to use as security for its banking facilities. Although property does, and will, remain an important part of the business it is neither a panacea nor an excuse to ignore the issues within the underlying mining business.

During the first half we have increased our disposal programme, with £53.8m of property sales in the period. The proceeds received on these sales have been in excess of book value reinforcing the valuation of the estate. Our recently reported strategic land deals with Taylor Wimpey plc and The Church Commissioners set an encouraging precedent.

We have accelerated our programme to enhance the value of the remaining estate both through the planning process and commercial property management. Our major development schemes at Waverley and Prince of Wales are attracting interest from a number of developers and housebuilders and we are bringing forward the first phases of development.

(iv) Pensions
We have concluded intensive negotiations in respect of our two defined benefit pension schemes with the unions representing the membership, and have, in principle, finalised a revised structure for these pension arrangements. The proposed arrangements restrain future pension costs and, as a result, will enable viable deficit contributions to be made to the schemes. In the case of the mineworkers' scheme, where the trustees make the final decision, the trustees have agreed to the change in principle. In the case of the staff scheme these proposed arrangements need to be voted on by employees and this process is underway.

(v) Workforce cost and flexibility
In April we identified the twin issues of escalating labour costs and of operational inflexibility and associated costs resulting from out-dated working patterns and practices. Over the last four months we have engaged in negotiations with the trade unions to reach agreement on changes to terms and conditions of employment that will deliver more flexible and efficient working arrangements and constrain or reduce labour costs in the deep mines.

During the last week all but one of the unions representing our workforce has indicated that they will either recommend to their members proposals which are acceptable to UK Coal or accept them on behalf of their members. A response from the final union, representing a quarter of the workforce, is awaited.

In the event, and to the extent, that we are unable to reach a prompt conclusion, we will embark upon a process of formal statutory consultation with a view to implementing changes to terms and conditions of employment which are essential to delivering our recovery plan and a viable business.

(vi) Commercial strategy
We have reviewed our commercial strategy and will, during the second half of the year, commence negotiations for coal sales beyond our current contractual commitments, recognising the current level of coal prices. The new strategy also recognises that in the past the Group has over contracted its production.

(vii) Control
We will be reviewing our financial and operational control framework in detail to ensure that it is appropriately robust to support the Group through this period of significant change.

People

We have commenced a process to strengthen the mining executive team with the first appointments being a Director of Surface Mining and a Director responsible for delivering the recovery plan.

At Board level we have made two new appointments. In April 2011, Keith Heller was appointed as a Non-Executive Director and chair of the Safety Committee. In July 2011, Peter Hickson was appointed as a Non-Executive Director and chair of the Remuneration Committee. Peter will become the Senior Independent Director on the retirement of Peter Hazell at the end of the year. The search for a new Non-Executive, who will chair the Audit Committee, has commenced. Kevin Whiteman and Mike Toms left the Group in March and June respectively.

Outlook

Overall our expectations remain the same. The greatest risk to Group output this year is at Daw Mill as a result of the operational consequences of the change of face, mining through the fault and the impact of discussions surrounding labour terms and conditions. Better than expected performance at the other mines acts to mitigate these risks. We continue to monitor the progress being made at Daw Mill.

Our accelerated property disposal programme in the first half has achieved the majority of disposals targeted for the whole of 2011. We continue actively to market surplus agricultural and other land, continuing our debt reduction programme.

We will continue to drive forward all the priority work streams of our Strategic Recovery Plan.

The last few months have seen significant transition and change as we seek to improve the Group's fortunes. This has imposed considerable workload on the workforce and management at UK Coal. I would like to thank them all, and their representatives, for their hard work over this period.

Jonson Cox
Chairman

23 August 2011

Operating Review

Safety

Safety remains our number one priority and we continue to work to remove the risk of accidents occurring within our workplace and implement major hazard control, especially in our mining business.

Over the period, we have carried out training and education to ensure all colleagues understand how to operate within a safe modern mining business. The lost time injury frequency rate in the period was 27.84 per 100,000 manshifts, which is somewhat disappointing, as it shows no improvement on the rate observed in 2010 of 27.28. The rate for all accidents, however, showed an improvement of over 12% in the first half compared to the 2010 full year.

We will continue to roll out further training initiatives in the second half which will ultimately involve all employees attending an externally accredited safety programme.

Mining

Coal market

International coal prices delivered into NW Europe have remained relatively stable in the first six months of the year, trading broadly within a $115-130/tonne price band. These price levels are a marked increase from the first six months of 2010, when the average price was just over $83/tonne.

Forward coal prices remain firm: on 18 August, those prices were circa $125, $126 and $130 per tonne for the fourth quarter of 2011 and for the full years of 2012 and 2013 respectively.

Coal sales

In the first half, an average realised sales price of £2.36/GJ was achieved compared to £1.97/GJ in both H1 and FY 2010. This increase is due to higher market coal prices prevailing in 2011 which we have been able to access as deliveries under very old contracts have continued to fall. At the end of the first half, a total of 1.5 million tonnes remained to be delivered at an average price of circa £1.73/GJ, of which 1.1 million tonnes will be delivered in the second half of 2011. Total contractual commitments at the end of June 2011 totalled 17.3 million tonnes (June 2010: 26.2 million tonnes, December 2010: 21.2 million tonnes).

Deep Mines

Colliery performance summary:

	Production			Operating cost*		
	H1 2011 m tonnes	H1 2010 m tonnes	FY 2010 m tonnes	**H1 2011 £m**	H1 2010 £m	FY 2010 £m
Deep mines						
Daw Mill	**1.4**	0.6	2.6	**56.6**	50.8	109.1
Kellingley	**1.0**	0.8	1.5	**47.3**	40.8	83.6
Thoresby	**0.7**	0.6	1.5	**40.8**	35.9	77.1
Welbeck	**–**	0.2	0.2	**–**	14.1	14.6
Total deep mines production/costs before stock movements	**3.1**	2.2	5.8	**144.7**	141.6	284.4
Stock movements	**–**	–	–	**7.4**	8.1	4.5
Total production/costs for deep mines	**3.1**	2.2	5.8	**152.1**	149.7	288.9

* Operating cost before non-trading exceptional items and depreciation, with central costs absorbed.

The deep mines have produced consistent levels of output during the first half of 2011, in line with our expectations.

As expected, deep mine operating costs in the first half have shown an increase at all three mines compared to the first six months of 2010, reflecting increased activity levels, and higher commodity and power prices in the period. At Kellingley and Thoresby, in the first half of last year, development activity was more focussed on the final capital expenditure in opening up their new seams compared to the more normal development work in 2011.

Daw Mill

During the first quarter of 2011, a detailed review of the mine plan was undertaken to mitigate the risks of any potential face gap on the completion of the existing panel, 32s. The outcome of that review was a new mine plan that delivers 2011's output without the risk of a gap in production by mining the existing face further, albeit through an area of faulting which will slow output. The next face, 303s, is currently being installed and once this is completed, both faces could operate consecutively allowing for flexibility in production during the mining of the fault. In addition, for the first time at Daw Mill, the mine is continuing with developments whilst the face installation process is underway.

In order that the mine's output is of a saleable quality during the second half,additional processing capability is being installed to cope with the higher ash content anticipated from the faulted workings. This plant is currently being commissioned.

Kellingley

Kellingley continues to make good progress with production and developments being in line with expectations. The transition from the previous face to the new face has been completed smoothly with continuation of output during the period.

Development of the next face, required for Q3 2012, is progressing well.

Thoresby

Thoresby has ramped up the second face in the Deep Soft seam which enables production levels to be maintained whilst the current face works out the final stages of its retreat. At the same time developments are well underway towards the next face required for Q1 2012.

The levels of unprocessed stocks have remained high at Thoresby and, as we have previously announced, improvements to the processing plant have been undertaken to address this. This increase in processing capacity will be ready early in Q4 2011 and unprocessed stocks are expected to reduce significantly by the year end.

Welbeck

The mine was closed in the first half of 2010. We have completed the filling of the shaft and demolition of the mine buildings in the first half of 2011.

Harworth

The mine remains under care and maintenance with options for future operation kept under review.

Operating Review
continued

Surface Mines

	H1 2011	H1 2010	FY 2010
Production (m tonnes)	**1.0**	0.5	1.4
Operating cost* (£m)	**48.6**	26.2	63.7
Operating cost per gigajoule* (£/GJ)	**1.93**	2.03	1.91

* Operating cost before non-trading exceptional items and depreciation, with central costs absorbed.

Surface mines had a good first half. The last production from Cutacre and Steadsburn and the production from the three new mines, which started in the second half of 2010, came in above expectations as favourable production conditions prevailed once the initial poor winter weather subsided. Second half production will slow with the closure of Cutacre and Steadsburn.

With the introduction of the three new mines, the operating cost per gigajoule for the period was lower than for the same period last year, as the lower stripping ratios experienced at these sites more than offset the higher cost of fuel experienced in the first half of 2011.

The business has been strengthened with the external appointment of a new Director of Surface Mines to drive the performance and strategic development of the business.

Planning

In July, UK Coal was granted planning permission for a new surface mine, Minorca Farm (Leicestershire), which has reserves of 1.2 million tonnes of coal. Production is expected to commence in summer 2012.

Despite its own planning officer's recommendation to support the scheme, Durham County Council rejected the application for our Bradley mine (0.5 million tonnes). This decision has been appealed and a public inquiry is due to commence at the end of October with a decision expected in the first half of 2012.

We are awaiting the outcome of a planning application for a 0.8 million tonne extension to Lodge House in Derbyshire, which will extend the life of the mine to 2015. We remain hopeful that a favourable decision will be forthcoming to allow for production to continue, saving around 40 jobs in the process.

Harworth Estates

We have progressed with our disposal programme in the period whilst continuing the process of adding value through our remaining estate. During the first half we sold properties with a net book value of £51.7m, realising £53.8m and giving a profit on disposals of £2.1m.

The total valuation of our property portfolio decreased in the first half of 2011 to £288.5m (December 2010: £338.9m) reflecting these disposals. On a like for like basis (after allowing for sales, purchases, depreciation and development spend) our overall portfolio value remains unchanged, as set out in the table below.

We are now managing the portfolio of our properties in the following segments:

Portfolio Valuation as at 25 June 2011	**June 2011 £m**	December 2010 £m	December 2010 like for like* £m	%
Strategic land	**77.0**	98.7	78.1	*(1.4)*
Natural resources	**38.9**	39.3	39.2	*(0.1)*
Major developments	**58.6**	56.4	56.7	*3.4*
Business parks	**64.0**	64.6	64.0	–
Agricultural (including surface mining land)	**50.0**	79.9	50.5	*(1.0)*
Total	**288.5**	338.9	288.5	–

* The like for like December 2010 comparative and percentage change figures are after property reclassifications and take into account adjustments for asset sales of £52m and purchases, development expenditures and depreciation of £1m.

In contrast to previous half years, we have not employed external consultants to carry out the half yearly valuation. This review has been undertaken by suitably qualified employees with both appropriate professional qualifications (FRICS/MRICS) and a comprehensive knowledge of the properties and associated markets. The valuation basis and assumptions are consistent with those used as at December 2010. In line with prior years, a full external RICS valuation will be carried out and reported in the year end accounts.

Whilst overall values remain unchanged on a like for like basis we have seen a modest increase in our major developments portfolio as a result of planning progress and value engineering to reduce infrastructure costs. We are encouraged by the level of interest and enquiry from housebuilders in these sites and will continue to progress discussions focused on maximising value.

At Waverley, an area designated by Government as a Housing Growth Point near Rotherham, two planning applications received formal consent during March. The first is for a new community of 3,890 homes plus approximately 165,000 sq ft for commercial and leisure use and the second is for a change of use to a Government office campus of approximately 646,000 sq ft plus a hotel and ancillary retail space.

At Harworth, outline planning consent was granted in March 2011 for 996 homes, 825,000 sq ft of employment space and a 22,000 sq ft foodstore. The foodstore is under contract to Asda who are looking to open late 2012. The first phase of housing comprising 141 plots is being marketed and is expected to be placed under contract before the end of this year.

Our business park portfolio continues to operate in line with expectations in the current challenging environment, with tenant retention levels at lease renewal remaining high and only a small number of businesses deciding to relocate to alternative locations at this time. Current rental income for the portfolio remains in line with 2011 forecasts and a strategy for the improved recovery and transparency of service charges has been implemented.

The planning position for South Leicester Disposal Point has been consented by North West Leicester District Council at its July planning committee. The ratification of the decision to grant planning permission, subject to the agreement and issue of a Section 106 agreement, enables the promotion and pre-let development of circa 550,000 sq ft of B2 industrial and B8 distribution accommodation to commence.

At Rossington the motorway link road scheme has secured, in principle, Regional Growth Fund support of £18m. This is a significant boost to our development proposals at Rossington where the link road will provide direct access to the Group's site when completed. In the meantime, proposals are advanced for the submission of a planning application for tip washing which will remove recoverable tip coal and create an enlarged platform for development as well as remediate the colliery tip.

At Cutacre near Bolton, our site was confirmed as a location for 80 hectares of developable land in the Council's Core Strategy. The site which has finished coal mining and is in its final stages of restoration is already attracting interest from a number of occupiers.

We have received shareholder approval for a waste to energy joint venture with Peel Environmental on 11 sites which will be promoted by Peel. The joint venture will, where applications are approved, allow significant value to be added to the sites, with the applications for most sites expected to be made within a two year period. We have also signed a lease with EDF Renewables on our land at Hill Top which has consent for a wind farm.

Financial Review

Financial Performance

A review of the performance of the Group and the individual businesses has been given in the Operating Review and further detailed disclosures are contained in the financial statements accompanying this report.

Group revenues have risen 81% in the first half of 2011 to £256.1m (H1 2010: £141.3m, FY 2010: £351.2m). This has been achieved through a combination of higher sales volume and higher realised sales prices. The increase in sales volume to 4.4 milion tonnes (H1 2010: 2.9 million tonnes, FY 2010: 7.2 million tonnes) has been achieved through improved production performance, with uninterrupted output producing consistent levels in line with expectations during the first six months of the year.

The average realised sales price for the first half of £2.36/GJ (H1 2010: £1.97/GJ, FY 2010: £1.97/GJ) has been achieved as the proportion of deliveries made under the old lower priced legacy contracts continues to diminish, allowing access to the strong market price prevailing throughout the period.

The more consistent operating performance in the first half of 2011 saw an improvement in operating profit before non-trading exceptional items in the period. At £35.2m, this was £96.6m better than the corresponding period in 2010, which reflected the face gap at Daw Mill at the start of 2010.

There was no net change in the fair value of investment properties at the half year (H1 2010: £10.1m loss, FY 2010: £34.2m loss). Property disposals in the period generated a profit on disposal of £2.1m.

There was a net non-trading exceptional credit in the period of £0.1m (H1 2010: £8.5m charge, FY 2010: £13.1m charge). This arose from a charge for professional fees in relation to the refinancing in 2011 of £1.3m, more than offset by a pension scheme curtailment gain of £1.4m as pension scheme members left as a result of redundancy. Operating profit after non-trading exceptional items was £35.3m (H1 2010: £69.9m loss, FY 2010: £87.4m loss).

The Group made a profit before tax of £22.1m in the period (H1 2010: £93.2m loss, FY 2010: £124.6m loss).

Financing Expenses

Total net finance costs in the first half of 2011 were £13.2m (H1 2010: £23.4m, FY 2010: £37.4m). Included in both the first half and full year 2010 comparatives were £10.0m of expenses related to one-off exceptional finance costs.

Excluding exceptional finance costs in the prior year, the net finance costs were in line with the corresponding period last year. A small increase in interest on higher average generator loan balances of £5.0m (H1 2010: £4.2m) was offset by a reduction in non-cash charges in respect of interest rate swaps. The majority of property disposals completed towards the end of the first half and therefore the main benefit of the lower debt levels were not reflected in interest charges in the period.

Group Net Debt

In the period, property with a net book value of £51.7m was exchanged with total net proceeds of £53.8m. £34.9m of the proceeds were received in the period with the balance receivable in the second half. The bulk of the proceeds received, together with circa £1m received in the first half in relation to property exchanges in 2010, has been used to reduce Group debt which fell to £207.3m at the end of the period (December 2010: £242.4m).

However, adjusting for total property disposal receipts in the period of £36.0m, Group net debt increased as a result of an increase in working capital, and in particular a reduction in creditor balances.

As reported in the 2010 Annual Report, the Group renewed and extended certain of its banking facilities in April 2011. Since then, property proceeds have been applied to the Harworth Estates (Agricultural Land) Limited (HEALL) facility, the Harworth Estates (Waverley Prince) Limited (HEWPL) facility and the RCF.

A summary of our principal bank facilities as at 25 June 2011 is given below:

	Facility £m	**Margin over LIBOR**	**Maturity**
RCF	41[1]	300-433bps[2]	July 2012
Additional line	up to 20	1,600bps	July 2012
HEALL (repaid during the period)	–[3]	400bps	July 2012
HEWPL	47[4]	750bps	July 2013
EOS	22	300bps	July 2012
Total	up to 130		

Notes:

[1] The facility continues to reduce as proceeds from property sales up to July 2012 are applied. It also amortises by £1m per month up to April 2012. In the year to June, the facility has reduced by £6m, of which £4m has been received from 2011 property sales.

[2] The margin is dependent on the level of committed facility.

[3] The HEALL facility has been repaid in full out of proceeds from property sales in the period.

[4] Rolled up interest of £3m was capitalised into the loan during the period.

In addition to the above facilities the unsecured stand-by facility of £10m from Peel Holdings was extended to the end of July 2012. This is available for drawing in the event that the additional RCF line is fully drawn.

At June 2011, generator loans/prepayments totalled £97m and (fully drawn) finance leases and other small bank loan facilities totalled £12m and £1m respectively.

Tax

There has been no corporation tax charge in the period (H1 2010: £nil, FY 2010: £nil).

The Group continues to review its deferred tax asset given the nature of its business and its historic performance. Although the Group has made a profit in the first half of 2011, there have been no movements in deferred tax balances in the six months to June 2011 (H1 2010: £nil, FY 2010: £2.2m), and the Group has continued to recognise a deferred tax asset of £34.5m, being the amount expected to be recovered based on forecasts of future taxable profits, offset by a deferred tax liability of £1.3m at June 2011. At this point, further deferred tax assets have not been recognised owing to the uncertainty as to their recoverability. The position will again be reviewed at the year end.

Although there has been no movement in the deferred tax balances in the balance sheet, there was a deferred tax credit in the income statement of £0.1m (H1 2010: £1.2m credit, FY 2010: £0.5m charge) relating to the recycling from reserves of deferred tax on the fair value movements on interest rate swaps which are also being recycled from reserves following the refinancing exercise as noted above. All of these movements have now been recycled.

Financial Review
continued

Retirement Benefit Obligations

The Group's defined benefit obligations comprise two funded industry wide schemes, the small Blenkinsopp scheme and an unfunded concessionary fuel scheme.

The industry wide schemes, which are closed to new entrants but are required to be open for future service, had a combined deficit under IFRS of £156.3m at June 2011 (December 2010: £135.1m). The deficit has increased over the first half by £21.2m principally due to the reduction in the net discount rate used to calculate the liabilities reflecting both an increase in the expected level of price inflation and changes in gilt and bond yields, together with the return on the funds' assets being lower than expected.

The overall post service obligations also include an unfunded liability in respect of the concessionary fuel scheme of £45.9m (December 2010: £36.5m). The increase primarily reflects the increased cost of the fuel provided.

Overall the Group's post retirement net liabilities have therefore increased by £30.6m over the period.

	Pension £m	Concessionary fuel £m	Total £m
As at January 2011	**(135.1)**	**(36.5)**	**(171.6)**
Interest cost less expected return on assets	(1.5)	(1.0)	(2.5)
Difference between actual return and expected return on assets	(6.8)	–	(6.8)
Actuarial loss in respect of liabilities	(21.2)	(8.7)	(29.9)
Contributions paid less current service cost	6.9	0.3	7.2
Gains on curtailment	1.4	–	1.4
Aa at June 2011	**(156.3)**	**(45.9)**	**(202.2)**

Net Assets

Despite the retained profit for the period of £22.2m, the Group's net assets fell in the first half of the year from £81.4m at the start of the year to £73.0m at the half year. This is a result of the impact of the increase in the retirement benefits deficit resulting from the changes in actuarial assumptions as outlined above.

Key Risks and Uncertainties

UK Coal PLC operates in an industry which carries inherent risk, and is subject to market and other external risks which cannot be fully controlled, mitigated or insured against. The Key Risks and Uncertainties identified by the directors which exist within the Group remain those disclosed on pages 29 and 30 in the Annual Report and Accounts 2010, and include risks from mining, financing, employment and property.

The key risks include the production risk inherent within any deep mining business, as deep mines operate with a cost base which is largely fixed relative to production levels. Consequently, unexpectedly large interruptions or prolonged reductions in production can have a material adverse impact on cash flow. Performance in 2009 and 2010 illustrated the difficulties inherent in deep mining operations and, in particular, the impact of unpredictable geological conditions and/or other operational issues on production volumes from our deep mines.

In the current financial environment and given the level of indebtedness of the business, there is also a financing risk associated with the Group's ability to access new or additional finance. The Group has certain bank facilities which are scheduled to be repaid or part repaid in July 2012, but which are expected to be renewed before expiry. Furthermore, bank funding arrangements contain, in certain cases, covenants based upon, in particular, operating profits adjusted for property revaluations and depreciation, interest cover, loan to property value and net asset values. Breach of covenants could result in the need to pay down in part some of these loans or a renegotiation of terms or, *in extremis*, a reduction or withdrawal of facilities by the banks concerned.

Forward-Looking Statements
Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Responsibility Statement of the Directors in Respect of the Interim Financial Report

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the key risks and uncertainties for the remaining six months of the financial year; and
- material related parties transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The Directors of UK Coal PLC are listed in the UK Coal PLC Annual Report and Accounts 2010. Changes in Directors since December 2010 are shown in the Chairman's Statement. A list of current Directors is maintained on the UK Coal PLC website: www.ukcoal.com.

By order of the Board

Jonson Cox Chairman	**David Brocksom** Finance Director
23 August 2011	23 August 2011

Independent Review Report to UK Coal PLC

Introduction

We have been engaged by the Company to review the condensed consolidated interim financial information in the interim report for the six months ended 25 June 2011, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Condensed Consolidated Interim Financial Statements.

Directors' Responsibilities

The interim report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial information included in this interim report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial information in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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 Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the interim report for the six months ended 25 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Emphasis of Matter – Going Concern

In arriving at our review conclusion, which is not qualified, we have considered the adequacy of the disclosures made in the basis of preparation note within the condensed consolidated interim financial information concerning the Company's ability to continue as a going concern.

These disclosures indicate the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds

23 August 2011

Notes:

(a) The maintenance and integrity of the UK Coal 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 interim financial report since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the six months ended 25 June 2011

Continuing operations	Note	**Unaudited 6 months ended 25 June 2011 £000**	Unaudited 6 months ended 26 June 2010 £000	Audited year ended 25 December 2010 £000
Revenue	2	**256,085**	141,349	351,179
Cost of sales		**(217,565)**	(189,337)	(383,937)
Gross profit/(loss)		**38,520**	(47,988)	(32,758)
Net decrease in fair value of investment properties		**–**	(10,132)	(34,197)
Profit/(loss) on disposal of investment properties		**2,105**	175	(550)
Profit/(loss) on investment properties		**2,105**	(9,957)	(34,747)
Other operating expenses		**(5,317)**	(12,003)	(19,890)
Operating profit/(loss)	2	**35,308**	(69,948)	(87,395)
Finance costs		**(13,345)**	(23,538)	(37,643)
Finance income		**132**	152	275
Net finance costs	3	**(13,213)**	(23,386)	(37,368)
Share of post-tax profit from joint ventures		**20**	126	147
Profit/(loss) before tax		**22,115**	(93,208)	(124,616)
Tax credit/(charge)	4	**110**	1,193	(479)
Profit/(loss) for the period		**22,225**	(92,015)	(125,095)
Attributable to:				
Equity holders of the Company		**22,225**	(92,015)	(125,095)
Earnings/(losses) per share		**pence**	pence	pence
Basic and diluted	6	**7.4**	(30.7)	(41.8)

Consolidated Statement of Comprehensive Income

for the six months ended 25 June 2011

	Unaudited 6 months ended 25 June 2011 £000	Unaudited 6 months ended 26 June 2010 £000	Audited year ended 25 December 2010 £000
Profit/(loss) for the period	**22,225**	(92,015)	(125,095)
Other comprehensive (expense)/income:			
Actuarial (loss)/gain on industry wide pension schemes	**(27,985)**	(3,553)	49,651
Actuarial (loss)/gain on Blenkinsopp pension scheme	**(27)**	13	161
Actuarial loss on concessionary fuel reserve	**(8,676)**	(1,158)	(76)
Rate change on deferred tax asset relating to retirement benefit liabilities	**–**	–	(325)
Cash flow hedges	**372**	3,292	3,848
Movement on deferred tax asset relating to cash flow hedges	**(110)**	(1,193)	(1,357)
Revaluation of property transferred from operating to investment properties	**5,089**	(122)	1,223
Total comprehensive expense for the period	**(9,112)**	(94,736)	(71,970)
Attributable to:			
Equity holders of the Company	**(9,112)**	(94,736)	(71,970)

The notes on pages 17 to 29 are an integral part of the condensed consolidated interim financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at January 2010	**2,993**	**30,756**	**271,503**	**(152,463)**	**152,789**
Loss for the six months to June 2010	–	–	–	(92,015)	(92,015)
Other comprehensive income:					
Actuarial losses on post retirement benefits	–	–	–	(4,698)	(4,698)
Fair value loss on revaluation of investment properties	–	–	(10,132)	10,132	–
Property revaluation on transfer to investment properties	–	–	(122)	–	(122)
Transfer of realised gain on disposed properties	–	–	(147)	147	–
Hedging reserve amortised in period	–	–	3,292	–	3,292
Movement on deferred tax asset in relation to cash flow hedges	–	–	(1,193)	–	(1,193)
Total comprehensive expense for the period ended June 2010	–	–	(8,302)	(86,434)	(94,736)
Transactions with owners:					
Accrual for long term incentive plan liabilities	–	–	–	268	268
	–	–	–	268	268
Balance at June 2010 (unaudited)	**2,993**	**30,756**	**263,201**	**(238,629)**	**58,321**
Loss for the six months to December 2010	–	–	–	(33,080)	(33,080)
Other comprehensive income:					
Actuarial gain on post retirement benefits	–	–	–	54,434	54,434
Rate change on deferred tax asset relating to retirement benefit liabilities	–	–	–	(325)	(325)
Fair value loss on revaluation of investment properties	–	–	(24,065)	24,065	–
Property revaluation on transfer to investment properties	–	–	1,345	–	1,345
Transfer of realised gain on disposed properties	–	–	(11,745)	11,745	–
Hedging reserve amortised in period	–	–	556	–	556
Movement on deferred tax asset in relation to cash flow hedges	–	–	(164)	–	(164)
Total comprehensive income/(expense) for the period ended December 2010	–	–	(34,073)	56,839	22,766
Transactions with owners:					
Accrual for long term incentive plan liabilities	–	–	–	306	306
	–	–	–	306	306
Balance at December 2010 (audited)	**2,993**	**30,756**	**229,128**	**(181,484)**	**81,393**
Profit for the six months to June 2011	–	–	–	22,225	22,225
Other comprehensive income:					
Actuarial losses on post retirement benefits	–	–	–	(36,688)	(36,688)
Property revaluation on transfer to investment properties	–	–	5,089	–	5,089
Transfer of realised gain on disposed properties	–	–	(36,885)	36,885	–
Hedging reserve amortised in period	–	–	372	–	372
Movement on deferred tax asset in relation to cash flow hedges	–	–	(110)	–	(110)
Total comprehensive (expense)/income for the period ended June 2011	–	–	(31,534)	22,422	(9,112)
Transactions with owners:					
Accrual for long term incentive plan liabilities	–	–	–	692	692
	–	–	–	692	692
Balance at June 2011 (unaudited)	**2,993**	**30,756**	**197,594**	**(158,370)**	**72,973**

Consolidated Balance Sheet
at 25 June 2011

	Note	**Unaudited 25 June 2011 £000**	Unaudited 26 June 2010 £000	Audited 25 December 2010 £000
ASSETS				
Non-current assets				
Operating property, plant and equipment	7	**229,800**	220,569	237,153
Surface mine development and restoration assets	7	**27,559**	20,315	35,675
		257,359	240,884	272,828
Investment properties	8	**271,907**	368,569	314,237
Investment in joint ventures	13	**3,430**	3,389	3,410
Deferred tax asset		**34,474**	35,800	34,474
Trade and other receivables		**3,136**	3,080	3,136
		570,306	651,722	628,085
Current assets				
Inventories		**40,652**	42,188	50,334
Trade and other receivables		**62,637**	34,396	25,916
Cash and cash equivalents	9	**25,594**	27,576	24,901
		128,883	104,160	101,151
Total assets		**699,189**	755,882	729,236
LIABILITIES				
Current liabilities				
Borrowings – bank loans, overdrafts and finance leases	10	**(5,647)**	(6,942)	(56,251)
– generator loans and prepayments	10	**(34,674)**	(15,411)	(26,428)
Derivative financial instruments		**(1,061)**	(2)	(1,145)
Trade and other payables		**(100,587)**	(108,112)	(110,557)
Provisions	11	**(25,721)**	(29,020)	(34,915)
		(167,690)	(159,487)	(229,296)
Net current liabilities		**(38,807)**	(55,327)	(128,145)
Non-current liabilities				
Borrowings – bank loans, overdrafts and finance leases	10	**(105,839)**	(166,194)	(85,361)
– generator loans and prepayments	10	**(62,863)**	(71,532)	(74,760)
Derivative financial instruments		**(6,248)**	(7,029)	(5,462)
Trade and other payables		**(5,323)**	(4,176)	(9,925)
Deferred tax liabilities		**(1,265)**	(422)	(1,265)
Provisions	11	**(74,823)**	(62,444)	(70,171)
Retirement benefit obligations	12	**(202,165)**	(226,277)	(171,603)
		(458,526)	(538,074)	(418,547)
Total liabilities		**(626,216)**	(697,561)	(647,843)
Net assets		**72,973**	58,321	81,393
SHAREHOLDERS' EQUITY				
Capital and reserves				
Ordinary shares		**2,993**	2,993	2,993
Share premium account		**30,756**	30,756	30,756
Revaluation reserve		**129,789**	127,295	129,420
Capital redemption reserve		**257**	257	257
Fair value reserve		**67,548**	136,303	99,713
Hedging reserve		**–**	(654)	(262)
Retained loss		**(158,370)**	(238,629)	(181,484)
Total shareholders' equity		**72,973**	58,321	81,393

Consolidated Statement of Cash Flows

for the six months ended 25 June 2011

	Note	**Unaudited 6 months ended 25 June 2011 £000**	Unaudited 6 months ended 26 June 2010 £000	Audited year ended 25 December 2010 £000
Cash flows from operating activities				
Profit/(loss) for the period	2	**22,225**	(92,015)	(125,095)
Depreciation/impairment of property, plant and equipment	7	**19,806**	15,764	35,187
Amortisation of surface mine development and restoration assets	7	**9,236**	4,332	14,033
Net fair value decrease in investment properties	8	**–**	10,132	34,197
Net interest payable and unwinding of discount on provisions	3	**13,213**	23,386	37,368
Net charge for share-based remuneration		**692**	268	574
Share of post-tax profit from joint ventures		**(20)**	(126)	(147)
(Profit)/loss on disposal of investment properties		**(2,105)**	(175)	550
Profit on disposal of operating property, plant and equipment		**(11)**	(5)	(243)
Capitalised surface mine restoration costs		**–**	–	(19,493)
(Decrease)/increase in provisions		**(6,227)**	(11,067)	549
Tax (credit)/charge	4	**(110)**	(1,193)	479
Pension contributions in excess of charge		**(6,126)**	–	–
Operating cash flows before movements in working capital		**50,573**	(50,699)	(22,041)
Decrease in inventories		**9,682**	13,571	5,425
Increase in receivables		**(16,264)**	(10,837)	(724)
(Decrease)/increase in payables		**(14,690)**	1,612	(5,816)
Cash generated from/(used in) operations		**29,301**	(46,353)	(23,156)
Loan arrangement fees paid		**(1,035)**	(702)	(1,195)
Tax receipt		**–**	538	538
Interest paid		**(6,446)**	(4,001)	(11,236)
Cash generated from/(used in) operating activities		**21,820**	(50,518)	(35,049)
Cash flows from investing activities				
Interest received		**132**	152	275
Net receipt from insurance and subsidence security funds		**567**	3,206	3,298
Proceeds on disposal of investment properties		**36,045**	685	22,297
Proceeds on disposal of operating property, plant and equipment		**30**	11	703
Development costs of investment properties	8	**(1,302)**	(1,002)	(2,105)
Pre-coaling expenditure for surface mines and deferred stripping costs		**(1,120)**	(2,040)	(8,404)
Purchase of operating property, plant and equipment		**(15,425)**	(15,950)	(26,789)
Cash generated from/(used in) investing activities		**18,927**	(14,938)	(10,725)
Cash flows from financing activities				
Net (repayment of)/proceeds from bank loans		**(31,402)**	42,828	12,348
Net (repayment of)/proceeds from generator loans and prepayments		**(6,182)**	15,168	25,831
Repayments of obligations under hire purchase and finance leases		**(1,903)**	(3,117)	(5,565)
Cash (used in)/generated from financing activities		**(39,487)**	54,879	32,614
Increase/(decrease) in cash		**1,260**	(10,577)	(13,160)
At commencement of period				
Cash		**427**	13,587	13,587
Cash equivalents		**24,474**	27,772	27,772
		24,901	41,359	41,359
Increase/(decrease) in cash		**1,260**	(10,577)	(13,160)
Decrease in cash equivalents (net receipt from insurance and subsidence security funds)		**(567)**	(3,206)	(3,298)
		25,594	27,576	24,901
At end of period				
Cash		**1,687**	3,010	427
Cash equivalents		**23,907**	24,566	24,474
Cash and cash equivalents	9	**25,594**	27,576	24,901

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 25 June 2011

1. Basis of Preparation of the Condensed Consolidated Interim Financial Statements

General information

UK Coal PLC (the 'Company') is a limited liability company incorporated and domiciled in the UK. The address of its registered office is Harworth Park, Blyth Road, Harworth, Doncaster, DN11 8DB.

The Company is listed on the London Stock Exchange.

The Condensed Consolidated Interim Financial Statements for the six months ended 25 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Group').

The Condensed Consolidated Interim Financial Statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group financial statements for the year ended 25 December 2010 were approved by the Board of Directors on 19 April 2011 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified but contained an emphasis of matter paragraph in relation to going concern.

The Condensed Consolidated Interim Financial Statements for the period ended 25 June 2011 have been reviewed, not audited and were approved by the Board on 23 August 2011.

Basis of preparation

The Condensed Consolidated Interim Financial Statements for the six months ended 25 June 2011 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim financial reporting' as adopted by the European Union ('EU'). The Condensed Consolidated Interim Financial Statements should be read in conjunction with the Group financial statements for the year ended 25 December 2010 which have been prepared in accordance with IFRSs as adopted by the EU.

Accounting policies

Except as described below, the accounting policies applied are consistent with those of the Group financial statements for the year ended 25 December 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected annual earnings.

New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

- IAS 24 (Amendment), 'Related party disclosures', effective for periods commencing on or after 1 January 2011. The Group will apply IAS 24 (Amendment) from 1 January 2011. It is not expected to have a material impact on the Group's financial statements.

Standards, amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues', effective 1 February 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Prior to the amendment, such rights issues were accounted for as derivative liabilities. The amendment states that, if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of any currency, they should be classified as equity, regardless of the currency in which the exercise price is denominated. The amendment is not currently relevant to the Group's financial statements.

- IFRS 1 (Amendment), 'First time adoption on financial instrument disclosures', effective 1 July 2010. This amendment provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7 regarding comparative information for the new three level classification disclosures. The amendment is not currently relevant to the Group's financial statements.

- IFRIC 14 (Amendment), 'Prepayments of a Minimum Funding Requirement', effective for periods commencing on or after 1 January 2011. The Group will apply IFRIC 14 (Amendment) from 1 July 2011. It is not expected to have a material impact on the Group's financial statements.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. This interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. The interpretation is not currently relevant to the Group's financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 25 June 2011: continued

1. Basis of Preparation of the Condensed Consolidated Interim Financial Statements: continued

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

- IAS 19 (Amendment) – significant change to the recognition, measurement and presentation of defined benefit pension expense – effective for periods beginning on or after 1 January 2013. The Group will apply IAS 19 (Amendment) from 1 July 2013.
- IFRS 9 (Amendment) – to include guidance on financial liabilities and de-recognition of financial instruments – effective for periods beginning on or after 1 January 2013. The Group will apply IFRS 9 (Amendment) from 1 July 2013.
- IFRS 10, 'Consolidated financial statements', guidance for preparation and presentation, effective for periods beginning on or after 1 January 2013. The Group will apply IFRS 10 (Amendment) from 1 July 2013, but it is not expected to have a material impact on the Group's financial statements.
- IFRS 11 – principles for financial reporting for parties of a joint arrangement – effective for periods beginning on or after 1 January 2013. The company will apply IFRS 11 (Amendment) from 1 July 2013, but it is not expected to have a material impact on the company's financial statements.
- IFRS 12 – disclosure of interests in other entities (subsidiaries, joint arrangements, associates) – effective for periods beginning on or after 1 January 2013. The Group will apply IFRS 12 (Amendment) from 1 July 2013, but it is not expected to have a material impact on the Group's financial statements.
- IFRS 13, 'Fair value measurement', definition, measurement and disclosure, effective for periods beginning on or after 1 January 2013. The Group will apply IFRS 13 (Amendment) from 1 July 2013, but it is not expected to have a material impact on the Group's financial statements.

Exceptional items

Items that are both material and non-recurring and whose significance is sufficient to warrant separate disclosure and identification within the Condensed Consolidated Interim Financial Statements are referred to as exceptional items and disclosed within their relevant income statement category within note 2. Items that may give rise to classification as exceptional items include, but are not limited to,significant and material restructuring, closures and reorganisation programmes and asset impairments.

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 ongoing trading operations and the nature of the costs or income involved. Non-trading exceptional items include costs and income arising from rationalisation and closure.

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.

Going concern

This interim report is prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares a cash flow forecast based upon its assumptions as to trading as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed in the Directors' Report in the Group's Annual Report and Accounts for the year ended 25 December 2010. The Board also prepares a number of alternative scenarios modelling the business variables and Key Risks and Uncertainties as summarised on page 11, in particular taking into account the production risks inherent in a deep mining business.

The Board notes that, in recent years, it has successfully renewed and extended its banking facilities annually around the year end. The majority of the Group's bank facilities, which have reduced recently as a consequence of property disposals, currently expire in July 2012. The Board is confident that these facilities will be renewed in due course.

The Board notes, therefore, the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. Nevertheless, the Board confirms its belief that it is appropriate to use the going concern basis of preparation for this interim report. This interim report does not include the adjustments that would result if the Group or the Parent Company were unable to continue as a going concern.

1. Basis of Preparation of the Condensed Consolidated Interim Financial Statements: continued

Seasonality

Significant seasonal or cyclical variations in the Group's total revenues are not experienced during the financial year.

Estimates and judgements

The preparation of the Condensed Consolidated Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 25 December 2010.

2. Segmental Reporting

The chief operating decision-maker has been identified as the Executive Management Committee, as detailed below. The Committee manages and co-ordinates all strategic and key operational issues. The Committee considers that the operating segments comprise the following:

– Mining, split between deep mining, including the contract services operations and surface mining, including the plant and equipment fleet operation;

– Harworth Estates, our property division including the wind farm portfolio and methane extraction/electricity generation operations of Harworth Power; and

– Other, consisting of operations not controlled by the mining or property businesses and unallocated central activities which do not represent a separate reportable segment in accordance with IFRS 8.

The performance of the operating segments is assessed on a measure of operating profit/loss. This measurement basis excludes the effect of non-trading exceptional items and finance costs and income which are not included in the results of the operating businesses.

Total assets for the segments exclude deferred tax and cash and cash equivalents (unrestricted) as these are managed centrally. Cash and cash equivalents that are subject to restriction have been included within the appropriate segment.

The Executive Management Committee as at 25 June 2011 consists of:

Chairman	Jonson Cox
Finance Director	David Brocksom
Managing Director – Mining	Gareth Williams
Managing Director – Property	Owen Michaelson
Company Secretary	Richard Cole

Revenue

Revenue from operations arises from:	**6 months ended June 2011 £000**	6 months ended June 2010 £000	Year ended December 2010 £000
Sale of goods (including electricity)	**253,424**	138,181	345,159
Rendering of services	**123**	206	294
Rental income	**2,538**	2,962	5,726
	256,085	141,349	351,179

Notes to the Condensed Consolidated Interim Financial Statements
for the six months ended 25 June 2011: continued

2. Segmental Reporting: continued

Six months ended June 2011	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue – gross	191,263	–	191,263	64,515	5,321	–	**261,099**
Revenue – intra Group	(385)	–	(385)	(3,582)	(1,047)	–	**(5,014)**
Revenue – external	190,878	–	190,878	60,933	4,274	–	**256,085**
Operating profit/(loss) before non-trading exceptional items and net decrease in fair value of investment properties	**20,916**	**(421)**	**20,495**	**11,433**	**3,269**	**–**	**35,197**
Net movement in fair value of investment properties	–	–	–	–	–	–	**–**
Operating profit/(loss) before non-trading exceptional items	**20,916**	**(421)**	**20,495**	**11,433**	**3,269**	**–**	**35,197**
Non-trading exceptional items	1,430	–	1,430	–	–	(1,319)	**111**
Operating profit/(loss) after non-trading exceptional items	**22,346**	**(421)**	**21,925**	**11,433**	**3,269**	**(1,319)**	**35,308**
Finance costs							**(13,345)**
Finance income							**132**
Net finance costs							**(13,213)**
Share of post-tax profit from joint ventures							**20**
Profit before tax							**22,115**
Tax credit							**110**
Profit for the period							**22,225**
Other segmental items							
Capital expenditure	14,855	–	14,855	27	1,473	372	**16,727**
Depreciation	18,244	–	18,244	923	555	84	**19,806**
Surface mine development costs and restoration assets capitalised	–	–	–	1,120	–	–	**1,120**
Amortisation of surface mine development and restoration assets	–	–	–	9,236	–	–	**9,236**
Provisions – non-cash charge	8,662	–	8,662	2,750	–	–	**11,412**

* Closed deep mines includes income and expenditure arising at the Welbeck and Harworth collieries.

† Other consists of operations not controlled by the mining or property businesses and unallocated central activities which do not represent a separate reportable segment in accordance with IFRS 8.

Property operating profit includes no movement in the fair value of investment properties but includes a profit on disposal of investment properties of £2,105,000.

In 2011, Harworth Power has been included in the property segment, with revenue of £1,284,000 and operating profit of £722,000. Depreciation in this segment was £475,000. This was formally included within the deep mining segment.

Non-trading exceptional items

Non-trading exceptional items consists of a pension scheme curtailment gain of £1,430,000, (included in cost of sales) and professional fees in relation to refinancing the business of £1,319,000, (included within other operating expenses).

2. Segmental Reporting: continued

Six months ended June 2010	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue – gross	93,673	17,906	111,579	29,631	5,513	4	**146,727**
Revenue – intra Group	(443)	–	(443)	(3,926)	(1,009)	–	**(5,378)**
Revenue – external	93,230	17,906	111,136	25,705	4,504	4	**141,349**
Operating (loss)/profit before non-trading exceptional items and net decrease in fair value of investment properties	**(52,992)**	**571**	**(52,421)**	**(1,552)**	**2,756**	**(60)**	**(51,277)**
Net decrease in fair value of investment properties	–	–	–	–	(10,132)	–	**(10,132)**
Operating (loss)/profit before non-trading exceptional items	**(52,992)**	**571**	**(52,421)**	**(1,552)**	**(7,376)**	**(60)**	**(61,409)**
Non-trading exceptional items	(1,430)	(1,156)	(2,586)	(69)	(17)	(5,867)	**(8,539)**
Operating loss after non-trading exceptional items	**(54,422)**	**(585)**	**(55,007)**	**(1,621)**	**(7,393)**	**(5,927)**	**(69,948)**
Finance costs							**(13,591)**
Exceptional finance costs							**(9,947)**
Finance income							**152**
Net finance costs							**(23,386)**
Share of post-tax profit from joint ventures							**126**
Loss before tax							**(93,208)**
Tax credit							**1,193**
Loss for the period							**(92,015)**

Other segmental items							
Capital expenditure	17,435	–	17,435	–	1,074	173	**18,682**
Depreciation	13,543	288	13,831	1,037	640	33	**15,541**
Surface mine development costs and restoration assets capitalised	–	–	–	2,040	–	–	**2,040**
Amortisation of surface mine development and restoration assets	–	–	–	4,332	–	–	**4,332**
Provisions – non-cash charge/(credit)	3,633	(930)	2,703	69	17	–	**2,789**

* Closed deep mines includes income and expenditure arising at the Welbeck and Harworth collieries. In 2010, Welbeck colliery was reclassified from ongoing deep mines to closed deep mines.
† Other consists of operations not controlled by the mining or property businesses and unallocated central activities which do not represent a separate reportable segment in accordance with IFRS 8.

Property operating loss includes the net decrease in the fair value of investment properties of £10,132,000 offset by a profit on disposal of investment properties of £175,000.

In 2011, Harworth Power has been included in the property segment. Previously, these results were shown in the deep mining segment, with revenue of £1,508,000 and operating profit of £1,826,000 for the six months ending June 2010. Depreciation for this period in this segment was £559,000.

Non-trading exceptional items

Non-trading exceptional items consists of restructuring costs of £1,430,000, care and maintenance costs for Harworth colliery of £933,000, impairment of Welbeck colliery assets of £223,000, professional fees in relation to refinancing the business of £5,867,000 and redundancy costs of £86,000. All non-trading exceptional items are included in cost of sales, with the exception of professional fees in relation to refinancing the business which are included within other operating expenses.

Exceptional finance costs

Following the Group's refinancing in April 2010, previously capitalised issue costs of bank loans of £2,743,000 were written off and the additional arrangement fees incurred on the replacement facilities, which totalled £4,998,000, were expensed. Furthermore, the fair values of the related interest rate swaps which had previously been hedge accounted, totalling £2,206,000 were recycled from reserves to the income statement in line with the relevant accounting standards. All of these costs have been treated as exceptional finance costs (see note 3).

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 25 June 2011: continued

2. Segmental Reporting: continued

Year ended December 2010	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue – gross	250,683	26,841	277,524	74,026	10,303	6	**361,859**
Revenue – intra Group	(828)	–	(828)	(7,935)	(1,917)	–	**(10,680)**
Revenue – external	249,855	26,841	276,696	66,091	8,386	6	**351,179**
Operating (loss)/profit before non-trading exceptional items and net decrease in fair value of investment properties	**(45,386)**	**1,291**	**(44,095)**	**382**	**3,554**	**47**	**(40,112)**
Net decrease in fair value of investment properties	–	–	–	–	(34,197)	–	**(34,197)**
Operating (loss)/profit before non-trading exceptional items	**(45,386)**	**1,291**	**(44,095)**	**382**	**(30,643)**	**47**	**(74,309)**
Non-trading exceptional items	(3,810)	(1,721)	(5,531)	(293)	(17)	(7,245)	**(13,086)**
Operating (loss)/profit after non-trading exceptional items	**(49,196)**	**(430)**	**(49,626)**	**89**	**(30,660)**	**(7,198)**	**(87,395)**
Finance costs							**(27,696)**
Exceptional finance costs							**(9,947)**
Finance income							**275**
Net finance costs							**(37,368)**
Share of post-tax profit from joint ventures							**147**
Loss before tax							**(124,616)**
Tax charge							**(479)**
Loss for the year							**(125,095)**
Other segmental items							
Capital expenditure	43,929	–	43,929	105	2,270	457	**46,761**
Depreciation	31,602	288	31,890	1,977	1,255	65	**35,187**
Surface mine development costs and restoration assets capitalised	–	–	–	27,897	–	–	**27,897**
Amortisation of surface mine development and restoration assets	–	–	–	14,033	–	–	**14,033**
Provisions – non-cash charge/(credit)	(2,111)	4,501	2,390	22,286	17	–	**24,693**

* Closed deep mines includes income and expenditure arising at the Welbeck and Harworth collieries. In 2010, Welbeck colliery was reclassified from ongoing deep mines to closed deep mines.
† Other consists of operations not controlled by the mining or property businesses and unallocated central activities which do not represent a separate reportable segment in accordance with IFRS 8.

Property operating loss includes the net decrease in the fair value of properties of £34,197,000 and a loss on disposal of investment properties of £550,000.

In 2011, Harworth Power has been included in the property segment. Previously, these results were shown in the deep mining segment, with revenue of £2,625,000 and operating profit of £2,478,000 for the year ended December 2010. Depreciation for this period in this segment was £1,093,000.

Non-trading exceptional items

Non-trading exceptional items consists of restructuring costs of £4,860,000, care and maintenance costs for Harworth colliery of £1,721,000, professional fees in relation to refinancing the business of £6,727,000, redundancy costs of £310,000 offset by a curtailment gain of £1,050,000 and other costs of £518,000. All non-trading exceptional items are included in cost of sales with the exception of professional fees in relation to refinancing the business which are included within other operating expenses.

Exceptional finance costs

Following the Group's refinancing in April 2010, previously capitalised issue costs of bank loans of £2,743,000 were written off and the additional arrangement fees incurred on the replacement facilities, which totalled £4,998,000, were expensed. Furthermore, the fair values of the related interest rate swaps which had previously been hedge accounted, totalling £2,206,000 were recycled from reserves to the income statement in line with the relevant accounting standards. All of these costs have been treated as exceptional finance costs (see note 3).

2. Segmental Reporting: continued

Total assets as at June 2011	**Ongoing deep mines £000**	**Closed deep mines* £000**	**Deep mining £000**	**Surface mining £000**	**Property £000**	**Other† £000**	**Total £000**
Segment assets	292,955	193	293,148	47,854	317,259	1,337	659,598
Investment in joint ventures	–	–	–	–	3,430	–	3,430
Total segment assets	**292,955**	**193**	**293,148**	**47,854**	**320,689**	**1,337**	**663,028**
Cash and cash equivalents (unrestricted)							1,687
Deferred tax asset							34,474
Total assets per balance sheet							**699,189**

Total assets as at June 2010	**Ongoing deep mines £000**	**Closed deep mines* £000**	**Deep mining £000**	**Surface mining £000**	**Property £000**	**Other† £000**	**Total £000**
Segment assets	280,398	5,080	285,478	39,879	387,428	898	713,683
Investment in joint ventures	–	–	–	–	3,389	–	3,389
Total segment assets	**280,398**	**5,080**	**285,478**	**39,879**	**390,817**	**898**	**717,072**
Cash and cash equivalents (unrestricted)							3,010
Deferred tax asset							35,800
Total assets per balance sheet							**755,882**

Total assets as at December 2010	**Ongoing deep mines £000**	**Closed deep mines* £000**	**Deep mining £000**	**Surface mining £000**	**Property £000**	**Other† £000**	**Total £000**
Segment assets	285,855	203	286,058	59,766	344,257	844	690,925
Investment in joint ventures	–	–	–	–	3,410	–	3,410
Total segment assets	**285,855**	**203**	**286,058**	**59,766**	**347,667**	**844**	**694,335**
Cash and cash equivalents (unrestricted)							427
Deferred tax asset							34,474
Total assets per balance sheet							**729,236**

* Closed deep mines includes the assets of Welbeck and Harworth collieries. In 2010, Welbeck colliery was reclassified from ongoing deep mines to closed deep mines.
† Other consists of operations not controlled by the mining or property businesses and unallocated central activities which do not represent a separate reportable segment in accordance with IFRS 8.

From 2011, Harworth Power has been included in the property segment. Previously, the assets of Harworth Power were included within the deep mining segment and were £6,436,000 and £6,628,000 at June and December 2010 respectively.

Cash and cash equivalents that are subject to restriction have been included within the appropriate segment.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 25 June 2011: continued

3. Finance Costs and Income

	6 months ended June 2011 £000	6 months ended June 2010 £000	Year ended December 2010 £000
Finance costs			
– Bank borrowings	**(4,724)**	(4,629)	(11,594)
– Hire purchase agreements and finance leases	**(487)**	(686)	(1,237)
– Unwinding of discount on provisions	**(1,685)**	(1,570)	(3,336)
– Amortisation of the issue costs of bank loans	**(425)**	(887)	(1,446)
– Generator loans and prepayments	**(4,950)**	(4,166)	(8,618)
(Losses)/gains on interest rate swaps not eligible for hedge accounting	**(702)**	(568)	177
Amortisation of interest rate swaps recycled from reserves	**(372)**	(1,085)	(1,642)
Finance costs	**(13,345)**	(13,591)	(27,696)
Arrangement fees in relation to refinancing	**–**	(4,998)	(4,998)
Write off of previously capitalised issue costs of bank loans	**–**	(2,743)	(2,743)
Fair value of interest rate swaps recycled from reserves	**–**	(2,206)	(2,206)
Exceptional finance costs	**–**	(9,947)	(9,947)
Finance income	**132**	152	275
Net finance costs	**(13,213)**	(23,386)	(37,368)

4. Tax

The tax credit in the period is £110,000 (June 2010: £1,193,000 credit; December 2010: £479,000 charge). The credit in the period relates solely to the deferred tax being recycled from reserves in relation to the fair value of interest rate swaps, previously effective for hedge accounting, also being recycled to the income statement.

5. Dividends

No dividends have been paid or proposed in relation to 2010. No interim dividend is proposed for the six months ended June 2011.

6. Earnings/(Losses) Per Share

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

In calculating the diluted earnings/(losses) per share, the weighted average number of ordinary shares is adjusted for the diluting effect of share options potentially issuable under the Group's employee share option plans.

	6 months ended June 2011 £000	6 months ended June 2010 £000	Year ended December 2010 £000
Profit/(loss) for the period	**22,225**	(92,015)	(125,095)
Weighted average number of shares used for basic and diluted earnings/(losses) per share calculations	**299,298,160**	299,298,160	299,298,160
Basic and diluted earnings/(losses) per share (pence)	**7.4**	(30.7)	(41.8)

7. Operating Property, Plant and Equipment

Net book value	Operating property, plant and equipment £000	Surface mine development and restoration assets £000	Total £000
At January 2010	**218,995**	**22,607**	**241,602**
Additions	17,680	2,040	19,720
Disposals	(6)	–	(6)
Net transfer to investment properties	(336)	–	(336)
Impairment	(223)	–	(223)
Depreciation charge	(15,541)	(4,332)	(19,873)
At June 2010	**220,569**	**20,315**	**240,884**
Additions	26,976	25,857	52,833
Disposals	(454)	(796)	(1,250)
Net transfer from investment properties	9,485	–	9,485
Depreciation charge	(19,423)	(9,701)	(29,124)
At December 2010	**237,153**	**35,675**	**272,828**
Additions	15,425	1,120	16,545
Disposals	(19)	–	(19)
Net transfer to investment properties	(2,953)	–	(2,953)
Depreciation charge	(19,806)	(9,236)	(29,042)
At June 2011	**229,800**	**27,559**	**257,359**

In addition to the above, the Group is committed to a further £27,860,000 of expenditure for operating property, plant and equipment.

In accordance with IAS 36, 'Impairment of Assets', operating property, plant and equipment are reviewed for impairment if there is any indication that their carrying amount may not be recoverable. There has been no such indication in the period, as both deep and surface mining have recorded operating profits.

8. Investment Properties

At valuation	**6 months ended June 2011 £000**	6 months ended June 2010 £000	Year ended December 2010 £000
At start of period	**314,237**	377,995	377,995
Additions	**1,302**	1,002	2,105
Disposals	**(51,674)**	(510)	(23,740)
Fair value adjustment	**–**	(10,132)	(34,197)
Transfer from operating property, plant and equipment	**2,953**	336	336
Transfer to operating property, plant and equipment	**–**	–	(9,485)
Revaluation gain/(loss) on transfer from operating property, plant and equipment	**5,089**	(122)	1,223
At end of period	**271,907**	368,569	314,237

In addition to the above, the Group is committed to a further £631,000 of expenditure for investment properties.

An internal review of the valuation of investment properties was carried out as at 25 June 2011. 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 are consistent with those used as at 25 December 2010. Following this review the Directors are of the opinion that, in the current market, there is no material change in the value of the Group's investment property portfolio as at 25 June 2011. In line with prior years, a full external valuation will be carried out and reported in the year end accounts.

Key assumptions within the basis of fair value are:

– 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; and

– no deduction or adjustment has been made in relation to clawback provisions, or other taxes which may be payable in certain events.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 25 June 2011: continued

9. Cash and Cash Equivalents

	As at June 2011 £000	As at June 2010 £000	As at December 2010 £000
Cash deposited to cover insurance requirements	**15,090**	15,847	15,705
Subsidence security fund	**8,817**	8,719	8,769
Total restricted cash balances	**23,907**	24,566	24,474
Other cash balances	**1,687**	3,010	427
Cash and cash equivalents	**25,594**	27,576	24,901

10. Borrowings

	As at June 2011 £000	As at June 2010 £000	As at December 2010 £000
Bank loans, overdrafts and finance leases			
Current	**5,647**	6,942	56,251
Non-current	**105,839**	166,194	85,361
	111,486	173,136	141,612
Generator loans and prepayments			
Current	**34,674**	15,411	26,428
Non-current	**62,863**	71,532	74,760
	97,537	86,943	101,188
Total			
Current	**40,321**	22,353	82,679
Non-current	**168,702**	237,726	160,121
	209,023	260,079	242,800

Borrowings at June 2011 are stated after deduction of unamortised borrowing costs of £631,000 (June 2010: £948,000; December 2010: £782,000).

During the period, the Group made repayments of £42,151,000 against borrowings. No additional finance lease facilities have been secured during the period. The leases are due to be repaid in the period from 2011 to 2014. The balance of the movement in borrowings relates to the outstanding balance on a revolving credit facility which is due for repayment in July 2012 and is disclosed as non-current. In the period interest of £3,028,000 was capitalised and added to the Harworth Estates (Waverley Prince) Limited loan.

As reported in the Annual Report and Accounts 2010, the Group restructured its banking arrangements in the period. The principal changes were:

– Lloyds Banking Group replaced GE Capital in respect of approximately one third of the RCF line, which is now amortising by £1,000,000 a month from 30 April 2011;

– an extension to the maturity dates of the RCF, the additional revolving credit line, the Harworth Estates (Agricultural Land) Limited facility and the EOS Inc. Ltd facility to the end of July 2012 was agreed; and

– the financial profile of the Harworth Estates (Waverley Prince) Limited term loan facility was modified so that interest which had been rolled up into the loan during 2010 and which was due to be paid in July 2011 will now be paid in July 2012, together with a principal repayment of £22,000,000. Thereafter amortisation of the loan will continue at £2,500,000 per quarter until final repayment in July 2013. Interest on these outstanding loans is now payable quarterly.

A £10,000,000 unsecured stand-by facility from Peel Holdings Finance Limited is available for drawing in the event the additional revolving credit facility is fully drawn. This facility which was originally due to expire at the end of July 2011 was extended to July 2012 during the period.

In 2009, the Group entered into certain contracts for coal supply which resulted in increased cashflows to the business in 2009 and 2010. These benefits together with accrued implied interest are treated as generator loans and prepayments, and will be repaid either out of later revenue or as separate repayments which commenced in October 2010 and end in 2015. Interest is charged on these outstanding amounts using actual or implied interest rates. The average interest rate on these balances is 11%. £38,565,000 of these loans and prepayments are secured against certain of the Group's assets.

11. Provisions

	As at December 2010 £000	Provided in period £000	Released in period £000	Utilised in period £000	Unwinding of discount £000	As at June 2011 £000
Employer and public liabilities	13,040	1,319	–	(1,874)	–	**12,485**
Surface damage	15,338	2,343	–	(987)	288	**16,982**
	28,378	3,662	–	(2,861)	288	**29,467**
Claims	15	–	–	–	–	**15**
Redundancy	3,162	5,000	–	(5,571)	–	**2,591**
Restoration and closure costs of surface mines	51,632	2,750	–	(9,010)	981	**46,353**
Restoration and closure costs of deep mines:						
– shaft treatment and pit top	9,866	–	–	(106)	188	**9,948**
– spoil heaps	2,929	–	–	(91)	55	**2,893**
– pumping costs	2,771	–	–	–	53	**2,824**
Ground/groundwater contamination	6,333	–	–	–	120	**6,453**
	105,086	11,412	–	(17,639)	1,685	**100,544**

The nature of the Group's obligations is as disclosed in the Annual Report and Accounts for the year ended 25 December 2010.

Restricted funds of £23,907,000 have been set aside to meet the liabilities due on the employer and public liabilities and surface damage provisions above and assets secured of £5,284,000 and an insurance bond for £10,000,000.

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

	As at June 2011 £000	As at June 2010 £000	As at December 2010 £000
Provisions payable within one year	**25,721**	29,020	34,915
Provisions payable after more than one year	**74,823**	62,444	70,171
	100,544	91,464	105,086

Provisions are expected to be settled within the timescales set out in the following table:

	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000	Total £000
Employer and public liabilities	5,554	2,630	3,880	421	**12,485**
Surface damage	3,817	3,402	7,130	2,633	**16,982**
	9,371	6,032	11,010	3,054	**29,467**
Claims	15	–	–	–	**15**
Redundancy	2,591	–	–	–	**2,591**
Restoration and closure costs of surface mines	13,226	3,848	21,113	8,166	**46,353**
Restoration and closure costs of deep mines:					
– shaft treatment and pit top	352	143	2,657	6,796	**9,948**
– spoil heaps	166	150	1,154	1,423	**2,893**
– pumping costs	–	–	–	2,824	**2,824**
Ground/groundwater contamination	–	453	3,090	2,910	**6,453**
	25,721	10,626	39,024	25,173	**100,544**

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 25 June 2011: continued

12. Retirement Benefit Obligations

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

	As at June 2011 £000	As at June 2010 £000	As at December 2010 £000
Industry wide schemes	**156,343**	189,476	135,121
Concessionary fuel	**45,822**	36,801	36,482
	202,165	226,277	171,603

Industry wide schemes

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

	As at June 2011 £000	As at June 2010 £000	As at December 2010 £000
Fair value of plan assets	**445,192**	386,832	432,553
Present value of funding obligations	**(601,535)**	(576,308)	(567,674)
Net liability recognised in the balance sheet	**(156,343)**	(189,476)	(135,121)

The amounts recognised in the consolidated income statement are:

	6 months ended June 2011 £000	6 months ended June 2010 £000	Year ended December 2010 £000
Current service cost	**(6,606)**	(7,511)	(15,278)
Interest cost	**(15,590)**	(16,176)	(32,363)
Expected return on plan assets	**14,091**	13,172	26,457
Effect of curtailment	**1,430**	–	1,050
	(6,675)	(10,515)	(20,134)

Current service cost is charged to cost of sales, with interest cost less expected return on plan assets included as part of administration expenses within other operating expenses and the effect of curtailment is included in non-trading exceptional items.

Concessionary fuel

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

	As at June 2011 £000	As at June 2010 £000	As at December 2010 £000
Net liability recognised in the balance sheet	**(45,822)**	(36,801)	(36,482)

The amounts recognised in the consolidated income statement are:

	6 months ended June 2011 £000	6 months ended June 2010 £000	Year ended December 2010 £000
Current service cost	**(238)**	(257)	(515)
Interest cost	**(999)**	(991)	(1,975)
	(1,237)	(1,248)	(2,490)

Current service cost is charged to cost of sales and interest cost is included as part of administration expenses within other operating expenses.

13. Related Party Transactions

Investments in joint ventures

	As at June 2011 £000	As at June 2010 £000	As at December 2010 £000
UK Strategic Partnership Limited	**1,032**	1,004	1,032
Bates Regeneration Limited	**2,398**	2,385	2,378
	3,430	3,389	3,410

Transactions with joint ventures

The following transactions were carried out with joint ventures:

	6 months ended June 2011 £000	6 months ended June 2010 £000	Year ended December 2010 £000
Bates Regeneration Limited			
Sale of goods and services to related party	**–**	–	12

Sales and purchases to and from the joint ventures were carried out on commercial terms and conditions and at market prices.

Balances owing from/(to) joint ventures

UK Strategic Partnership Limited and Bates Regeneration Limited

There are no balances arising from sales of goods and services at June 2011, and there are no balances arising from purchase of goods and services at the period ends.

Peel Group

The £10,000,000 unsecured stand-by facility from Peel Holdings Finance Limited,which was agreed in 2010, is available for drawing in the event that the additional revolving credit facility is fully drawn. The facility expires at the end of July 2012.

As reported in the 2010 Annual Report and Accounts, the Company agreed to sell 164 acres of farmland near Tyldesley in Greater Manchester to Peel Investments (Intermediate) Limited for a cash consideration of £1,600,000 of which £1,000,000 was received in 2010, and the balance has been received in July 2011. This transaction represented a smaller related party transaction pursuant to the Listing Rules and the appropriate confirmations set out in Listing Rule 11.1.10 were provided to the Financial Services Authority.

We received shareholder approval on 11 July 2011 for a waste to energy joint venture with members of the Peel Group for 11 sites which are part of our property portfolio.

14. Contingent Liabilities

Guarantees have been given in the normal course of business for performance bonds at June 2011 of £4,209,000 (June 2010: £3,775,000; December 2010: £4,209,000) to cover the performance of work under a number of Group contracts.

The Group has provided a guarantee for an insurance bond for £10,000,000 (June 2010: £10,000,000; December 2010: £10,000,000) which is used as security to cover surface damage liabilities which are provided in the Group accounts.

There are no other material contingent liabilities at June 2011 (June 2010: £nil; December 2010: £nil) for which provision has not been made in these financial statements.

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