Interim Report 2012

UK COAL PLC
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UK Coal is a mining, property and power company employing c2,500 people. Britain's biggest producer of coal, UK Coal operates three deep mines in the Midlands and Yorkshire, and surface mines in the North East, the North West and the Midlands. Over 90% of the total annual output is sold to generate around 5% of Britain's electricity requirements.

Harworth Estates, the property division of UK Coal, is one of the largest landowners in the UK. With access to over 30,000 acres of land, Harworth Estates creates and develops new opportunities across all sectors of the UK property market.

Harworth Estates is committed to environmental best practice, creating new sustainable communities, thousands of new homes and new business space across Yorkshire, the Midlands and the North.

Highlights

	H1 2012	H1 2011	Full year 2011
Total Group revenue (£m)	**198.3**	256.1	488.2
Average sale price per gigajoule (£/GJ)	**2.43**	2.36	2.48
Non-cash property revaluation increase (£m)	**3.1**	–	3.3
Operating (loss)/profit before non-trading exceptional items (£m)	**(6.0)**	35.2	65.2
(Loss)/profit after tax (£m)	**(20.6)**	22.2	55.2
Total Group debt including generator balances (£m)	**(138.3)**	(207.3)	(138.8)

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Chairman's statement

Introduction

Performance in 2012 has brought major challenges to UK Coal. Nonetheless, positive progress was made with our safety programme and improvements have continued with our Lost Time Accidents Rates dropping by 40% in the first half of 2012 compared to 2011. However, continued improvement requires daily vigilance if UK Coal is to reach the position to which we aspire.

First half year production was 3.3 million tonnes (H1 2011: 4.1 million tonnes, FY 2011: 7.5 million tonnes). Our three deep mines produced 2.4 million tonnes (H1 2011: 3.1 million tonnes, FY 2011: 5.7 million tonnes). Kellingley achieved a higher level of output than in the first half of 2011, but both Thoresby and Daw Mill saw a drop in production – Thoresby due to a split seam in the final stages of mining DS2s which reduced coal yield and Daw Mill due to the slow ramp up and performance of 303s.

Surface mining had a good first half from the four producing sites when compared to the six sites in operation in the same period last year. First half production was 0.9 million tonnes (H1 2011: 1.0 million tonnes, FY 2011: 1.8 million tonnes) and production has begun at two further sites, with an additional site expected to begin production in the last quarter of 2012.

International coal prices have seen a significant fall from the highs of 2011 when they averaged £3.01/GJ for the year compared with £2.40/GJ for the first 6 months of 2012, having dropped as low as £2.13/GJ in May. This follows the rise in shale gas production in North America, and the consequential falls in US gas and coal prices, which has resulted in US-supplied coal further depressing the market in NW Europe, that was already affected by economic worries. On a positive note, forward coal prices show some signs of strengthening over the remainder of 2012 and through 2013.

We have continued to make further steady progress in realising value from our property portfolio, with sales of £16.7m in the period.

The production problems and the risks of operating Daw Mill in its current structure, when combined with the pension deficit and the level of bank and generator debt, led the Board to conclude that a restructuring of the business was necessary to secure a stable platform for UK Coal and its stakeholders. We are pleased to report today that we have reached an agreement in principle with key economic stakeholders on the restructuring.

Results

Group revenues fell 23% in the first half of 2012 to £198.3m (H1 2011: £256.1m, FY 2011: £488.2m) following significantly lower sales volumes at slightly higher average realised sales prices (H1 2012: £2.43/GJ, H1 2011: £2.36/GJ, FY 2011: £2.48/GJ). This led to an operating loss of £6.0m before non-trading exceptional items in the first half of 2012, some £41.2m worse than the operating profit before non-trading exceptional items of £35.2m booked in H1 2011.

Exceptional costs totalling £5.7m have been incurred in the period (H1 2011: £0.1m credit, FY 2011: £16.1m credit). These costs relate to refinancing and restructuring activities carried out in the first half of 2012. Professional fees of £3.5m have been classified as non-trading exceptional items and refinancing costs of £2.2m have been classified as exceptional finance costs.

We have continued our drive to realise value from our brownfield property portfolio and achieved disposals in the period with net book value of £16.3m. These sales generated a profit on disposal of £0.4m (H1 2011: £2.1m, FY 2011: £2.7m). The net proceeds of disposals received in the first half of 2012 of £11.4m (H1 2011: £36.0m, FY 2011: £64.3m), including £3.5m received in relation to property exchanges in 2011, have been used to reduce Group debt.

In addition to the property disposals achieved in the first half, we have secured in June 2012 the conditional sale of our Harworth Power business for £20.3m. This sale is conditional upon shareholder approval following the issue of a circular to shareholders.

The Group made a loss before tax of £20.6m in the period (H1 2011: £22.1m profit, FY 2011: £58.0m profit), reflecting operating loss before exceptional items of £6.0m, net interest costs of £8.9m and exceptional costs relating to the refinancing and the restructuring of £5.7m.

The net debt owed to Generators and Banks fell by £0.5m to £138.3m from £138.8m at December 2011.

Restructuring

During the course of the year, the Board has concluded that UK Coal's operating structure and balance sheet are not appropriate for the level of operating risk in the business. In particular, the Company continues to owe its customers and its banks £138.3m and has a funding deficit to the Pension Funds of approximately £430m. The debt and the pension fund deficit combined rule out the possibility of Shareholders receiving any return from their equity in the Company until these issues are addressed.

We have made significant progress towards a restructuring of the business. It is a highly complex process that involves the goodwill and understanding of a range of stakeholders including the Pension Funds, the Pensions Regulator, our principal banking partner Lloyds Banking Group, Barclays, our customers, the Department for Energy and Climate Change and the Coal Authority.

A non-binding heads of terms agreement has been reached with the Pension Trustees, and an agreement in principle with the Generators, which would result in a combined c.£90m of support to UK Coal over the period to the end of 2015 once the proposed restructuring is implemented. Under the proposed plan the mining business would be left free of bank debt and would have an affordable pension deficit reduction scheme. Each mine will be restructured into separate legal entities to reduce the risk of any one mine's failure from bringing down all mines. This is expected to create a more stable platform to release the value in the mining business. As part of this arrangement, from 2014 the Pension Funds will receive £30m per annum plus any cash in the mining business above a minimum headroom requirement of £50m, after agreeing to defer any deficit contributions in 2012 and 2013.

As part of the proposed plan to address the deficit, it is intended that the Pension Trustees will also invest £30m in the property business to enable the release of the latent undeveloped value in the property portfolio. In exchange, the Pension Trustees will receive a direct stake of 75.1% in that business, with existing shareholders being entitled to the benefit of the remaining 24.9%. This stake would be held through a new holding company which would not guarantee the pension liability. In return for the stake, the first £5m of shareholders' dividend income would be paid to the Pension Funds. The terms of the proposed restructuring could mean that shareholders' principal continuing economic interest in the Group will be a minority stake in the long term development potential of its property assets. The Company made strenuous attempts to secure an option for shareholders to subscribe part of the new equity, but the primary condition of the Pension Funds was to have a controlling shareholding in a separated property business.

The Company has had constructive discussions in relation to the Heads and Terms with the Pension Regulator, who has not raised any major objections to the proposals. The observations which have been raised by the Regulator appear capable of resolution. The proposed restructuring has also been explored with our major stakeholders and the Board has concluded that it offers UK Coal a viable, and sustainable, future. It remains subject to agreement of legally binding documentation with stakeholders.

Outlook

UK Coal's Board believes that a restructuring creates a sustainable platform, allowing us to continue to produce coal to supply power stations and get full value from the property portfolio for the Group. There is still much work to be done and there remain significant challenges and risks to completing the process. Without a restructuring, the Group will remain exposed to significant risk on its financial headroom and covenants. With the ever present challenge of operational difficulties, there is a significant risk to the continuation of the mining business, jobs, and the local economies around our mines in the absence of creating additional headroom.

Principal operational issues continue to be the level of production risk in the deep mines, at Daw Mill in particular, the price of coal and the reduction of operating costs at the mines.

Daw Mill remains on a course to close in early 2014, or before, unless it can achieve key targets. The mine is expected to endure another face gap in 2013, reflecting the results of past poor performance and the failure last year fully to mitigate a 2012 face gap. We have set out clearly the terms under which the Company would seek to extend the life of Daw Mill to realise its full potential. One of these conditions was the adoption of new shift patterns. We regret that a recent ballot of the workforce rejected the proposals of our new Mine Director at Daw Mill, rendering it unlikely that the mine will be able to continue to operate under the required lower risk operating model.

With coal retaining a significant role in the UK's energy mix, there is still an opportunity for indigenous coal rather than relying on imported coal. There remains a need for coal in the medium term in the UK.

I would like to thank the workforce and management at UK Coal for all their hard work this year. It has been an exceptionally difficult period as we faced the challenges of low production levels. However, with the improving prospects of a successful restructuring we aim to exploit safely the economic potential of this Company for all its stakeholders.

Jonson Cox
Chairman

10 August 2012

Operating review

Safety

Safety remains our core priority and we strive to create a zero accident environment by minimising any risk of accidents occurring.

Over the period, we continued with training and education of all employees to improve capabilities with particular focus on improved risk identification and assessment.

Further focus within the business has led to the creation of a Central Safety Committee, which is chaired by the Managing Director of Mining and externally assisted by Du Pont Sustainable Solutions. Focus on the historical 'lagging' indicators continues to track the improvements in accident rates on a monthly basis.

Increased attention has also been placed on 'leading' indicators which include simple, but effective, safety observations, mini risk assessments and the introduction of self-auditing safety reviews.

Results from this continuous effort have yielded a 28% improvement in Total Accidents Rates for the period 2012 in comparison to 2011 and a 40% reduction in Lost Time Accidents Rates for the same period.

Whilst these results show an improved performance, every employee understands that there is still a massive effort required before we can compare ourselves to 'best in class' which continues to be our main objective.

Mining

Coal market

International coal prices delivered into NW Europe have seen a dramatic fall from the highs of 2011 when they averaged £3.01/GJ for the year compared with £2.40/GJ for the first 6 months of 2012, having dropped as low as £2.13/GJ in May. This is in part a consequence of the rise in shale gas production in North America resulting in a reduction in coal burn for electricity generation in the US and the increased export of coal from the US and Columbia to NW Europe. Imports into the UK are 49% higher year on year.

Coal burn by electricity producers in the UK in the first half of 2012, still accounts for 43% of the energy mix.

Forward coal prices show some signs of strengthening over the remainder of 2012 and through 2013: on 6 August, those prices were circa £2.44/GJ, £2.57/GJ and £2.75/GJ for the fourth quarter of 2012 and for the full years of 2013 and 2014 respectively.

Coal sales

In the first half, an average realised sales price of £2.43/GJ was achieved compared to £2.36/GJ H1 2011 and £2.48/GJ FY 2011. This is despite the fall of market coal prices and is due to the reduction of disadvantageous legacy contracts and their replacement with new contracts on more market-based terms.

Deep mines

Colliery performance summary:

	Production			**Operating cost***		
	H1 2012 m tonnes	H1 2011 m tonnes	FY 2011 m tonnes	**H1 2012 £m**	H1 2011 £m	FY 2011 £m
Deep mines						
Daw Mill	**0.8**	1.4	2.1	**58.6**	56.6	113.8
Kellingley	**1.1**	1.0	2.3	**45.8**	47.3	89.0
Thoresby	**0.5**	0.7	1.3	**41.4**	40.8	79.3
Total deep mines production/costs before stock movements	**2.4**	3.1	5.7	**145.8**	144.7	282.1
Stock movements	**–**	–	0.4	**1.1**	7.4	14.4
Total deep mines	**2.4**	3.1	6.1	**146.9**	152.1	296.5

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

The deep mines performance in the first half of 2012 was disappointing, primarily due to production problems at Daw Mill.

Daw Mill

As previously reported, the slow ramp up of 303s coal panel, following the production difficulties on the previous panel, 32s, in late 2011 resulted in poor production in Q1 2012.

Daw Mill finally reached anticipated levels of production in March, and has continued to mine in line with expectations. The recovery of 32s, which has involved a very significant amount of engineering work, was ongoing in the period and we are now in the process of re-commissioning the face. There is more work required before the resumption of production at more normal output rates and to leave behind a heating that has been causing risk whilst the face has been standing. The intention is now to make this face the primary production unit until completion in late Q3 2012. The ability to mine the remaining coal on 32s face, and to salvage and transfer the equipment from 32s to 33s in a timely manner, will determine the length of a face gap next year already estimated at around 12 weeks between the completion of the current 303s face and the expected start date for 33s.

Deep mine costs are largely fixed relative to production levels. The increased costs at Daw Mill reflect the problems encountered in both the safe recovery of 32s face and the difficult ramp up of the 303s face.

Daw Mill remains in consultation around whether it will close after the conclusion of 33s face by 2014. As reported in the Chairman's statement, this is only avoidable if a lower risk operating model can be agreed. The recent rejection of revised shift patterns by sections of the workforce makes this less likely to be agreed.

Kellingley

Kellingley continues to make good progress with production and developments and performance was in line with expectations. The next face change is due later this month as the current panel finishes. Despite mechanical issues with the 502s face chain that needed a week to resolve, Kellingley still managed to produce more coal in the first half of 2012 than in the same period in 2011. It is thanks to the great efforts made by the mine workforce and management that Kellingley was able to increase its production levels in the first six months of 2012, despite the setback of the 502s chain.

Although there is still a lot to do, the 503s face change is on track to be complete in late August and includes the installation of extended canopies which will allow for an even safer working environment.

Thoresby

Transfer of production at Thoresby to DS3s took place in the period and mining is progressing well. Production was affected during the final stages of coaling on the previous panel, DS2s, due to a known seam split which reduced the volume of saleable coal available for extraction.

At the same time developments are underway towards the next face required for Q1 2013 and remain a key focus of the mine's activities.

In addition to the coal from Thoresby itself, the surface washing plant has also been preparing inferior coal and slurries from the surrounding area for sale.

Harworth

The mine remains under care and maintenance and preliminary discussions and investigations are underway around the viability of reopening the mine.

Technical visits have also taken place to European mines that have similar geological conditions and it is hoped that a decision will be made by the end of 2012.

Surface mines

	H1 2012	H1 2011	FY 2011
Production (million tonnes)	**0.9**	1.0	1.8
Operating costs* (£m)	**37.1**	48.6	87.7
Operating costs per gigajoule* (£/GJ)	**1.92**	1.93	1.97

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

Operating review
continued

Surface mines: continued
Surface mining had a good first half with production from the four producing sites compared to six sites in operation during the same period last year. During the period production commenced at both Butterwell and Lodge House Extension whilst Minorca is on schedule to commence operation during the fourth quarter of 2012.

This is a good production performance in a period that, although it started with a dry mild winter, was followed by some extremely wet conditions.

The reduction in total operating costs reflects the lower number of sites being mined. Costs per gigajoule have been held despite an increase in the unit cost of fuel.

Planning
During the period a planning application was submitted for Shortwood Farm (Nottinghamshire), which has reserves of 1.3 million tonnes of coal. It is anticipated that three further applications will be submitted for new sites in the second half of the year.

Following the rejection of our appeal against the refusal to grant planning for our Bradley mine (0.5 million tonnes), a judicial review has been lodged and is expected to be heard by early 2013.

Harworth Estates
The first half of 2012 has seen a continuation of our disposals programme and some significant steps in creating value across the remaining portfolio. We sold properties with a net book value of £16.3m, realising £16.7m and giving a profit on disposals of £0.4m.

Despite having achieved these disposals, the total valuation of our property portfolio decreased by only £10.6m to £271.7m (December 2011: £282.3m), due to gains achieved in adding value through planning progress and maximising developable land. On a like for like basis (after allowing for sales, purchases, depreciation and development spend) our overall portfolio value has increased by 1.2%, as set out in the table below.

The major increases in valuation during the period relate to undeveloped land where better planning designation and maximisation of developable land area has given rise to valuation gains. The sales made during the period have underpinned our valuations and we remain encouraged by the interest being shown across this portfolio. Business parks have reduced in value in what remains a difficult market for secondary industrial premises.

Portfolio Valuation as at 30 June 2012	**June 2012 £m**	December 2011 £m	December 2011 like-for-like* £m	December 2011 like-for-like* %
Agriculture†	**37.1**	39.1	37.1	–
Business parks	**69.1**	75.0	75.4	*(8.4)*
Major developments	**77.9**	84.3	73.7	*5.7*
Natural resources	**34.9**	31.0	30.7	*13.6*
Strategic land	**52.7**	52.9	51.6	*2.1*
Total properties at valuation	**271.7**	282.3	268.5	*1.2*

* The like-for-like December 2011 comparative and percentage change figures take into account adjustments for asset sales of £16.3m and purchases, development expenditures and depreciation of £2.5m.

† Including surface mining land.

Consistent with June 2011, we have not employed external consultants to carry out the half yearly valuation. This valuation 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 in December 2011. In line with prior years, a full external RICS valuation will be carried out and reported in the year end accounts.

Major developments
Work has begun on the first phase of 4,000 homes at Waverley, South Yorkshire, with some off-plan sales already secured and show homes are due to open in the autumn. Planning consent has been secured for a further 400 homes at North Gawber near Barnsley and a conditional land sale has been agreed for 120 homes at Harworth.

Planning has also been submitted for a training centre for the University of Sheffield at our commercial development at Waverley which has also seen the completion of two land sales contracts with Rolls-Royce totalling 34 acres at the Advanced Manufacturing Park. Rolls-Royce intends to build two factories; the first will be an Advanced Blade Casting Facility to manufacture blades for jet engines and the second will be associated with advanced nuclear manufacturing involved in future power generation projects. Construction work began on 9 July 2012.

Progress with the commercial side of the Waverley site continues and our work with key stakeholders, such as Sheffield Local Enterprise Partnership, has resulted in around 100 acres of commercial land being included within the Sheffield Enterprise Zone that provides financial incentives for businesses. Harworth Estates has also submitted a bid to Government for Regional Growth Fund monies to help forward fund key infrastructure at Waverley and accelerate development.

At Prince of Wales, we are reviewing the up-front infrastructure costs with a view to achieving cost savings to facilitate the release of the first phase of development in 2013. At our Harworth site, Asda began work on a 22,000 sq ft food store in June 2012.

Strategic land

Our strategic land division has also achieved success in the first half of 2012 with 115 consented plots sold at Ball Hill, South Normanton to Taylor Wimpey and 148 plots at Goldthorpe, Barnsley to Gleeson Homes. There is a potential future land bank capable of accommodating circa 7,300 residential plots and 4.4 million sq ft of employment space, of which 965 plots and 0.3 million sq ft of employment space is already consented. Five planning applications were submitted during the first half of 2012 which, if successful, will contribute a further 1,259 consented plots plus further commercial development. Some 42 sites are now being actively promoted through the development plan system which have the potential to produce 5,076 plots and land to accommodate 4 million sq ft of employment space, subject to planning approval.

Business parks

Our business park portfolio operated in line with expectations in a challenging environment, with tenant retention levels remaining high and only a small number of business relocations.

North West Leicestershire District Council gave consent for the promotion and development of around 575,000 sq ft of B2 industrial and B8 distribution accommodation and we anticipate planning consent on our 60 acre “Lounge” site at Ashby de la Zouch, Leicestershire, following a resolution to grant planning for a new rail linked national distribution facility (up to 875,000 sq ft).

Natural resources

Our ‘Waste to Energy’ joint venture with Peel Environmental saw scoping reports issued for Kellingley and North Selby prior to planning applications being submitted. Leases have also been signed for both a power plant/mines gas scheme at Gedling and for a wind turbine on the Lynemouth Colliery site in Northumberland with Wind Energy Direct. This is the first stage of a mixed-use development on the site.

Following planning approval for coal recovery operations at the former colliery tip at Rossington, RecyCoal Limited will produce an estimated 950,000 tonnes of recycled coal enabling the redevelopment of the site. Coal fines recovery also started at Bilsthorpe.

Sale of Harworth Power Generation

In June 2012, UK Coal announced that a conditional contract for the sale of Harworth Power (Generation) Limited had been entered into with Red Rose Infrastructure Limited, for a total cash consideration of £20.3m.

Red Rose Infrastructure Limited is managed by Capital Dynamics Clean Energy and Infrastructure, an independent asset management firm focusing in the clean energy, infrastructure and property sectors, which in January 2012 announced the acquisition of a 64MW portfolio of landfill gas assets in the UK.

The disposal forms part of the Company’s plan to improve operational and financial performance and strengthen its balance sheet, in part through an asset realisation programme.

Due to the size of the disposal relative to the size of the Company, completion of the sale is conditional upon shareholder approval following the issue of a circular to shareholders.

Upon completion of the disposal, £20.0m is payable by the buyer in cash with the remaining £0.3m of the consideration being deferred, dependent upon the granting of future rights to gas extraction.

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 fallen 23% in the first half of 2012 to £198.3m (H1 2011: £256.1m, FY 2011: £488.2m) as a result of significantly lower sales volumes, which more than offset the slightly higher average realised sales prices achieved during the period. The reduction in sales volume arose mainly from production issues at Daw Mill in the first quarter of the year and at Thoresby, as described in the Operating review.

The average realised sales price for the first half of £2.43/GJ (H1 2011: £2.36/GJ, FY 2011: £2.48/GJ) reflects the final benefits of having worked through the very old low priced legacy sales contracts, notwithstanding weakened coal market prices in Q2 2012.

The difficulties encountered in the deep mining operation gave rise to an operating loss before non-trading exceptional items of £6.0m in the first half of 2012, some £41.2m worse than the operating profit before non-trading exceptional items of £35.2m booked in H1 2011.

Property disposals in the period with net book value of £16.3m generated a profit on disposal of £0.4m (H1 2011: £2.1m, FY 2011: £2.7m). Net proceeds of £11.4m (H1 2011: £36.0m, FY 2011: £64.3m) received in the period were used to pay down Group debt.

There was a net non-trading exceptional charge in the period of £3.5m (H1 2011: £0.1m credit, FY 2011: £16.1m credit). This arose from a charge for professional fees in relation to the refinancing of the business in the period of £1.9m and professional fees incurred in relation to the restructuring of the business of £1.6m. Operating loss after non-trading exceptional items was £9.5m (H1 2011: £35.3m profit, FY 2011: £81.3m profit).

The Group made a loss before tax of £20.6m in the period (H1 2011: £22.1m profit, FY 2011: £58.0m profit).

Financing expenses

Total net finance costs in the first half of 2012 were £11.1m (H1 2011: £13.2m, FY 2011: £22.9m). Included in the first half were £2.2m of expenses related to one-off transaction fees (H1 2011: £nil, FY 2011: £nil).

Excluding exceptional finance costs, the net finance costs were £4.3m less than the corresponding period last year. The reduction in average borrowings over the period of £67m accounted for £3m of the decrease, with net gains on interest rate swaps accounting for a further £1m of the difference.

Group net debt

In the period, property with a net book value of £16.3m was sold with total net proceeds of £16.7m, of which £11.4m was received in the period. The bulk of the proceeds received, together with circa £3.5m received in the first half in relation to property exchanges in 2011, has been used to reduce Group debt which fell by £0.5m to £138.3m at the end of the period (December 2011: £138.8m).

As reported in the 2011 Annual Report, the Group renewed and extended certain of its banking facilities in April 2012.

A summary of the Group's principal bank facilities as at 30 June 2012 is given below:

	Facility £m	Margin over LIBOR	Maturity
Revolving Credit Facility (RCF)	20.5[1,2]	300-400bps[4]	December 2013
Additional Revolving Facility (ARF)	up to 27.5[3]	1,600bps	December 2013
Harworth Estate (Waverley Prince) Limited Facility	25.3[1]	450bps	December 2013
EOS Inc Facility	19.9[5]	300-400bps	December 2013
Total	up to 93.2		

Notes:

[1] Facility reduces £ for £ as property sales are applied.

[2] Reduces by £2m between October and November 2012.

[3] Facility reduces by £7.5m on 30 September 2012 and amortises to £nil over the period June 2013 to November 2013, with a short period of reduction to £12.5m at the end of 2012.

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

[5] Facility reduces by £0.2m per quarter from September 2012.

In addition to the above facilities, the unsecured stand-by facility of £10m from Peel Holdings Finance Limited was extended to mature in November 2013. The facility amortises gradually over the period August 2013 to November 2013, and is available for drawing in the event that both the RCF and part of the ARF are drawn.

At June 2012, generator loans/prepayments totalled £72.2m (H1 2011: £97.5m, FY 2011: £84.1m) and (fully drawn) finance leases totalled £7.7m (H1 2011: £11.5m, FY 2011: £9.7m).

As part of the proposed restructuring outlined in the Chairman's statement, the above bank facilities will need to be renegotiated to provide revised covenant and other terms.

Taxation

There has been no corporation tax charge in the period (H1 2011: credit of £0.1m, FY 2011: charge of £2.7m).

The Group has gross tax losses estimated at £230m and gross timing differences of £230m, both as at December 2011, and both of which are available to offset against future profits of the mining business. In addition the deficit in respect of retirement benefits represents an additional future tax deductible expense.

The Group also has around £350m of capital losses which can be offset against profits arising on disposals of properties which were held by the Group in 2002. These capital losses are sufficient to offset the vast majority of the deferred tax liability which would otherwise be required in respect of the investment properties, leaving a small deferred tax liability of £1.2m which has been recognised in the financial statements.

The Group continues to review its deferred tax asset given the nature of its business, its historic performance and in the light of the proposed restructuring referred to in the Chairman's statement. Although the Group has made a loss in the first half of 2012, there have been no movements in deferred tax balances in the six months to June 2012 (H1 2011: £nil, FY 2011: £3.0m), and the Group has continued to recognise a deferred tax asset of £31.5m, being the amount expected to be recovered based on forecasts of future taxable profits, offset by a deferred tax liability of £1.2m at June 2012. 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, in the prior period there was a deferred tax credit in the income statement of £0.1m relating to the recycling from reserves of deferred tax on the fair value movements on interest rate swaps. All of these movements have now been recycled.

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 £115.6m at June 2012 (December 2011: £101.0m). The deficit has increased under IFRS over the first half by £14.6m principally due to an actuarial loss of £17.0m due to changes in the assumptions used to calculate the scheme's liabilities, partially offset by an actuarial gain of £1.5m due to higher than expected investment returns, and the Group's contributions being £2.7m more than the cost of accruing benefits.

The overall post service obligations also include an unfunded liability in respect of the concessionary fuel scheme of £45.6m (December 2011: £43.7m). The increase primarily reflects changes in the assumptions used to calculate the scheme's liabilities.

Overall the Group's post retirement net liabilities have therefore increased by £16.5m over the period.

	Pension £m	Concessionary fuel £m	Total £m
At January 2012	**101.0**	**43.7**	**144.7**
Interest cost less expected return on assets	1.8	1.1	2.9
Difference between actual return and expected return on assets	(1.5)	–	(1.5)
Actuarial loss in respect of liabilities	17.0	1.2	18.2
Contributions paid less current service cost	(2.7)	(0.4)	(3.1)
At June 2012	**115.6**	**45.6**	**161.2**

As we noted in the Annual Report, the funding of the Defined Benefit Schemes is determined on assumptions that differ from those required to be used under IFRS. On the basis used to determine future funding, the deficit is significantly larger, being estimated at c£430m at December 2011.

Net assets

Principally as a result of the loss after tax of £20.6m and the actuarial losses on the pension schemes and concessionary fuel scheme of £16.7m, the Group's net assets fell in the first half of the year from £146.0m at the start of the year to £109.3m at June 2012.

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 25 to 26 in the Annual Report and Accounts 2011, 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, and in the first half of 2012, 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.

At present work on Daw Mill's 32s face is progressing. Difficult conditions remain to be overcome in order to restart mining and recover the equipment. The equipment is needed on Daw Mill's next face and its timely recovery is required to avoid extending a face gap in H1 2013.

In part, the Group finances its business through debt. The ability to raise funds on reasonable terms in the longer term depends on a number of factors, including general economic, political and capital market conditions and credit availability as well as business performance. There can be no assurance that financing in the longer term will be available or, if it is, that it will be available on acceptable terms for the Group. Following the extension to our main facilities in April 2012, there are now no significant facility maturities in the next 12 months. However, there is a longer term risk that the Group may become unable to refinance its bank debt or unable to obtain new or additional bank debt if this is required.

As is customary, our bank facilities are subject to covenants, in our case focussing primarily on loan to property value, adjusted earnings and adjusted tangible net worth. Although we are in compliance with these covenants, a fall in the valuations of our properties or a shortfall in production could have an impact on such covenants in the future which could in turn lead to increased charges and possibly a limitation of facilities available.

The Group also faces significant pension risk. Under the terms of the 1994 privatisation, those employees transferred to the employment of UK Coal Mining Limited ("UKCML") became members of one of two Industry Wide Defined Benefit Pension Schemes. These schemes are sectionalised, meaning that UKCML has no unprovided liabilities in respect of the employees of other companies in the industry. UK Coal PLC and UKCML both have a responsibility in respect of these pension schemes under the Protected Persons Regulations which provides that it is not permitted to close off the schemes for future service, although in certain circumstances, later legislation may override this.

Under IAS 19, as noted in note 13 to this Interim Report, these schemes have a combined deficit of £115.6m at June 2012. This deficit is, in accordance with IAS, 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 materially higher deficit contributions being needed in later years.

As described in detail in the Chairman's statement, the Group is presently pursuing a proposed restructuring, but there is an added risk that the restructuring is unsuccessful. The proposed restructuring is progressing well, and the Board has received the agreement in principle of key stakeholders. In the absence of the proposed restructuring, or a similar transaction which offers the same amount of financial benefit, the Group faces the risk that it would not be able to continue as a going concern.

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 4.2.10, 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 2011. Changes in Directors since December 2011 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
10 August 2012	10 August 2012

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 30 June 2012, 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 30 June 2012 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 modified, 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. The main areas of uncertainty relate to the successful implementation of the proposed restructuring, operational conditions at Daw Mill, production issues within the deep mine business, volatility of sales price and the covenants attached to the banking facilities. These matters indicate the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. The condensed consolidated interim financial information does not include the adjustments that would result if the Group or the parent Company were unable to continue as a going concern.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds

10 August 2012

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 30 June 2012

Continuing operations	Note	**Unaudited 6 months ended 30 June 2012 £000**	Unaudited 6 months ended 25 June 2011 £000	Audited year ended 31 December 2011 £000
Revenue	2	**198,273**	256,085	488,216
Cost of sales		**(202,362)**	(217,565)	(402,639)
Gross (loss)/profit		**(4,089)**	38,520	85,577
Net increase in fair value of investment properties		**3,070**	–	3,325
Profit on disposal of investment properties		**420**	2,105	2,685
Net profit on investment properties		**3,490**	2,105	6,010
Other operating income and expenses		**(8,921)**	(5,317)	(10,317)
Operating (loss)/profit	2	**(9,520)**	35,308	81,270
Finance costs		**(11,285)**	(13,345)	(23,112)
Finance income		**185**	132	256
Net finance costs	3	**(11,100)**	(13,213)	(22,856)
Share of post-tax profit/(loss) from joint ventures		**61**	20	(431)
(Loss)/profit before tax		**(20,559)**	22,115	57,983
Tax credit/(charge)	4	**–**	110	(2,742)
(Loss)/profit for the period		**(20,559)**	22,225	55,241
Attributable to:				
Equity holders of the Company		**(20,559)**	22,225	55,241
(Loss)/earnings per share		**pence**	pence	pence
Basic and diluted	6	**(6.9)**	7.4	18.5

Consolidated statement of comprehensive income
for the six months ended 30 June 2012

	Unaudited 6 months ended 30 June 2012 £000	Unaudited 6 months ended 25 June 2011 £000	Audited year ended 31 December 2011 £000
(Loss)/profit for the period	**(20,559)**	22,225	55,241
Other comprehensive income:			
Actuarial (loss)/gain on industry wide pension schemes	**(15,349)**	(27,985)	10,633
Actuarial (loss)/gain on Blenkinsopp pension scheme	**(53)**	(27)	132
Actuarial loss on concessionary fuel reserve	**(1,271)**	(8,676)	(7,463)
Amortisation of interest rate swaps recycled from reserves	**–**	372	372
Movement on deferred tax asset relating to cash flow hedges	**–**	(110)	(110)
Revaluation of property transferred from operating to investment properties	**–**	5,089	4,519
Total other comprehensive income	**(16,673)**	(31,337)	8,083
Total comprehensive (loss)/profit for the period	**(37,232)**	(9,112)	63,324
Attributable to:			
Equity holders of the Company	**(37,232)**	(9,112)	63,324

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 2011	**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 loss 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**
Profit for the six months to December 2011	–	–	–	33,016	33,016
Other comprehensive income:					
Actuarial gain on post retirement benefits	–	–	–	39,990	39,990
Fair value profit on revaluation of investment properties	–	–	3,325	(3,325)	–
Property revaluation on transfer to investment properties	–	–	(570)	–	(570)
Transfer of realised gain on disposed properties	–	–	(7,812)	7,812	–
Total comprehensive profit for the period ended December 2011	–	–	(5,057)	77,493	72,436
Transactions with owners:					
Accrual for long term incentive plan liabilities	–	–	–	594	594
	–	–	–	594	594
Balance at December 2011 (audited)	**2,993**	**30,756**	**192,537**	**(80,283)**	**146,003**
Loss for the six months to June 2012	–	–	–	(20,559)	(20,559)
Other comprehensive income:					
Actuarial losses on post retirement benefits	–	–	–	(16,673)	(16,673)
Fair value profit on revaluation of investment properties	–	–	3,070	(3,070)	–
Transfer of realised gain on disposed properties	–	–	(9,815)	9,815	–
Total comprehensive loss for the period ended June 2012	–	–	(6,745)	(30,487)	(37,232)
Transactions with owners:					
Accrual for long term incentive plan liabilities	–	–	–	513	513
	–	–	–	513	513
Balance at June 2012 (unaudited)	**2,993**	**30,756**	**185,792**	**(110,257)**	**109,284**

Consolidated balance sheet
at 30 June 2012

	Note	**Unaudited 30 June 2012 £000**	Unaudited 25 June 2011 £000	Audited 31 December 2011 £000
ASSETS				
Non-current assets				
Operating property, plant and equipment	7	**212,595**	229,800	223,495
Surface mine development and restoration assets	7	**29,703**	27,559	25,745
		242,298	257,359	249,240
Investment properties	8	**252,084**	271,907	250,640
Investment in joint ventures	14	**3,040**	3,430	2,979
Deferred tax asset		**31,509**	34,474	31,509
Other receivables		**7,025**	3,136	3,357
		535,956	570,306	537,725
Current assets				
Inventories		**33,799**	40,652	34,754
Trade and other receivables		**40,897**	62,637	26,302
Unrestricted cash balances	9	**3,533**	1,687	1,689
Restricted cash balances	9	**23,959**	23,907	23,589
Non-current assets classified as held for sale	10	**6,316**	–	16,600
		108,504	128,883	102,934
Total assets		**644,460**	699,189	640,659
LIABILITIES				
Current liabilities				
Borrowings – bank loans, overdrafts and finance leases	11	**(5,156)**	(5,647)	(37,541)
– generator loans and prepayments	11	**(40,223)**	(34,674)	(41,723)
Derivative financial instruments		**–**	(1,061)	(546)
Trade and other payables		**(130,612)**	(100,587)	(113,759)
Provisions	12	**(12,638)**	(25,721)	(13,480)
		(188,629)	(167,690)	(207,049)
Net current liabilities		**(80,125)**	(38,807)	(104,115)
Non-current liabilities				
Borrowings – bank loans, overdrafts and finance leases	11	**(64,418)**	(105,839)	(18,849)
– generator loans and prepayments	11	**(32,014)**	(62,863)	(42,386)
Derivative financial instruments		**(3,447)**	(6,248)	(4,470)
Trade and other payables		**(498)**	(5,323)	(736)
Deferred tax liabilities		**(1,171)**	(1,265)	(1,171)
Provisions	12	**(83,799)**	(74,823)	(75,290)
Retirement benefit obligations	13	**(161,200)**	(202,165)	(144,705)
		(346,547)	(458,526)	(287,607)
Total liabilities		**(535,176)**	(626,216)	(494,656)
Net assets		**109,284**	72,973	146,003
SHAREHOLDERS' EQUITY				
Capital and reserves				
Called up share capital		**2,993**	2,993	2,993
Share premium account		**30,756**	30,756	30,756
Revaluation reserve		**115,846**	129,789	113,097
Capital redemption reserve		**257**	257	257
Fair value reserve		**69,603**	67,548	64,993
Amounts recognised in reserves relating to non-current assets held for sale		**86**	–	14,190
Retained losses		**(110,257)**	(158,370)	(80,283)
Total shareholders' equity		**109,284**	72,973	146,003

Consolidated statement of cash flows
for the six months ended 30 June 2012

	Note	**Unaudited 6 months ended 30 June 2012 £000**	Unaudited 6 months ended 25 June 2011 £000	Audited year ended 31 December 2011 £000
Cash flows from operating activities				
(Loss)/profit for the period	2	**(20,559)**	22,225	55,241
Depreciation/impairment of property, plant and equipment	7	**21,281**	19,806	40,499
Amortisation of surface mine development and restoration assets	7	**7,897**	9,236	17,121
Net fair value increase in investment properties	8	**(3,070)**	–	(3,325)
Net interest payable and unwinding of discount on provisions	3	**11,100**	13,213	22,856
Net charge for share-based remuneration		**513**	692	1,286
Share of post-tax (profit)/loss from joint ventures		**(61)**	(20)	431
Profit on disposal of investment properties		**(420)**	(2,105)	(2,685)
Profit on disposal of operating property, plant and equipment		**(1,318)**	(11)	(657)
Capitalised surface mine restoration assets		**(8,905)**	–	(3,684)
Increase/(decrease) in provisions		**6,772**	(6,227)	(19,635)
Tax (credit)/charge	4	**–**	(110)	2,742
Pension contributions in excess of charge		**(177)**	(6,126)	(23,597)
Operating cash flows before movements in working capital		**13,053**	50,573	86,593
Decrease in inventories		**955**	9,682	15,580
(Increase)/decrease in receivables		**(12,936)**	(16,264)	2,094
Increase/(decrease) in payables		**15,418**	(14,690)	(3,197)
Cash generated from operations		**16,490**	29,301	101,070
Loan arrangement fees paid		**(1,419)**	(1,035)	(744)
Interest paid		**(10,806)**	(6,446)	(20,678)
Cash generated from operating activities		**4,265**	21,820	79,648
Cash flows from investing activities				
Interest received		**185**	132	256
Net (payment of)/receipt from insurance and subsidence security funds		**(370)**	567	885
Proceeds on disposal of investment properties		**11,440**	36,045	64,342
Proceeds on disposal of operating property, plant and equipment		**2,379**	30	1,349
Development costs of investment properties	8	**(2,606)**	(1,302)	(4,774)
Pre-coaling expenditure for surface mines and deferred stripping costs		**(2,950)**	(1,120)	(3,507)
Purchase of operating property, plant and equipment	7	**(13,273)**	(15,425)	(31,815)
Cash (used in)/generated from investing activities		**(5,195)**	18,927	26,736
Cash flows from financing activities				
Net proceeds from/(repayment of) bank loans		**16,581**	(31,402)	(84,282)
Net repayment of generator loans and prepayments		**(11,872)**	(6,182)	(17,078)
Repayments of obligations under hire purchase and finance leases		**(1,935)**	(1,903)	(3,762)
Cash generated from/(used in) financing activities		**2,774**	(39,487)	(105,122)
Increase in unrestricted cash balances		**1,844**	1,260	1,262
At commencement of period				
Unrestricted cash balances		**1,689**	427	427
Restricted cash balances		**23,589**	24,474	24,474
		25,278	24,901	24,901
Increase in unrestricted cash balances		**1,844**	1,260	1,262
Decrease in restricted cash balances (net payment of/(receipt from) insurance and subsidence security funds)		**370**	(567)	(885)
		27,492	25,594	25,278
At end of period				
Unrestricted cash balances		**3,533**	1,687	1,689
Restricted cash balances		**23,959**	23,907	23,589
Cash and cash equivalents	9	**27,492**	25,594	25,278

Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2012

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 30 June 2012 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 31 December 2011 were approved by the Board of Directors on 27 April 2012 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 30 June 2012 have been reviewed, not audited and were approved by the Board on 10 August 2012.

Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2012 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 31 December 2011 which have been prepared in accordance with IFRSs as adopted by the EU.

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 cash flow forecasts 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 31 December 2011 ("Annual Report"). The Board also prepares a number of alternative scenarios modelling the business variables and Key risks and uncertainties as summarised on page 10 and outlined in more detail in the Annual Report on pages 25 and 26, in particular taking into account the production and price risks inherent in a deep mining business.

In forming its opinion as to going concern, the Board has particularly considered the prospect of a successful implementation of the proposed restructuring outlined in the Chairman's statement, and the support from the Pension Schemes Trustees and from the customers that are a part of the proposal. The proposed restructuring is progressing well, and we have received the agreement in principle of key stakeholders including the Pension Schemes Trustees and our principal bankers Lloyds Banking Group. The Board concluded that the restructuring is likely to be implemented and also concluded that, in the absence of the proposed restructuring or a similar transaction that offered the same level of financial benefit, the Group would be unlikely to be a going concern.

The Board also considered that critical to the viability of the business is the timely recovery of the 32s face equipment at Daw Mill for use on the new 33s panel due to commence mining in Spring 2013. The timing and prospect of the recovery remains a significant uncertainty for the Group given the complexities of the operational conditions currently being encountered. These operational conditions need to be overcome in a timely manner in order to enable the safe removal of the equipment and to prevent the current forecasted 12 week face gap arising in early 2013 being extended.

The other key factors that have been considered in forming its going concern conclusion are:

- The 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 fairly immediate material adverse impact on cash flow. Recent performance has been illustrative of the difficulties inherent in deep mining operations and the impact of unpredictable geological conditions and/or other operational issues on production volumes, and on development and salvage activities at our deep mines. In particular, development, face installation progress and salvage and overhaul of equipment from previous faces all need to be completed in time to enable new faces to be operational on the exhaustion of old faces.
- 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 values and net asset values. Property valuations affect the loan to value covenants and net asset values and similarly net asset values are affected by operational performance. Breach of covenants could result in the need to pay down in part some of these loans, additional costs, or a renegotiation of terms or, in extremis, a reduction or withdrawal of facilities by the banks concerned. In this regard, the Board has noted that the existing bank facility agreements will need to be renegotiated as part of the proposed restructuring of the business.
- Revenues in respect of certain floating rate contracts, capped/collared contracts and uncontracted coal will vary based upon the market price for coal, which is expressed in dollars, and sterling/dollar exchange rates. These variables have, over the last year, proved to be volatile and therefore there is a risk of unpredictability in coal revenues and therefore cash flows.

Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2012: continued

1. Basis of preparation of the condensed consolidated interim financial statements: continued

Going concern: continued

The Board notes that the matters set out above indicate 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 these financial statements. These 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.

Accounting policies

Except as described below, the accounting policies applied are consistent with those of the Group financial statements for the year ended 31 December 2011, 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.

(a) 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, 'Related party disclosures' (revised 2009) has been applied from 1 January 2011.

- 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC was issued, and the amendments correct the problem. The Group has applied this from 1 January 2011, but the impact of its adoption is not considered to be significant.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- Amendment to IAS 32, 'Financial instruments: Presentation - Classification of rights issues' is not applicable as the Group has not made a rights issue during the period.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' is not applicable as the Group has not used equity to settle financial liabilities.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011, but not adopted early,

- IFRS 9 'Financial instruments', issued in November 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2015, subject to endorsement by the EU.

- IAS 19 'Employee benefits' was amended in June 2011. The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other consolidated income as they occur, to immediately recognise all past service costs and to replace interest costs 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.

- 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 2013, subject to endorsement by the EU.

- 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 2013, subject to endorsement by the EU.

- 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 IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where it is already required or permitted by other standards within IFRS or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2014, subject to endorsement by the EU.

- Amendment to IAS 12 'Income taxes' on deferred tax. IAS 12 currently 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 the recovery will be through use or through when the asset is measured using the fair value model in IAS 40 'Investment property'. This amendment therefore 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', will 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 withdrawn.

1. Basis of preparation of the condensed consolidated interim financial statements: continued

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.

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 31 December 2011.

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 unrestricted cash balances as these are managed centrally. Restricted cash balances have been included within the appropriate segment.

The Executive Management Committee as at 30 June 2012 consisted of:

Chairman	Jonson Cox
Finance Director	David Brocksom
Managing Director – Mining	Gareth Williams
Managing Director – Property	Owen Michaelson
Company Secretary	Jeremy Rhodes
HR Director	Colin Reed
Communications Director	Andrew Mackintosh

Subsequent to the period end Jeremy Rhodes stood down as Company Secretary and Geoff Mason was appointed with effect from 8 August 2012.

Revenue

Revenue from operations arises from:	**6 months ended June 2012 £000**	6 months ended June 2011 £000	Year ended December 2011 £000
Sale of goods (including electricity)	**195,439**	253,424	481,931
Rendering of services	**16**	123	16
Rental income	**2,818**	2,538	6,269
	198,273	256,085	488,216

Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2012: continued

2. Segmental reporting: continued

Six months ended June 2012	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue – gross	147,381	–	147,381	49,621	6,413	–	**203,415**
Revenue – intra Group	–	–	–	(3,653)	(1,489)	–	**(5,142)**
Revenue – external	147,381	–	147,381	45,968	4,924	–	**198,273**
Operating (loss)/profit before non-trading exceptional items and net increase in fair value of investment properties	**(19,064)**	**(520)**	**(19,584)**	**8,405**	**2,118**	**–**	**(9,061)**
Net movement in fair value of investment properties	–	–	–	–	3,070	–	**3,070**
Operating (loss)/profit before non-trading exceptional items	**(19,064)**	**(520)**	**(19,584)**	**8,405**	**5,188**	**–**	**(5,991)**
Non-trading exceptional items	–	–	–	–	–	(3,529)	**(3,529)**
Operating (loss)/profit after non-trading exceptional items	**(19,064)**	**(520)**	**(19,584)**	**8,405**	**5,188**	**(3,529)**	**(9,520)**
Finance costs							**(9,064)**
Exceptional finance costs							**(2,221)**
Finance income							**185**
Net finance costs							**(11,100)**
Share of post-tax profit from joint ventures							**61**
Loss before tax							**(20,559)**
Tax credit							**–**
Loss for the period ended 30 June 2012							**(20,559)**
Other segmental items							
Capital expenditure	12,666	–	12,666	229	2,984	–	**15,879**
Depreciation	20,056	–	20,056	459	606	160	**21,281**
Surface mine development costs and restoration assets capitalised	–	–	–	11,855	–	–	**11,855**
Amortisation of surface mine development and restoration assets	–	–	–	7,897	–	–	**7,897**
Provisions – non-cash charge	4,708	97	4,805	8,994	–	–	**13,799**

* 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 the net increase in the fair value of properties of £3,070,000 and a profit on disposal of investment properties of £420,000.

Exceptional items

Exceptional items totalling £5,750,000 have been charged to the consolidated income statement in respect of refinancing and restructuring, of which £3,529,000 has been treated as non-trading exceptional items and £2,221,000 has been treated as exceptional finance costs. These costs consist of professional fees relating to refinancing and restructuring the business together with additional transaction fees in respect of the refinancing.

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 movement 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 ended 25 June 2011							**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.

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).

Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2012: continued

2. Segmental reporting: continued

Year ended December 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	366,269	–	366,269	119,461	13,430	6	**499,166**
Revenue – intra Group	–	–	–	(8,038)	(2,912)	–	**(10,950)**
Revenue – external	366,269	–	366,269	111,423	10,518	6	**488,216**
Operating profit /(loss) before non-trading exceptional items and net increase in fair value of investment properties	**34,861**	**(2,492)**	**32,369**	**22,055**	**7,402**	**11**	**61,837**
Net increase in fair value of investment properties	–	–	–	–	3,325	–	**3,325**
Operating profit /(loss) before non-trading exceptional items	**34,861**	**(2,492)**	**32,369**	**22,055**	**10,727**	**11**	**65,162**
Non-trading exceptional items	17,808	–	17,808	–	–	(1,700)	**16,108**
Operating profit /(loss) after non-trading exceptional items	**52,669**	**(2,492)**	**50,177**	**22,055**	**10,727**	**(1,689)**	**81,270**
Finance costs							**(23,112)**
Finance income							**256**
Net finance costs							**(22,856)**
Share of post-tax loss from joint ventures							**(431)**
Profit before tax							**57,983**
Tax charge							**(2,742)**
Profit for the year ended 31 December 2011							**55,241**

	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Other segmental items							
Capital expenditure	30,174	–	30,174	499	5,534	372	**36,579**
Depreciation	37,390	–	37,390	1,710	1,169	230	**40,499**
Surface mine development costs and restoration assets capitalised	–	–	–	7,191	–	–	**7,191**
Amortisation of surface mine development and restoration assets	–	–	–	17,121	–	–	**17,121**
Provisions – non-cash charge	4,069	3,496	7,565	5,523	–	–	**13,088**

* 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 the net increase in the fair value of properties of £3,325,000 and a profit on disposal of investment properties of £2,685,000.

Non-trading exceptional items

Rationalisation, closure and other costs consists of professional fees in relation to 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 in the schemes rules in the year. 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.

2. Segmental reporting: continued

Total assets **At June 2012**	**Ongoing deep mines £000**	**Closed deep mines* £000**	**Deep mining £000**	**Surface mining £000**	**Property £000**	**Other† £000**	**Total £000**
Segment assets	252,228	188	252,416	62,620	290,247	1,095	606,378
Investment in joint ventures	–	–	–	–	3,040	–	3,040
Total segment assets	**252,228**	**188**	**252,416**	**62,620**	**293,287**	**1,095**	**609,418**
Unrestricted cash balances							3,533
Deferred tax asset							31,509
Total assets per balance sheet							**644,460**

Total assets **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**
Unrestricted cash balances							1,687
Deferred tax asset							34,474
Total assets per balance sheet							**699,189**

Total assets **At December 2011**	**Ongoing deep mines £000**	**Closed deep mines* £000**	**Deep mining £000**	**Surface mining £000**	**Property £000**	**Other† £000**	**Total £000**
Segment assets	265,251	179	265,430	44,388	293,752	912	604,482
Investment in joint ventures	–	–	–	–	2,979	–	2,979
Total segment assets	**265,251**	**179**	**265,430**	**44,388**	**296,731**	**912**	**607,461**
Unrestricted cash balances							1,689
Deferred tax asset							31,509
Total assets per balance sheet							**640,659**

* Closed deep mines includes the assets of 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.

Restricted cash balances have been included within the appropriate segment, along with the related provisions.

Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2012: continued

3. Finance costs and income

	6 months ended June 2012 £000	6 months ended June 2011 £000	Year ended December 2011 £000
Interest expense			
– Bank borrowings	**(3,177)**	(4,724)	(9,227)
– Hire purchase agreements and finance leases	**(418)**	(487)	(915)
– Unwinding of discount on provisions	**(895)**	(1,685)	(3,319)
– Amortisation of issue costs of bank loans	**(1,405)**	(425)	(537)
– Generator loans and prepayments	**(3,593)**	(4,950)	(9,187)
Gains/(losses) on interest rate swaps not eligible for hedge accounting	**424**	(702)	445
Amortisation of interest rate swaps recycled from reserves	**–**	(372)	(372)
	(9,064)	(13,345)	(23,112)
Exceptional finance costs relating to refinancing	**(2,221)**	–	–
Finance costs	**(11,285)**	(13,345)	(23,112)
Finance income	**185**	132	256
Net finance costs	**(11,100)**	(13,213)	(22,856)

4. Tax

The tax in the period is £nil (June 2011: £110,000 credit; December 2011: £2,742,000 charge).

The Directors have assessed the carrying value of the deferred tax asset based on the current and proposed restructured Group. The assessment has been based on the associated cash flow forecasts under both scenarios. The outcome of this assessment supports the carrying value at 30 June 2012. Given the restructuring, outlined in the Chairman's statement, is not finalised the Directors will continue to monitor the impact any changes would have on the carrying value of the deferred tax asset.

5. Dividends

No dividends have been paid or proposed in relation to 2011. No interim dividend is proposed for the six months ended June 2012.

6. (Loss)/earnings per share

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

In calculating the diluted (loss)/earnings 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 2012 £000	6 months ended June 2011 £000	Year ended December 2011 £000
(Loss)/profit for the period	**(20,559)**	22,225	55,241
Weighted average number of shares used for basic and diluted (loss)/earnings per share calculations	**299,298,160**	299,298,160	299,298,160
Basic and diluted (loss)/earnings per share (pence)	**(6.9)**	7.4	18.5

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 2011	**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**
Additions	16,380	6,071	22,451
Disposals	(842)	–	(842)
Net transfer to investment properties	(1,150)	–	(1,150)
Depreciation charge	(20,693)	(7,885)	(28,578)
At December 2011	**223,495**	**25,745**	**249,240**
Additions	13,273	11,855	25,128
Disposals	(1,061)	–	(1,061)
Net transfer from investment properties	3,105	–	3,105
Transfer to non-current assets held for sale	(4,936)	–	(4,936)
Depreciation charge	(21,281)	(7,897)	(29,178)
At June 2012	**212,595**	**29,703**	**242,298**

In addition to the above, the Group is committed to a further £14,100,000 (June 2011: £27,860,000; December 2011: £11,895,000) of expenditure for operating property, plant and equipment.

In accordance with IAS 36, operating property, plant and equipment is reviewed for impairment if there is any indication that their carrying amount may not be recoverable. As a result of the operating loss recorded by the Group in the period, and also the significant fall in the market capitalisation of the Group, an impairment review has been carried out on a basis consistent with previous years.

The Group announced on 14 March 2012 that it is consulting on the potential closure of Daw Mill, once it has mined coal from existing and part developed coal panels in 2014. The consultation process is continuing and no decisions have yet been made. The Group estimates that were an irrevocable decision be made to close Daw Mill in 2014, an impairment loss of approximately £36,000,000 will need to be recognised. In addition, depreciation would be accelerated on the remaining tangible fixed assets with a net book value at June 2012 of £40,000,000. Other related costs, including redundancies, will depend on the outcome of negotiations and cannot yet be estimated with any degree of accuracy.

The Directors have assessed the carrying value of the mining assets based on the current and proposed restructured Group. The assessment has been based on the associated cash flow forecasts under both scenarios. The outcome of this assessment supports the carrying value at 30 June 2012. Given the restructuring, outlined in the Chairman's statement, is not finalised the Directors will continue to monitor the impact any changes would have on the carrying value of the mining assets.

8. Investment properties

At valuation	**6 months ended June 2012 £000**	6 months ended June 2011 £000	Year ended December 2011 £000
At start of period	**250,640**	314,237	314,237
Additions	**2,606**	1,302	4,774
Disposals	**(697)**	(51,674)	(63,718)
Fair value adjustment	**3,070**	–	3,325
Net transfer (to)/from operating property, plant and equipment	**(3,105)**	2,953	4,103
Transfer to non-current assets held for sale	**(430)**	–	(16,600)
Revaluation gain on transfer from operating property, plant and equipment	**–**	5,089	4,519
At end of period	**252,084**	271,907	250,640

In addition to the above, the Group is committed to a further £1,071,000 (June 2011: £631,000; December 2011: £559,000) of expenditure for investment properties.

Notes to the condensed consolidated interim financial statements
for the six months ended 30 June 2012: continued

8. Investment properties: continued

An internal review of the valuation of investment properties was carried out as at 30 June 2012. 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 31 December 2011. Following this review the Directors are of the opinion that, in the current market, the change in the value of the Group's investment property portfolio as at 30 June 2012 is an increase of £3,070,000. 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.

9. Cash and cash equivalents

	As at June 2012 £000	As at June 2011 £000	As at December 2011 £000
Unrestricted cash balances	**3,533**	1,687	1,689
Cash deposited to cover insurance requirements	**15,021**	15,090	14,735
Subsidence security fund	**8,938**	8,817	8,854
Total restricted cash balances	**23,959**	23,907	23,589
Cash and cash equivalents	**27,492**	25,594	25,278

10. Non-current assets classified as held for sale

	As at June 2012 £000	As at June 2011 £000	As at December 2011 £000
Operating property, plant and equipment	**4,936**	–	–
Investment properties	**1,380**	–	16,600
Non-current assets classified as held for sale	**6,316**	–	16,600

On 22 June 2012 the Company announced that it had entered into a conditional contract to sell the entire share capital of its indirectly held subsidiary Harworth Power (Generation) Limited for a total cash consideration of £20,300,000. The net book value of the operating property, plant and equipment held within the property segment relating to this sale is £4,936,000. The conditions for the disposal of the shares are expected to be met during the second half of 2012 and so the fixed assets have been treated as assets classified as held for sale.

On the grounds of non-materiality, the activities of Harworth Power (Generation) Limited have not been disclosed as a discontinued operation.

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 at December 2011. In the period to 30 June 2012, properties with a net book value of £15,650,000 have been sold with gross proceeds of £18,600,000 with a further £430,000 being classified as assets held for sale. The balance remaining of £1,380,000 has been sold in July 2012 with proceeds of £1,380,000.

The amount recognised in reserves relating to these properties was £86,000 (June 2011: £nil; December 2011: £14,190,000).

11. Borrowings

	As at June 2012 £000	As at June 2011 £000	As at December 2011 £000
Bank loans, overdrafts and finance leases			
Current	**5,156**	5,647	37,541
Non-current	**64,418**	105,839	18,849
	69,574	111,486	56,390
Generator loans and prepayments			
Current	**40,223**	34,674	41,723
Non-current	**32,014**	62,863	42,386
	72,237	97,537	84,109
Total			
Current	**45,379**	40,321	79,264
Non-current	**96,432**	168,702	61,235
	141,811	209,023	140,499

Borrowings at June 2012 are stated after deduction of unamortised borrowing costs of £2,451,000 (June 2011: £631,000; December 2011: £989,000).

During the period, the Group's borrowings increased by £2,774,000. No additional finance lease facilities have been secured during the period. The leases are due to be repaid in the period from 2012 to 2014.

The Group is party to certain contracts for coal supply which resulted in increased cash flows to the business in 2009, 2010, 2011 and 2012. 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%. During the period £11,872,000 has been repaid against these balances.

As reported in the Annual Report and Accounts 2011, the Group renewed and extended its banking facilities in the period to 30 June 2012, with the following principal changes:

- Extensions to the maturity of the Revolving Credit Facility ("RCF"), the Additional Revolving Facilities ("ARF"), the Harworth Estates (Waverly Prince) Limited facility and the EOS Inc. Ltd facility to the end of December 2013 have all been agreed;
- The financial profile of the ARF were modified so that the amount available to be drawn, which was initially increased to £27,500,000, reduces by £7,500,000 on 30 September 2012 and amortises over the period June 2013 to November 2013. The facility reduces 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 Group extended the term of a further £10,000,000 of unsecured stand-by facility from Peel Holdings Finance Limited, which is available for drawing in the event that both the RCF and part of the ARF are fully drawn. This facility, which amortises gradually over the period August 2013 to November 2013, has also been extended to mature in November 2013.

12. Provisions

	As at December 2011 £000	**Provided in period £000**	**Released in period £000**	**Utilised in period £000**	**Unwinding of discount £000**	**As at June 2012 £000**
Employer and public liabilities	8,452	1,599	(142)	(1,105)	–	**8,804**
Surface damage	16,492	3,112	–	(4,774)	173	**15,003**
	24,944	4,711	(142)	(5,879)	173	**23,807**
Claims	15	–	–	–	–	**15**
Redundancy	445	325	–	(546)	–	**224**
Restoration and closure costs of surface mines	41,159	8,905	–	(392)	489	**50,161**
Restoration and closure costs of deep mines:						
– shaft treatment and pit top	9,646	–	–	(11)	101	**9,736**
– spoil heaps	2,484	–	–	(199)	26	**2,311**
Ground/groundwater contamination	10,077	–	–	–	106	**10,183**
	88,770	13,941	(142)	(7,027)	895	**96,437**

Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2012: continued

12. Provisions: continued

The nature of the Group's obligations is as disclosed in the Annual Report and Accounts 2011.

Restricted funds of £23,959,000 have been set aside to meet the liabilities due on the employer and public liabilities and surface damage provisions, together with assets secured of £5,470,000 and a bond of £10,000,000 repayable December 2012.

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

	As at June 2012 £000	As at June 2011 £000	As at December 2011 £000
Provisions payable within one year	**12,638**	25,721	13,480
Provisions payable after more than one year	**83,799**	74,823	75,290
	96,437	100,544	88,770

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	3,533	1,894	2,988	389	**8,804**
Surface damage	3,425	3,053	6,399	2,126	**15,003**
	6,958	4,947	9,387	2,515	**23,807**
Claims	15	–	–	–	**15**
Redundancy	224	–	–	–	**224**
Restoration and closure costs of surface mines	5,311	7,174	33,538	4,138	**50,161**
Restoration and closure costs of deep mines:					
– shaft treatment and pit top	65	71	2,505	7,095	**9,736**
– spoil heaps	65	–	759	1,487	**2,311**
Ground/groundwater contamination	–	2,086	5,051	3,046	**10,183**
	12,638	14,278	51,240	18,281	**96,437**

13. Retirement benefit obligations

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

	As at June 2012 £000	As at June 2011 £000	As at December 2011 £000
Industry wide schemes	**115,579**	156,343	101,009
Concessionary fuel	**45,621**	45,822	43,696
	161,200	202,165	144,705

Industry wide schemes

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

	As at June 2012 £000	As at June 2011 £000	As at December 2011 £000
Fair value of plan assets	**463,849**	445,192	450,043
Present value of funding obligations	**(579,428)**	(601,535)	(551,052)
Net liability recognised in the balance sheet	**(115,579)**	(156,343)	(101,009)

The amounts recognised in the consolidated income statement are:

	6 months ended June 2012 £000	6 months ended June 2011 £000	Year ended December 2011 £000
Current service cost	**(4,979)**	(6,606)	(12,676)
Interest cost	**(13,476)**	(15,590)	(31,123)
Expected return on plan assets	**11,626**	14,091	28,215
Effect of curtailment	**–**	1,430	1,430
Past service cost	**–**	–	14,814
	(6,829)	(6,675)	660

13. Retirement benefit obligations: continued

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 and past service cost are included in non-trading exceptional items.

Concessionary fuel

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

	As at June 2012 £000	As at June 2011 £000	As at December 2011 £000
Net liability recognised in the balance sheet	**(45,621)**	(45,822)	(43,696)

The amounts recognised in the consolidated income statement are:

	6 months ended June 2012 £000	6 months ended June 2011 £000	Year ended December 2011 £000
Current service cost	**(235)**	(238)	(476)
Interest cost	**(1,066)**	(999)	(1,988)
Past service cost	**–**	–	1,564
	(1,301)	(1,237)	(900)

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

14. Related party transactions

Investments in joint ventures

	As at June 2012 £000	As at June 2011 £000	As at December 2011 £000
UK Strategic Partnership Limited	**627**	1,032	578
Bates Regeneration Limited	**2,413**	2,398	2,401
	3,040	3,430	2,979

There have been no transactions with joint ventures in the period.

Balances owing from/(to) joint ventures

Peel Group

The £10,000,000 unsecured facility from Peel Holdings Finance Limited was originally agreed in 2010 and renewed in 2011. The facility was due to expire at the end of July 2012 but 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 £345,000 were incurred in the period in relation to the facility.

15. Contingent liabilities

Guarantees have been given in the normal course of business for performance bonds at June 2012 of £4,104,000 (June 2011: £4,209,000; December 2011: £5,619,000) to cover the performance of work under a number of Group contracts.

The Company is liable for the pension schemes contributions and deficit on the industry wide schemes. Furthermore the Company has provided a guarantee for an insurance bond for £10,000,000 (June 2011: £10,000,000; December 2011: £10,000,000) which is used as security to cover surface damage liabilities which are provided in the Group accounts. This bond is repayable in December 2012.

Under the rules for the Industry Wide pension schemes, additional benefits may become payable if, according to the Scheme Actuary, the schemes become funded on a "sustainable basis". Given the current level of deficit in the schemes and the uncertainty over whether the sustainability test will be met, it is not probable that such additional benefits would become payable.

There are no other material contingent liabilities at June 2012 (June 2011: £nil; December 2011: £nil) for which provision has not been made in these financial statements.

16. Post balance sheet event

Since the period end and as noted in the Chairman's statement, we have reached agreement in principle with a number of key stakeholders with regard to a possible restructuring of the Group. There remains significant risk in converting this agreement into a formal restructure.

PRINTED BY PEGASUS COLOURPRINT LIMITED

Interim Report 2012

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