Company Registered Number 2649340

UK COAL PLC
Annual Report and Accounts 2010

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

One of Britain's largest brownfield site property developers, UK Coal owns a substantial land portfolio, which has major potential for redevelopment

Highlights

	2010	2009
Total Group revenue (£m)	**351.2**	316 0
Average sale price per Gigajoule (£/GJ)	**1 97**	1 87
Non-cash property revaluation reduction (£m)	**(34.2)**	(25 7)
Operating loss before non-trading exceptional items (£m)	**(74.3)**	(93 1)
Loss after tax (£m)	**(125.1)**	(127 5)
Total Group debt including generator balance (£m)	**(242.4)**	(181 9)

Contents

Company Information and Advisers

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Jonson Cox [2]

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David Brocksom
Gareth Williams [5]
Owen Michaelson

Non-Executive Directors
Peter Hazell [1,2,3,4]
Michael Toms [1,2,3,4,5]
Keith Heller [1,2,3,4,5]
Steven Underwood

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Daw Mill colliery, Warwickshire

Chairman's Statement

Introduction

I joined UK Coal as Chairman on 15 November 2010 In this my first statement it is appropriate to take stock of the Group s position and to set out how the Board plans to take UK Coal forward

The Year of 2010

For 2010 the Group delivered a further year of poor operational performance with a pre-tax loss of £124 6 million a loss per share of 41 8p and operating cash outflow of £35 0 million These results follow pre-tax losses of £129 1 million in 2009 and £15 6 million in 2008, bringing us to three years of unacceptable performance in a row Cumulative losses over three years amount to £269 3 million

The Business Context

It will be clear to those who have followed UK Coal that the causes of these severe losses are deeply rooted and require a complete overhaul of strategy and execution To frame the way forward, we need to take into account the performance of the Company over the last five years across a number of areas

(i) Operating performance levels of safety production volumes and operating costs have all deteriorated over the last five years Safety performance – our highest priority – has been unacceptable Production levels have consistently fallen short of expectation Operating costs have grown relentlessly with labour costs per employee increasing from £44k in 2006 to £61k in 2010 Deep mine operating costs have doubled from £28 per tonne to £56 per tonne

(ii) Contract strategy in striking the balance between the predictability of fixed price contracts and being able to capitalise on rising coal prices the Group has placed more weight on the certainty of fixed prices Thus in 2010 compared to a market average sales price of £2 37/GJ the Group achieved an average of only £1 97/GJ (equivalent to £60 per tonne and £47 per tonne respectively) This is compounded by a contract mix preventing UK Coal from fully realising proceeds closer to market prices which currently are projected by the market to be around £3/GJ throughout 2011 and into 2012

(iii) Development each of our three on-going deep mines has underperformed its investment programme in developing new coal faces at some point in the last three years The most notable was Daw Mill where, in early 2010, a four month face gap caused the Group to burn through the majority of the cash it had raised from its 2009 equity issue Whether caused by geological conditions or poor management and planning, if the next panel of coal is not ready before the previous face is exhausted the result is a 'face gap or a gap in production and pressure on the development of the subsequent face It was confirmed in January 2011 that slow progress in 2010 was likely to cause a face gap again this year at Daw Mill I report below the steps we have taken to address this unacceptable position

(iv) Financial structure the Group has become over reliant on debt At the year-end net debt (including generator loans/prepayments but excluding restricted cash balances) has increased from £94 million in 2006 to £242 million in 2010 At the same time the deficit in the defined benefit pension scheme has grown to a level broadly equivalent to the rest of the Group s debt as measured on the actuarial basis used by the Trustees, in part reflecting the fact that the Group s defined benefit schemes remain open to future accrual

Reliance on Property

To mitigate poor operational and financial performance UK Coal has relied heavily on the potential of its property portfolio both to underpin future value and to use as security for its banking facilities The portfolio valuations fell in both 2009 (£25 7 million) and 2010 (£34 2 million) It is now clearly apparent that the projections under Project Worth (presented in the 2009 accounts to be £615 million in 2012 rising to £820 million in 2014) are neither realistic nor deliverable in the context of current market conditions A series of new approaches is required to unlock and develop the future value that exists in the property portfolio

A Unique Legacy

UK Coal represents one of the last parts of a proud and distinct industrial heritage in the UK Our operations support some 3 000 highly skilled direct employees and several thousand more jobs in the supply chain The UK is likely to remain partly dependent on coal for power generation for the next decade, which ties in with the current lifetime of our deep mines and reserves and resources of 48 million tonnes The introduction of a carbon support price in 2013 will further dampen the demand for coal, but it is noteworthy that in the last winter coal accounted for up to 44% of the fuel mix in power generation Exploitation of our further reserves and resources – in the order of 49 million tonnes – beyond the next decade depends on cleaner technologies such as carbon capture and storage

The Board's Approach

It is clear that the Group is in a poor position over-financed by debt encumbered with production costs which are too high and over exposed to the market for brownfield property

The Board has taken stock of this position and is determined to arrest the trend of under-delivery and to seek value for our shareholders

Chairman's Statement
continued

Immediate Steps
Our initial steps to improve matters were delayed by an explosive ignition of methane at our Kellingley mine on 23 November I am pleased to report that all 218 men were safely evacuated with no injuries sustained While the fire was extinguished 156 underground workers were laid off on basic pay (saving around £200k in costs) until they returned when operations resumed on 9 December This is the first time the Group has exercised its right to do so We also reached agreement with our workforce at each of our deep mines to continue producing and dispatching coal throughout most of the Christmas period to mitigate the effect of lost production from Kellingley, again a change from the norm

Over the last three months we have taken some immediate and difficult steps to improve performance Measures to reduce the cost base have included the necessary repudiation of an unaffordable Group-wide RPI pay award at 1 January 2011 which would have cost £5 million the pruning of allowances and a significant reduction in the size of the head office As a result of these steps we expect a £12 million cost reduction for 2011 compared to our original budgets We have also made clear to all parties the need to close the current final salary pension schemes in the Group so as to divert funds to reduce the deficit In all these actions we have appreciated the cooperation and help of the workforce The urgent need for further change has been communicated clearly to all colleagues and unions and we believe that the message is understood

On the Property front, in the closing weeks of 2010, we placed considerable emphasis on the projection given on 28 October 2010 of achieving sales of £24 million by the end of December I am pleased to say that our property team achieved this milestone

On learning of the potential 2011 face gap we promptly appointed a new manager of Daw Mill in February 2011 He has acted quickly in developing and initiating a delivery plan This includes the improvement of underground transport capabilities new working patterns, and enhanced maintenance and availability of key capital equipment In recent weeks we have benefited from full engagement in our recovery plan of key members of the development workforce at Daw Mill to mitigate the possibility of a face gap I thank them for their cooperation

I am also pleased to confirm that Lloyds Banking Group has agreed to extend our borrowing facilities and take out a smaller participant, while the Board undertake a full review of the business in anticipation that a successful implementation of the review will lead to longer term support I thank our Finance Director, David Brocksom for his efforts in securing this financing

Strategy
The Board is in the course of a Strategic Recovery Review to tackle the deep-rooted problems in UK Coal The review is wide ranging and well advanced We intend to identify and develop a viable business model for our Deep and Surface Mines and our Property Divisions The review will identify the conditions and steps necessary to restore the Group to economic health for the period over which there remains dependence in the UK on coal for power generation

The key priorities for the review include

- The Group's commercial strategy for the sale of coal
- Operating costs and in particular terms conditions and flexibility of employees
- The predictability and reliability of production and over-ground operations
- Improving the process for the development of new coal faces
- Creation of the surface mining business as a profitable, sustainable standalone business,
- The level and form of pension provision, cost and deficit funding
- Developing a strategy for releasing the value in the property portfolio and
- A plan for the exploitation of the Group s coal reserves beyond those accessible from the current infrastructure

We have started to negotiate early recommendations of the review We anticipate that we will be in a position to say more about the outcome of the review at the time of the Annual General Meeting in June

The Composition of the Board
Gareth Williams, who joined during the year stepped up to be Managing Director of Mining in August 2010 At the same time Owen Michaelson a non executive director representing Peel Holdings on the Board from 2007 to 2010, became Managing Director of the property business Owen was replaced as a non-executive director by Steven Underwood, Corporate Development Director of Peel Holdings

I joined as Chairman on the 15 November 2010 at which point David Jones, Chairman and Jon Lloyd Chief Executive left the Board Kevin Whiteman non-executive director stepped down on 31 March 2011 Mike Toms will be retiring from the Board on 30 June 2011 Keith Heller joins the Board today as a non-executive director and Chairman of the Board s Safety Committee a separate announcement regarding his appointment is also being made today We hope to make a further appointment by the date of the Annual General Meeting I thank members of the Board for their support through this difficult time

In addition to the above Board appointments, we have decided to strengthen our Property Board Tony Donnelly Managing Director of AWG Property Ltd, who has a track record of a similar turnaround to that required in Harworth Estates joined our Property Management Board as a non-executive in December 2010

Outlook

While the first quarter of 2011 has seen many challenges, production has been reliable and steady at 2 1 million tonnes with output of 1 6 million tonnes from deep mines and 0 5 million tonnes from surface mines Our output level reflects some throttling back of production and costs at Daw Mill to mitigate the risk of a face gap in the year

We sold 1 500 acres of agricultural land in Q1 with gross proceeds of £10 5 million These disposals were principally two significant agricultural estates 590 acres at Stockley Hill Lancashire and a 279 acre part of our Sandy Lane site in Staffordshire

Success for UK Coal will need difficult changes the full engagement and understanding of our employees and their trade unions and the continuing support of our banks – Lloyds Banking Group in particular – of our suppliers and of our customers With this support the Board is determined to do its best to re-create a safe and profitable Group over the medium-term for employees, other stakeholders and our long-suffering shareholders

Jonson Cox
Chairman

19 April 2011

Advanced Manufacturing Park (AMP), Waverley, South Yorkshire

Operating and Financial Review (OFR)

Business Overview

UK Coal is the largest producer of coal in the UK, and a significant supplier of energy to the UK's electricity industry. In 2010 we mined and sold 7.2 million tonnes of coal, which represented approximately 16% of the total amount of coal burned in the UK. Predominantly our customers are in the electricity supply industry ("ESI") and our production therefore represented around 5% of the total energy used to supply the UK with electricity.

At the 2010 year end, the Group had three operational deep mines and six surface mines.

As a result of our heritage, we have a very large estate of around 37,900 acres (15,300 hectares) of land. This estate includes agricultural land which was originally acquired for its underlying coal reserves, and the sites of former mines and associated workings. The estate is largely focused on the UK coal fields along the A1/M1 corridor through Nottinghamshire and Yorkshire, and in Northumberland, although it also includes some very significant sites elsewhere.

Given their location and former use, these sites are often very well connected to road, rail and electricity networks and represent an excellent opportunity for development of both residential and employment buildings, helping to meet the long-term needs of the UK.

Our business makes a significant contribution to the UK's energy needs, to the local communities where our operations are based and to social and economic regeneration programmes.

Strategy

The Group's aim is to create shareholder value by accessing and mining reserves of coal where there is a clear prospect of creating substantial value over time and by realising the considerable value of our land portfolio. The difficulties faced by the Group in achieving this are well known. The management team, under the leadership of the new Executive Chairman, is at an advanced stage of conducting a strategic review to set out core plans and milestones for the development of the Group over the medium and longer term.

Installing new roof supports at Kellingley colliery, Yorkshire

Objectives

The current objectives of the business are outlined below

Mining

Deep mining

- To improve continually the safety in our operations,
- To reduce risk and variability in operational performance
- To improve the underlying development position of each mine
- To optimise operating cost per tonne of output and
- To achieve over time an optimum balance between long term sales contracts and an ability to access short-term market prices for our coal

Surface mining

- To improve continually the safety in our operations
- To increase surface mine production and to maintain a sustainable level of production over the longer term through planning applications and consents
- To maximise productivity and operating performance on our sites and
- To maintain the high environmental standards of our mining schemes and maintain close working relationships with local communities

Harworth Estates

- To realise the value of our surplus agricultural and other non-core land to reduce Group debt,
- To increase the value of our strategic land bank by gaining more favourable planning designations,
- To develop further the income stream from our business parks,
- To progress delivery partnerships with third party housebuilders to develop our brownfield sites and
- To generate value for the business through exploiting renewable energy opportunities

Review of Operations by Business: Mining

General Overview

The deep mining business undertook face changes at the three remaining deep mines in 2010 Two of these faces were delivered on budget and on time but this was overshadowed by the unacceptable delay to Daw Mill s new face, resulting in the face gap reported in last year s accounts

Although this led to a disappointing year, the lost production was largely mitigated by better levels of production from both Thoresby and Kellingley, and the commencement of operations at three new surface mines

During the year the Group ran a Safety at the Heart' campaign where, over a three month period, all employees attended one day safety courses This process was the start of UK Coal s journey to become 'best in class' and even at this very early stage, there has been a 21% reduction in the total accident rate per 100,000 manshifts for 2010

A major project was undertaken at Daw Mill to accelerate improvement in general mine productivity by identifying process bottlenecks Over 24 weeks this project resulted in improved equipment reliability increased belt availability and better production productivity which in Q4 2010 led to the first ever one million tonnes being produced from a face in a quarter A similar process has been introduced into Kellingley during the first quarter of 2011 and part of the benefits of the project in 2011 will be realised in the development of new coal faces at our mines to reduce the future risk of face gaps

Revenue from the mining business for 2010 was £345 4 million (2009 £310 2 million) and operating loss before non-trading exceptional items was £41 2 million (2009 £68 6 million) The revenue is derived from deep mines sales of £279 3 million (2009 £250 2 million) and surface mines sales of £66 1 million (2009 £60 0 million) The operating loss before non-trading exceptional items is split as a deep mines loss of £41 6 million (2009 loss of £70 5 million) and surface mines profit of £0 4 million (2009 profit of £1 9 million) The gradual reduction in the relative amount of older legacy coal contracts and some newer contracts have helped increase the average realised sales price by allowing access to the strong market price for coal prevailing in the second half of the year Average realised sales per Gigajoule was £1 97/GJ (2009 £1 87/GJ)

We have continued to invest heavily in our deep mines during the year in line with our strategy to increase the productivity and reduce the uncertainty of output from that business We have accessed coal from the new seams at Kellingley and Thoresby with the ramp up on Kellingley s new panel (501s) completed in March 2010 and on Thoresby's new panel (DS1) in April 2010

During 2011 all three deep mines will have face changes, with Kellingley and Thoresby suitably advanced with their developments Development levels at Daw Mill have been unacceptable during the year but mitigating actions have been taken to reduce the risk of face gaps at any of the three mines

Key Performance Indicators ('KPIs')

	2010	2009
Sales price per Gigajoule (£/GJ)	**1 97**	1 87
Tonnage sold (million tonnes)	**7.2**	6 9
Tonnage produced (million tonnes)	**7.2**	7 0

Market Overview

The UK burned an estimated total of 45 million tonnes of steam coal in 2010 the vast majority of this being used to generate electricity Overall consumption rose in the UK by 6% in 2010 compared to 2009, with demand in the electricity market favourably affected by a combination of better economic news poorer performance at nuclear stations and colder weather at the end of the year

We continue to have a small number of significant customers in the UK electricity supply industry, our predominant market and all of these have retrofitted flue gas desulphurisation (FGD) onto their stations to meet the requirements of the European Large Combustion Plant Directive (LCPD)

The replacement legislation to the LCPD the Industrial Emissions Directive (IED) has been approved in the European Parliament and the UK is currently working towards finalising its implementation The IED will require further investment by the generators to meet the tightening sulphur dioxide and nitrogen oxide emission limit targets after 2015 However as it stands the IED would allow UK generators not investing some flexibility in their operational emissions but would limit their running hours in return

On 16 December 2010 the UK Government published its Electricity Market Reform (EMR) consultation outlining how it intends to encourage investment in low carbon generation to meet its long-term carbon reduction targets The consultation puts forward four main principles to reach this goal carbon price support feed in tariffs, capacity mechanisms and emission performance standards

UK Coal believes that existing coal fired generation provides an essential low cost transition to the low carbon economy The UK Government recognises the importance coal plays in providing diversity security and flexibility in our energy supplies but has stated ultimately coal can only play its part in the long-term energy mix via carbon capture and storage (CCS)

CCS involves capturing the CO_2 emitted from burning fossil fuels transporting it and storing it safely in geological formations CCS has the potential to reduce CO_2 emissions from fossil fuel power stations by as much as 90% The emission performance standard proposals within the EMR proposals would force all new coal power stations to fit CCS to a proportion of its capacity from the start of operations

To assist the development of CCS within the UK the Government have confirmed they will be willing to give financial support for four commercial demonstration schemes to kick-start this development Confirmation of the first scheme is expected to be announced during 2011 along with details of the process for determining the other three

In the recent budget, the Government confirmed their intention to introduce a Carbon Floor Price from April 2013 as part of their Electricity Market Reform programme The floor price would start at £16 per tonne CO_2 in 2013 rising to a target price of £30 per tonne in 2020 This policy is designed to encourage investment in low carbon generation although given the rapid implementation date it is unlikely in the short-term to result in anything other than a windfall gain for existing low carbon generation at the expense of higher electricity prices and a less competitive coal generation sector

Coal prices

International coal prices (NW Europe deliveries) for near term deliveries started 2010 at $86 per tonne fell back to $73 per tonne in the spring before recovering to finish the year back at $126 per tonne

China remained the main driver in the international market with steam coal imports growing by 35 million tonnes, an increase of 60% This combined with major supply disruptions towards the end of the year and cold winter weather across Europe saw prices rise to their highest level since October 2008 The recent events in Japan, and the subsequent reaction of other nations to the risks in their nuclear industry have provided further support to near term coal prices

In sterling terms, the price per tonne followed a similar trend, starting 2010 at £53 per tonne (£2 12/GJ), falling to £48 per tonne in the spring and recovering at the year end to £81 per tonne At 5 April 2011 the average forward market price for coal for deliveries in the remainder of 2011 was $131 or £79 per tonne (£3 18/GJ)

In 2009 lower coal burn, caused by the economic downturn and good nuclear performance, led to a significant rise in the amount of coal held on stock at power stations During 2010 generators have cut back on their import activities in order to reduce their inventories This has seen steam coal imports fall by 40% in 2010 to just under 20 million tonnes As a result power station stocks reduced from 22 million tonnes at the start of the year to finish at 13 4 million tonnes at the end of December 2010

Historic steam coal prices together with the latest forward market prices for coal delivered to Amsterdam/Rotterdam/Antwerp ('ARA) are shown below Large mining companies worldwide have been seen to be tailoring their short-term production to a period of reduced demand until global commodity consumption and economic growth is re-established

NW Europe spot steam coal price expressed in £/GJ

Review of Operations by Business: Mining
continued

UK steam coal market

Coal delivered into the UK is priced off the ARA price shown above converted into sterling with the additional cost of delivery into the UK market then added The average forward price for calendar 2011 on the ARA market at 31 December 2010 was $122 per tonne Converted into sterling at the then exchange rate of $1 55 £1 and into its calorific value this equated to a forward sterling price of £3 13/GJ The additional cost to the generator of delivery to the UK brought this to a UK delivered price of over £3 40/GJ at that time

The table below shows the UK steam coal market together with UK Coal's share

UK Electricity Supply Industry ('ESI)

As the table below shows coal is the second most used fuel source after gas in UK electricity generation and is significantly larger than the other fuel sources

Percent of electricity generated by fuel type

Percent	2006	2007	2008	2009	**2010**
Coal	38	35	32	28	**28**
Gas	37	43	48	45	**46**
Nuclear	18	15	13	18	**16**
Oil hydro and renewables	7	7	7	9	**10**
Total	100	100	100	100	**100**

Source DECC Energy Statistics (2010 figures based on provisional numbers)

Coal contracts

We aim to achieve a diverse mix of contracts with customers which gives a natural hedge between the types of contracts and security of supply contracts with the ability to take advantage of international coal prices

Around 95% of the coal sold is delivered to Electricity Generator customers with the balance delivered to Coal4Energy and industrial markets

The contractual commitments at the end of December 2010 stood at 21 2 million tonnes compared to 28 4 million tonnes at December 2009 A summary of our outstanding contractual commitments is given opposite

The average realised sales price will be influenced over the following years by both the market price of coal and the proportion of older legacy contracts still to be delivered At December 2010, an amount of 2 7 million tonnes at an average sales price of circa £1 73/GJ was left to be delivered of which 2 3 million tonnes is to be delivered in 2011 and the remaining 0 4 million tonnes in 2012

Total commitments split into year of delivery

Million tonnes	Total	2011	2012	2013	2014	2015
Fully floating[3]	**2.7**	1 3	1 3	0 1	–	-
Floating within caps and floors[1]	**6 5**	2 2	3 1	0 4	0 5	0 3
Fixed not subject to indexation	**12.0**	4 2	2 3	1 9	1 8	1 8
Total	**21.2**	7 7	6 7	2 4	2 3	2 1
Options to purchase coal granted at fully floating prices	**3 0**	0 5	0 5	1 0	1 0	–

[1] Caps and floor prices are subject to indexation [2]
[2] Indexation will be generally based off RPI changes
[3] Fully floating tonnage is priced based upon API 2 being the industry benchmark coal price for NW Europe plus a delivery premium (Aire Valley Marker or AVM)

As a guide to the possible outcome in respect of contractual commitments alone we have set out below the possible average outturn in revenue, expressed in £ per Gigajoule (£/GJ) The actual sales price outcome will be dependent on inflation, the actual outcome for API2, the volume of coal delivered in any year which is not currently contracted and a number of other factors The table excludes the effect of uncontracted or fully floating optional coal and is not intended to be a forecast of the expected overall realised sales price

Indicative outcome of contractual commitments given varying market pricing

API 2 Assumptions £/GJ	2011	2012	2013	2014	2015
£3 75	2 62	2 96	2 54	2 52	2 49
£3 50	2 58	2 91	2 53	2 52	2 49
£3 25	2 54	2 86	2 53	2 52	2 49
£3 00	2 49	2 79	2 52	2 52	2 49
£2 75	2 43	2 70	2 51	2 51	2 47
£2 50	2 35	2 57	2 46	2 46	2 45
£2 25	2 26	2 42	2 45	2 46	2 45
£2 00	2 18	2 30	2 45	2 46	2 45

Although the number of Gigajoules per tonne delivered varies by customer and mine, as a guide in 2010, the Group averaged 24 0 GJ/tonne

Lodge House surface mine

Rail link at Thoresby colliery, Nottinghamshire

Review of Operations by Business: Mining
continued

Deep Mines

Our deep mines business consists of the operational mines at Daw Mill (Warwickshire), Kellingley (Yorkshire) and Thoresby (Nottinghamshire) The mine at Welbeck ceased production in 2010 The key performance indicators for this business are

Key Performance Indicators ('KPIs')

	2010	2009
Coal mined (million tonnes)	**5 8**	5 7
Revenue (£m)	**279.3**	250 2
Operating cost[1] (£m)	**287 9**	291 0
Operating cost[1] per tonne/per Gigajoule (£/tonne / £/GJ)	**49 4/2.05**	52 7/2 21
Operating cost[2] (£m)	**320 9**	320 7
Operating cost[2] per tonne/per Gigajoule (£/tonne / £/GJ)	**55.1/2.28**	58 1/2 44
Loss before non-trading exceptional items (£m)	**(41 6)**	(70 5)
Development driveage metres excluding Welbeck	**13,166**	18 540
Reserves and resources (ongoing mines – million tonnes)	**97**	98

[1] Operating cost before non trading exceptional items and depreciation costs

[2] Operating cost after depreciation before non trading exceptional items Deep mine costs and revenues include those of the power operation

Deep mining has a cost base that is largely fixed relative to production levels and therefore the KPIs for the business focus on the output tonnage achieved from this cost base Other indicators which highlight the likelihood of future production being achieved are also monitored in particular the development metreage achieved being the investment in future coal panels As in other businesses the realised sales price and the absolute costs of operating the business are also monitored

Colliery performance summary

	Production		**Operating cost***		**Production**	
	2010 m tonnes	2009 m tonnes	**2010 £million**	2009 £ million	**Q1 2011 m tonnes**	Q1 2010 m tonnes
Deep mines						
Daw Mill	**2.6**	2 9	**108.7**	110 8	**0 7**	0 2
Kellingley	**1 5**	1 0	**83.3**	74 9	**0 5**	0 3
Thoresby	**1 5**	0 8	**76 9**	59 5	**0 4**	0 2
Total ongoing deep mines production/costs before stock movements	**5 6**	4 7	**268 9**	245 2	**1 6**	0 7
Welbeck	**0.2**	1 0	**14 5**	52 1	**–**	0 1
Total deep mines production/costs before stock movements	**5 8**	5 7	**283 4**	297 3	**1 6**	0 8
Stock movements	**–**	–	**4 5**	(6 3)	**–**	–
Total deep mines	**5.8**	5 7	**287 9**	291 0	**1 6**	0 8

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

During the year deep mining incurred capital expenditure of £43 9 million of which £21 7 million and £8 1 million was in respect of new face equipment at Kellingley and Thoresby respectively Around £16 0 million of this expenditure is on deferred creditor terms

Overall costs before stock movements fell by 4 7% The reduction in costs created by the closure of Welbeck was offset by increased costs at Kellingley and Thoresby, where the treatment of development costs as operating costs in the year contrasted to 2009 when development work related to the opening of the new seams and was capitalised

Development driveage

	2010 metres	2009 metres
Deep mines		
Daw Mill	**2,844**	4 191
Kellingley	**5,763**	6 498
Thoresby	**4,559**	7 851
Total excluding Welbeck	**13,166**	18 540
Welbeck	**–**	1 242

Daw Mill

As was reported in last year s accounts Daw Mill's current panel 32s suffered significant delay during installation of the face equipment due to poor ground conditions on the face line resulting in the face gap However since ramp up in May 2010 the face has performed well with mine output in excess of 80 000 tonnes per week often being achieved during the second half of 2010

To further improve the operational efficiencies at Daw Mill the mine team has been working with consultants to analyse reasons for equipment failure This work has shown its worth through the improved equipment reliability and production consistency being obtained by the embedding of preventative maintenance regimes across the mine coupled with coaching of mine workers and officials This project has now been transferred to Kellingley and the improvements made will also be implemented at Thoresby

The face gap in early 2010 all too clearly evidenced the poor development position at Daw Mill and development progress in 2010 has also been unacceptable With the original plan showing the next face required by July 2011, the mine was under considerable pressure to bring this face, 303s, in on time Whilst this work is slightly behind plan we have also been examining the possibility of mining the existing panel 32s, further than originally planned

The original stop line for 32s was determined by a fault line However further seismic information obtained in 2011 has determined that it is possible to mine through this fault This permits the continuation of the current panel which reduces the risk of a face gap in 2011 and relieves pressure on developments for subsequent faces

Although Daw Mill s output from underground is normally of a very high yield the ash content has varied from time to time We are in the process of installing an upgrade to the plant to be able to handle these impurities better

Kellingley

Kellingley commenced production in the new Beeston seam in March 2010 and the mine has performed well during most of 2010

The mine suffered from an underground methane fire which broke out in the waste behind the coal face in November The mine team worked hard to recover the situation in a safe and professional manner Production recommenced in mid December although the stoppage resulted in the loss of some 0 2 million tonnes of planned production

Developments have continued to progress well and the second face of the Beeston seam 502s, will be ready for ramp up ahead of when it is required in mid May 2011 with development to access 503s making good progress

Thoresby

Thoresby also made a smooth transition to its new seam in the Deep Soft at the start of 2010 With the investment in new face equipment and seams production levels were significantly up on 2009 at 1 5 million tonnes (2009 0 8 million tonnes) Developments were sufficiently well advanced in 2010 to permit the operation of two faces which significantly assisted in reliability and predictability of mine output albeit at some additional cost

Developments have continued to progress well with the second face of the Deep Soft seam DS2s developed ahead of plan with the face equipment now being installed eight weeks ahead of the requirement to replace DS1s which is expected to finish production in July 2011

There is always a large amount of dirt in the output from underground at Thoresby, given that we are mining two seams with an inter-seam dirt band The coal preparation plant has been unable to cope with the level and type of dirt being produced in the Deep Soft seam, despite additional investment in 2010, and this has led to an increase in the unprocessed stocks above ground to around 400k tonnes We are currently investing in an additional barrel plant to address this

Welbeck

Welbeck mined its final coal during May 2010 After closure equipment salvage has been undertaken, the shafts have been filled and surface buildings demolished

Harworth

We estimate our Harworth mine has some 54 million tonnes of resources and mineral potential We are looking to explore means by which this opportunity could be undertaken to take advantage of the strong market for coal

Exceptional costs of £1 7 million (2009 £3 5 million) were incurred during the year in the care and maintenance of the mine It is anticipated that this charge will be further reduced during 2011 as the level of care and maintenance required is reduced further

Review of Operations by Business: Mining

continued

Reserves and Resources

The reserves and resources available in the deep mine operations are critical to the long-term prospects of the Group

We estimate that we have approximately 97 million tonnes of reserves and resources at our ongoing mines of which 39 million tonnes of coal is accessible under the existing five year mining and investment plans The additional resources will become accessible beyond this timeframe with investment required as necessary

Following changes to the mining plans, our available reserves and resources across all mines have not changed significantly since last year despite the output for the year at each mine Our estimates as at December 2010 of our deep mine coal reserves are set out in the following table

Ongoing colliery	Reserves m tonnes	Resources m tonnes	Total reserves and resources m tonnes	Mineral potential m tonnes	Total m tonnes
Daw Mill	20	2	22	41	63
Kellingley	9	45	54	7	61
Thoresby	10	11	21	5	26
2010 Total	**39**	**58**	**97**	**53**	**150**
2009 Total	39	59	98	51	149

Reserve — Reserves which are accessible using the broad infrastructure in place at the current time and which are in the current five year mining plan

Resource — Reserves which may require substantial development and other costs to allow accessibility and are not currently in the five year mining plan

Mineral potential — Coal that has been assessed (although possibly not to the same extent as Reserve and Resource coal) but for which UK Coal does not have any licences or planning permission to extract the deposits

These figures must be treated with caution, being based on the Group s best estimates at the current time A number of factors may cause the actual production to vary significantly from these estimates These factors include, but are not limited to

- Ongoing seismic surveying of reserves – this could result in either an increase or a decrease to the production estimates
- Geological problems – despite the improved seismic surveying being carried out there remains a risk that a coal panel is subject to unforeseen geological problems which introduce production difficulties
- Sales price of future coal and cost increases – these could render production plans uneconomic or could allow extraction from areas previously believed to be unviable or
- Production requirements – the need to maintain continuous production can lead to early commencement of a new face with coal consequently being left unmined

The information above is prepared based on guidelines issued by the Institution of Mining and Metallurgy in 1991 thereafter incorporated into the listing regulations of the London Stock Exchange

All reserves are 'mineable coal reserves and are based on in-situ coal sections Mining and geological losses are taken into account but without the effects of processing It is our intention in the future to report our reserves and resources in accordance with the criteria for internationally recognised reserve and resource categories of the 'Australasian Code for Reporting Mineral Resources and Ore Reserves published by the Joint Ore Reserves Committee (JORC') of the Australasian Institute of Mining and Metallurgy Australian Institute of Geoscientists and the Minerals Council of Australia (the JORC Code)

Surface Mines

The Surface Mining business had a much improved year with an increase in output in 2010 to 1 4 million tonnes as compared to 1 3 million tonnes in 2009 Three new surface mines commenced operations during the second half of 2010 at Potland Burn (Northumberland) Park Wall North (Co Durham) and Huntington Lane (Shropshire) This took the number of operational sites to six at the year end (2009 four)

Following a review of our Blair House Surface Mine in Fife Scotland the decision was made to dispose of the site

Key Performance Indicators ('KPIs')

	2010	2009
Coal mined (million tonnes)	**1 4**	1 3
Revenue (£m)	**66 1**	60 0
Operating cost[1] (£m)	**63 7**	55 8
Operating cost[1] per tonne/per Gigajoule (£/tonne / £/GJ)	**45.1/1 91**	39 5/1 75
Operating cost[2] (£m)	**65 7**	58 1
Operating cost[2] per tonne/per Gigajoule (£/tonne / £/GJ)	**46.5/1 97**	41 1/1 82
Operating profit before non-trading exceptional items (£m)	**0 4**	1 9
Restoration spend (£m)	**11 6**	21 2
Sites with consent[3] (number)	**7**	6
Reserves on sites with planning consent (million tonnes)	**5 3**	5 8

[1] Before depreciation and excluding non trading exceptional items
[2] After depreciation but excluding non trading exceptional items
[3] Includes sites where planning committee approval has been obtained and formal consent is pending

Surface mines operations have a more variable cost base than deep mines Surface mine operating costs stated above are after charging amortisation of mine development and restoration assets The site by site cost per GJ will vary according to the nature of each site The costs of planning gains and the coal yield at each site along with variations associated to operating cost, efficiencies and weather make year to year direct comparisons difficult

The surface mine costs increased during the year to £1 91/GJ (2009 £1 75/GJ) reflecting the mix of operating sites, with relatively higher production volumes from the higher cost sites at Cutacre and Steadsburn which are planned to complete coaling in spring 2011

During 2011 both Steadsburn and Cutacre sites will enter restoration whilst the Butterwell DP site (Northumberland), for which a resolution to grant planning permission was passed in December 2010 is planned to commence coal production in the second half of the year In addition we are hopeful that an extension to our Lodge House site will be granted planning permission in the first half of the year allowing continued coal production throughout 2011

Lodge House, Derbyshire

Cutacre, near Bolton, will finish coaling during 2011

Review of Operations by Business: Mining
continued

Reserves and Planning

We estimate that we have surface mine reserves, where the Group controls the majority of a site through ownership and working rights agreements totalling 16 5 million tonnes of which 10 0 million tonnes relate to sites that are currently operational or in the short-term plan with the remainder in the medium-term plan Planning consent (or committee approval) has been received to date for 5 3 million tonnes of the 10 0 million tonnes

A summary of estimated remaining reserves at December 2010 through the various stages of planning is set out in the table below

	Sites with planning consent (or committee approval) m tonnes	Applications submitted for planning, decision awaited m tonnes
Cutacre	0 1	–
Steadsburn	0 1	–
Lodge House	0 2	–
Park Wall North	1 2	–
Potland Burn	1 9	–
Huntington Lane	0 8	–
Butterwell	1 0	–
Bradley (subject to appeal)	–	0 5
Minorca	–	1 2
Lodge House extension	–	0 8
Hoodsclose	–	2 2
Total reserves in process 2010	**5.3**	**4 7**
Total reserves in process 2009	5 8	2 7

In addition using the same basis as above resources of 25 8 million tonnes have been estimated at sites for which additional geological and planning work is required to confirm with a reasonable level of certainty the tonnage available to mine In some cases third party landowner agreements may be required to access some of this coal

Following the sale of some of our land holdings in 2010, part of which had unviable coal reserves we now estimate that we have total reserves and resources of over 40 million tonnes (2009 over 50 million tonnes) This tonnage will be subject to receiving planning consent and therefore caution should be exercised as to how much reserves will be ultimately recoverable Our business plan aims to deliver, within two years, between two and three million tonnes of coal per annum for the medium-term

We also estimate that we have the potential to access a further 33 7 million tonnes To be more certain about our ability to extract all this coal the Group in most instances will need to acquire further control over the sites and to undertake a significant amount of geological and planning work The outcome of these actions could materially change the coal available for extraction

During the year consent was granted for the Butterwell DP site which will commence production in the second half of 2011

Although we have been successful in the previous 13 applications the planning environment for surface mines remains challenging as was demonstrated by the recent refusal of our Bradley site Despite having been recommended by the Planning Officer the Planning Committee voted against the scheme We have commenced action to appeal this decision as the scheme meets all the stated planning criteria

We are encouraged by the recent budget announcement that will aid the planning process by including a presumption in favour of sustainable developments by ensuring the planning system does everything it can to support growth and jobs, which we believe is delivered by our surface mine schemes

We expect during 2011 to submit planning applications for four sites and an extension to an existing site equivalent to 7 6 million tonnes of coal

Review of Operations by Business: Harworth Estates

Our property division Harworth Estates produced a loss of £33 1 million (2009 £24 5 million loss) including a loss on investment properties of £34 7 million (2009 £25 7 million loss) of which £34 2 million was unrealised (2009 £25 7 million) A revaluation gain of £1 2 million was taken directly to reserves (2009 £52,000) being the gains recognised on former operating properties transferred to investment property status on their ceasing to be operational sites We also disposed of an operating property which realised a gain of £62 500 (2009 £nil)

While we continued to progress promotion and strategic planning across our portfolio 2010 was predominately focussed on realising cash from our surplus agricultural portfolio in order to reduce bank borrowing

Key Performance Indicators ('KPIs)

	2010 £ million	2009 £ million
RICS valuations of the property portfolio	**338 9**	393 8
Disposals		
Contracts exchanged in year* (net proceeds)	**24 4**	8 5
Cash received in the year	**22 7**	8 5

*Excludes a sale with net proceeds of £1 9 million which was exchanged conditionally during 2010 for which the conditions will be satisfied during 2011

Harworth Estates manages approximately 15,300 hectares (37 900 acres) of freehold land predominately in England on behalf of various Group companies The majority of the portfolio is located on the A1/M1 corridor from Leicestershire to Northumberland There are, in addition, a small number of sites in Scotland North West England and North Wales

Planning

During the course of 2010 Harworth Estates continued its full planning activities with a view to ensuring that it maintains a healthy pipeline of future sites which can either be offered into the market for sale, or developed out through appropriate delivery mechanisms to maximise and realise shareholder value, as market conditions improve While the focus of our planning team this year has been on progressing existing applications through the planning system we have submitted a limited number of new applications during the year as shown below

	Residential homes	**Commercial sq ft**	**sq m**
Applications in system at December 2009	5 857	3 502 805	325 411
Submitted in year	48	894 000	83 053
Consented in year	–	–	–
Applications in system at December 2010	5 905	4 396 805	408 464
% increase in year	*1%*	*26%*	*26%*

In January 2010 we received Planning Committee resolution to grant consent at Waverley in respect of two applications These are for a new community of 3 890 homes including 15,000 sq m (165,000 sq ft) of associated leisure, retail and community use and a change of use on the Highfield Commercial area to allow a Government campus development of 60,000 sq m (645 000 sq ft) B1 offices and a hotel and ancillary retail/leisure facilities of 4 500 sq m (48 000 sq ft) Planning permission for both developments has subsequently been received In early December 2010 we received a Planning Committee resolution to grant consent in respect of our Harworth application comprising a mixed use scheme of 996 residential units 2 044 sq m (22 000 sq ft) of food retail and 76,645 sq m (825 000 sq ft) of employment space

Disposals

Disposals during the year secured gross receipts of £26 0 million from the sale of 2 260 hectares (5 600 acres) of mainly agricultural land and associated properties as part of our debt reduction programme The net proceeds after costs and related land purchases of £24 4 million produced a small loss on disposal of £0 5 million, with £22 7 million of the net proceeds received in 2010 and the balance to be received in 2011 The net proceeds received were used to repay bank debt within the Group We also exchanged conditionally on a further sale at the end of the year with net proceeds of £1 9 million which we expect to receive in 2011

In order to reduce borrowing further we are marketing further surplus agricultural land and certain commercial sites for sale in 2011

Review of Operations by Business: Harworth Estates
continued

Valuations

The 2010 land disposals programme resulted in prices which reinforced the values placed on our agricultural portfolio which showed a modest increase of 0 4% on a like-for-like basis from 2009 Our 'part or fully developed out' income yielding commercial land maintained its value with occupancy and rental levels holding up despite the difficult economic conditions facing businesses However 2010 continued to be a difficult environment for our undeveloped land portfolio and our in development' commercial land which together showed a decline of 14 6% on a like-for like basis While we saw some decreases on certain commercial sites the reduction was predominately driven by lower valuations on our long-term residential sites, where land values remain under pressure from both a house builder demand perspective, and from longer than forecast build out periods as house buyer confidence remains fragile

A full independent valuation of our property portfolio was undertaken as at December 2010 in accordance with appraisal and valuation standards published by the Royal Institution of Chartered Surveyors (RICS')

As previously different valuation firms are engaged dependent on type and geographical location of the property being valued BNP Paribas Real Estate value all the Group s commercial residential and development sites Smiths Gore value the majority of the agricultural portfolio while Bell Ingram value our agricultural properties in the north of England and Scotland These are the same firms used to value the portfolio as at the last year end

The commercial and residential land contained within the BNP Paribas valuation has been valued in a market with very little comparable evidence available In accordance with RICS 'Red Book' guidance therefore the valuers made the following statement this year which is consistent with a significant number of other declarations made on portfolios throughout the country

Our valuation is on the basis of market value This is an internationally recognised basis and is defined as

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm s length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion "

This basis of valuation is accepted as meeting the criteria for assessing fair value' under International Financial Reporting Standards International Accounting Standard 16 requires that the fair value of land and buildings is usually determined from market based evidence that is evidence derived from sales comparison This is the approach we have generally adopted However where the property assets are of such a size or a nature that there is no direct evidence of sales to form a basis of comparison, we have had regard to residual development appraisals in part informed by gross development values derived from sales comparison

As a consequence on account of the sensitivity of the market value to the detail of any future planning consent and the potential for material variance in the actuality of development costs, as compared with our own estimates together with the subjective nature of hope value we must state that our valuation (consistent with the guidance of the Red Book), is subject to material uncertainty

Riccall business park, North Yorkshire

AMP, Waverley, South Yorkshire

The Harworth Estates portfolio RICS valuation at the year end is summarised in the table below

	December 2010 £ million	December 2009 £ million	December 2009 like for-like £ million	%
Agricultural				
Retained for surface mining	**25,418**	33 475	25 135	*1 1%*
Mixed	**60,363**	77,824	61 009	*(1 1)%*
Low grade	**6,108**	5 472	5 414	*12 8%*
	91,889	116 771	91 558	*0 4%*
Undeveloped land				
With planning	**42,750**	56 820	55 875	*(23 5)%*
Application submitted	**71,250**	73 550	78 519	*(9 3)%*
Without planning	**63,763**	80 354	70 393	*(9 4)%*
	177,763	210 724	204 787	*(13 2)%*
Commercial land with rental income				
Part or fully developed	**28,585**	28 750	28 808	*(0 8)%*
In development	**16,000**	21,750	22 058	*(27 5)%*
	44,585	50 500	50 866	*(12 3)%*
Investment properties at valuation	**314,237**	377,995	347 211	*(9 5)%*
Operational				
Potential development	**13,036**	7 536	13 197	*(1 2)%*
Agricultural	**5,097**	1 298	5 113	*(0 3)%*
Other	**6,500**	7 000	6 337	*2 6%*
Operational properties at valuation	**24,633**	15 834	24 647	*(0 1)%*
Total properties at valuation	**338,870**	393 829	371 858	*(8 9)%*

The like-for like percentage change from December 2009 comparatives are after property reclassification and take into account adjustments for asset sales with a book value of £24 1 million and purchases development expenditure and depreciation of £2 4 million

Active surface mine sites are included in the value above based on their restored land value of £24 6 million (2009 £15 8 million) For so long as sites, otherwise being held for their long-term investment potential are being used by the Group for its mining and other activities these properties are recorded at cost less impairment and changes in valuations are not reflected in the balance sheet As at December 2010, a total of £5 1 million (2009 £5 1 million) has not been included in the balance sheet as a result Operating deep mine sites are not included in the above valuation

Development and Market Conditions

The property market remained fragile during 2010 with very little transactional volume While our income yielding commercial and agricultural portfolio remained stable in value terms conditions in the residential and commercial development environment remained difficult We continue to remain cautious about the short-term and as such like many other major land owners and developers, we are continuing to restrict expenditure on infrastructure and are not undertaking speculative construction As reported last year we have maintained full scale planning application and associated activities and will continue to do so throughout 2011 under our new structure which will focus efforts and spend on those projects where we see the best opportunity to increase and realise value in the short to medium-term

Review of Operations by Business: Harworth Estates
continued

Internal Structure

As mentioned in our Interim Report last year Owen Michaelson took over as Managing Director of the Property Division in August 2010 Following his appointment the property business has been divided into the following key areas

- Strategic Land,
- Natural Resources
- Business Parks (including consented land)
- Major Projects
- Agricultural and
- Harworth Power

These are outlined in turn below

Strategic Land – This team will focus on increasing the value of the strategic land portfolio by actively promoting development We have seen continued progress at the following key sites

- *Rossington Doncaster* – Ongoing promotion of up to 1 200 homes through Doncaster s Local Development Framework
- *Harworth, South Yorkshire* – Planning Committee Resolution to grant consent was secured in December 2010 for redevelopment of the former mine site including 996 homes, 2,044 sq m (22,000 sq ft) of retail and 76 645 sq m (825 000 sq ft) of employment space
- *Coalville, Leicestershire* – We have worked with neighbouring landowners and the local Council to enable around 44 5 hectares (110 acres) of residential development land to be identified within the Council s new development plan as part of an urban extension to Coalville
- *Rufford Nottinghamshire* – A final decision following the conclusion of a Public Inquiry is expected in May 2011 on an application made by Veolia to build own and operate an Energy Recovery Facility on this land Alongside this our parallel application for a 24 hectare (60 acre) business park on adjacent land is expected to be determined in late summer 2011
- *North Gawber, Barnsley* – A Public Inquiry will hear our appeal in May 2011 against a planning refusal by Barnsley Council for an application for 400 homes
- *Ellington and Lynemouth Northumberland* – Two planning applications for residential and employment development are expected to be determined in summer 2011

Natural Resources – This team has been formed to progress areas of commercial opportunity relating mainly to low carbon energy and mineral resources within the property portfolio This includes the following

- *Wind Power Schemes* – We continue to pursue planning consent to install wind turbines at a number of our sites both under the Peel Wind Power Collaboration Agreement and with other third parties
- *Waste to Energy Schemes* – We recognise the commercial opportunities that exist within this high value market In order to access appropriate and relevant expertise in this field, detailed discussions and negotiation with Peel Environmental have continued which we expect to result in the Group establishing a joint venture with the Peel Group UK Coal s largest shareholder This joint venture would review the opportunities for, and seek planning permission to develop waste to energy schemes on up to 11 properties within the Group s property portfolio On the basis that it would be a related party transaction under the UKLA's Listing Rules any joint venture would require shareholder approval
- *Grid Connections* – The value of the Group s grid connections have attracted interest from a number of partners offering peak power connectivity to allow generation to be made under STOR' contracts with the National Grid to give them access to additional power to manage short-term periods of unusually high demand The location of grid connections on previously developed land ensures that these sites have an advantage over other competing sites for solar developments Joint venture arrangements are at an advanced stage with parties over peak power while we continue to explore solar opportunities

  It is estimated that there could be over 100 megawatts of connectivity for peak power users on an initial batch of 13 sites Solar projects are being investigated by developers who have an interest in bringing forward schemes which vary in size between 50 kilowatts and 5 megawatts which would utilise our sites grid connectivity However the Government s recent review of feed in tariffs will have a negative impact on the development of solar schemes above 50 kilowatts and we will continue to review our projects in light of this
- *Mines Gas* – An option agreement has been signed with Alkane who intend to promote a mines gas recovery scheme at Gedling Colliery as part of our proposed residential development of up to 1 100 houses The Alkane agreement would allow electricity to be generated on site to make the wider development much more sustainable Alkane propose to submit a planning application for this scheme in the near future which would produce an estimated 7 5 megawatts per hour of electricity over a period of up to 25 years

Business Parks (including consented employment land) – This team is primarily responsible for maximising returns from the income yielding part of the estate and realising value from those commercial sites which have the benefit of a planning consent

Business Parks

Interest in the established business parks of Asfordby, Whitemoor and Riccall has remained strong throughout 2010 despite the continued depressed economic climate Occupancy rates of 72% 67% and 59% respectively have been maintained during the year Flexible terms have been the key to securing new tenants and retaining existing ones Interest in Bilsthorpe Business Park has remained good with current occupancy levels of 45% being maintained and negotiations for letting a further unit continue which would take occupancy levels to 95% Active asset management has again been the main priority in 2010 and we have seen continued success in both lease renewals and rent reviews Additionally the need to modernise property management systems has been identified and a move towards implementing best practice procedures including implementing a fair and reasonable' service charge regime and improved utility cost recovery has been instigated Additional income sources have also been identified and initiated

Advanced Manufacturing Park (AMP, including our Evolution Park development), Waverley, South Yorkshire

The AMP consists of a part built out serviced employment campus having approximately 23 hectares (57 acres) of remaining developable land Letting of the available accommodation on our fully built out Evolution Park (an 8 700 sq m (94 000 sq ft) hybrid industrial development joint venture with Strategic Sites Limited), has continued with nine units (61 000 sq ft) occupied four units (19 000 sq ft) under offer leaving only one unit (13 500 sq ft) vacant

Gascoigne Wood Selby Yorkshire

Lambert Smith Hampton and Cushman Wakefield have been appointed to market this 66 hectare (165 acre) rail connected site Short-term agreements with DB Schenker (formerly EWS) and British Gypsum which make use of the rail sidings and 20,400 sq m (220 000 sq ft) of covered storage yard are being renewed and negotiations for the occupation of a further 2,000 sq m (21 500 sq ft) continue Detailed discussions are underway with a number of parties who wish to have a long-term interest in the site, making use of the high quality East Coast Mainline rail access and substantial power connectivity

G Park Distribution Development, Lounge, Ashby de la Zouch, Leicestershire

The agreement with Gazeley over the 79,000 sq m (850,000 sq ft) development site has been extended while an existing planning application submitted by Gazeley is being considered

Major Projects – This division is focussed on delivering maximum value from our principal consented mixed use development sites This includes

Waverley Mixed Use Scheme off Sheffield Parkway J33 M1 South Yorkshire

This scheme comprises two main elements, the New Community and Highfield Commercial

Waverley New Community has planning consent for 3 890 new homes and around 15,000 sq m (161,000 sq ft) of associated leisure retail and community uses Subject to market conditions, delivery of this project will commence through a series of phased sales with national house builders

Highfield Commercial Business Park is being jointly promoted with Helical Governetz to develop a 60 000 sq m (645 000 sq ft) Government Office Campus plus a 4 000 sq m (43 000 sq ft) hotel and 500 sq m (5,375 sq ft) ancillary retail and leisure facilities

Baileycross Mixed Use Scheme, Pontefract, West Yorkshire (formerly known as Prince of Wales)

We are currently exploring the most appropriate structure to deliver value from the planning consent already received for 917 residential units and 24 250 sq m (261 000 sq ft) of office retail and community use The most likely structure will include phased sales and is expected to commence in 2012 Supported by Wakefield Metropolitan Council Harworth Estates have submitted a Regional Growth Fund Bid seeking funding assistance towards enabling infrastructure

Yorkshire Main, Edlington, Doncaster, South Yorkshire

Outline planning consent was granted for a mixed use regeneration scheme at the Yorkshire Main site during the year The application comprises 250 residential units together with 13 900 sq m (150 000 sq ft) of employment space

Agricultural – This portfolio is split between land that will be retained for future surface mining and any surplus which will be disposed of in due course

Harworth Power – Harworth Estates will also assume management control of Harworth Power going forward We will look to maximise generation returns through increasing the utilisation of our capacity across all sites and to maximise generation at times when wholesale prices are most advantageous

Financial Review

The mining results reflect the transition taking place from a business which in 2009 was based on four deep mines (three of which were mining remnants of old seams), supported by surface mines supplying a substantial portion of its output under legacy contracts By the end of 2010, the business was based on three deep mines each with better quality reserves, still supported by surface mines and with just 2 7 million tonnes of legacy contracts remaining to be delivered, predominantly in 2011

In 2010 Kellingley and Thoresby started to produce coal in their new seams with the increased output resulting in a more commercial cost per tonne and with the closure of Welbeck reducing absolute total costs Despite the major setback at Daw Mill costs per tonne sold from deep mines fell from £58 1/tonne in 2009 to £55 1/tonne in 2010

We supplied 4 1 million tonnes of coal under the legacy contracts in 2010 leaving 2 7 million tonnes to deliver the majority of which will be delivered in 2011 with a consequential increase in deliveries under the new contracts we put in place in 2009

Group revenues have risen in the year to £351 2 million from £316 0 million in 2009 This has been achieved both through higher sales volumes and higher realised sales prices The increase in sales volume has arisen from the improved production performance in the year despite the Daw Mill face gap The improvement in the average realised sales price has been achieved as the newer coal supply contracts with our customers helped us to move towards a more profitable portfolio of contracts enabling us to better access the strong market price present throughout the year As a result we have achieved an average sales price per Gigajoule of £1 97/GJ compared to the £1 87/GJ realised in 2009

Property disposals during the year realised net proceeds of £24 4 million, £22 7 million of which was received in the year, and resulted in a small loss of £0 5 million The balance, together with £1 9 million of net proceeds from a sale conditionally exchanged during the year, is to be received in 2011 The net proceeds have been used to reduce Group debt The loss on revaluation of the investment properties in the year was £34 2 million (2009 £25 7 million)

Overall the Group loss before tax of £124 6 million is £4 5 million lower than the loss of £129 1 million of 2009 There was an improvement in the year in the operating loss before non-trading exceptional items which at £74 3 million was £18 8 million better than the previous year This improvement was achieved despite a higher loss on revaluation of investment properties of £34 2 million compared to a loss of £25 7 million in 2009

There have been non-trading exceptional items during the year resulting in a charge of £13 1 million in the period (2009 £13 1 million) The charges/credits in the current year included

- Restructuring, reorganisation and refinancing costs
  Costs of £12 3 million were incurred in relation to the restructuring and reorganisation of the business Of these £6 6 million related to professional fees incurred in relation to refinancing £4 9 million related to professional costs incurred in the year on the exercise undertaken to reorganise the operations in our deep mines, and £0 9 million on redundancy and other costs
- Costs in relation to Harworth mine
  Costs of £1 7 million (2009 £3 5 million) have been incurred in the care and maintenance of the Harworth mine which is currently mothballed The costs were higher in 2009 as exploration costs were incurred at the start of that year to prove its coal reserves
- Pension scheme curtailment
  There has been a curtailment gain of £1 0 million reflecting the reduction in the pension scheme deficit as the relevant members ceased to be active members following current and prior year redundancies

The operating loss after these non-trading exceptional items for 2010 was £87 4 million compared with a loss of £106 2 million in 2009

Financing Expenses
Net finance expenses in the year (excluding exceptional finance costs) increased to £27 4 million (2009 £24 6 million) The interest charge on generator loans and prepayments in the year increased to £8 6 million (2009 £4 0 million) as we drew down on these facilities At the same time other non-exceptional finance costs fell, in particular with the expiry of interest rate swaps and with the benefit of the exceptional write off of bank finance arrangement fees

The Group had cash deposits held by our captive insurance company against insurance claims and similarly ring-fenced funds held on behalf of the Coal Authority securing surface damage claims resulting from mining These totalled £15 7 million and £8 8 million respectively at December 2010 (2009 £19 1 million and £8 7 million) In addition to the ring-fenced funds held on behalf of the Coal Authority a £10 million bond is held by the Coal Authority as further security against any possible surface damage claims These deposits were secured against liabilities as at December 2010 of £13 0 million and £15 4 million respectively

Exceptional Finance Costs

Following the Group's refinancing in April 2010 as outlined in last year's Annual Report and in the 2010 Interim Report earlier in the year previously capitalised bank arrangement fees of £2 7 million were written off together with an estimated £5 0 million of new arrangement fees incurred in respect of the renegotiated facilities The ultimate cost of the new facility fees is dependent on the value of land sales achieved in the period to July 2011 A similar level and structure of bank arrangement fees has been incurred in respect of the April 2011 extension of the facilities

Furthermore the fair value of the related interest rate swaps of £2 2 million which had previously been hedge accounted was recycled from reserves to the income statement on the extinguishment of the associated loans The combined value of these items of £9 9 million has been classified as an exceptional finance cost

Tax

The Group paid no corporation tax in 2010 (2009 £nil) although there was a tax charge for the year of £0 5 million (2009 credit of £1 5 million) which related to deferred tax as outlined below

At December 2010, the Group had gross trading losses of £312 0 million (2009 £248 9 million) and gross timing differences of £195 0 million, arising largely from unclaimed or disclaimed capital allowances (2009 £166 0 million), both of which are available to offset against future profits in the mining business The trading losses alone had a tax value of £84 2 million at a tax rate of 27% (2009 £69 7 million at 28%) while the gross timing differences had a tax value of £52 7 million at a 27% tax rate (2009 £46 4 million at 28%) Both of these have increased during the year due to the trading result for the year Capital allowances have been disclaimed where possible to allow flexibility for the future

The net deficit on the balance sheet in respect of retirement provisions represents an additional tax timing difference of £46 4 million at a tax rate of 27% (2009 £61 8 million at 28%)

The Group had recognised a deferred tax asset of £34 5 million at December 2010 (2009 £35 8 million) The Group continues to review its deferred tax asset given the nature of the business and its historic performance The charge in the year arose due to a combination of a change in the rate at which deferred tax is provided from 28% at the end of 2009 to 27% in line with the forthcoming confirmed reduction in the rate of corporation tax and adjustments in relation to prior year s deferred tax balances The impact of the rate change on the opening deferred tax asset was a charge of £0 9 million (2009 £nil) in the income statement and a charge of £0 3 million (2009 £nil) direct to reserves and the adjustment on prior year deferred tax balances was £0 9 million This was offset by a credit of £1 3 million (2009 £0 9 million) for deferred tax on the amortisation (out of the hedging reserve) of previously effective hedge accounting movements

Coal stocks at Thorseby colliery, Nottinghamshire

Financial Review
continued

The Group has around £380 million 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 which has been recognised in the financial statements of £1 3 million (2009 £0 4 million)

Loss Per Share

Loss per share for the period was 41 8 pence (2009 72 9 pence)

Funding

During the year the Group continued to benefit from the contractual arrangements entered into with its generator customers at the end of 2008/early 2009 These have had the benefit of increasing cashflows to the Group in 2010 by £25 8 million (2009 £63 6 million) Interest on the outstanding amounts of £11 7 million (2009 £4 0 million) has been accrued

The impact on our cashflows due to net repayment commitments for these generator loans and repayments is as follows

£ million	2011	2012	2013	2014	2015
Net cash outflow	(32)	(48)	(17)	(17)	(9)

At the year end the Group had around £155 million of bank facilities and a further £13 million outstanding under finance leases

The Group is continuing with its project to dispose of surplus properties with property disposal proceeds being used to reduce its bank facilities as and when received During the year around £23 million of net proceeds have been used in this way Excluding the impact of future property disposals the weighted average maturity of the facilities, as at December 2010 was 1 4 years (2009 2 3 years)

Since the year end we have renewed and extended our banking facilities with the following changes

- Lloyds Banking Group has agreed to replace GE Capital in respect of approximately one third of the RCF line Lloyd s Banking Group is now the sole bank on this line
- An extension to the maturity of the RCF the additional revolving credit line, the Harworth Estates (Agricultural Land) Limited facility and the EOS Inc Ltd facility to the end of July 2012 have all been agreed, and
- The financial profile of the Harworth Estates (Waverley Prince) Limited term loan facility was modified so that interest which had been rolled up into the loan during 2010 and which was due to be paid in July 2011 will now be paid in July 2012 together with repayment of principal of £22 million Thereafter amortisation of the loan will continue at £2 5 million per quarter until final repayment in July 2013

Over and above these extended bank facilities, we have extended the term of a further £10 million of unsecured stand-by facility from Peel Holdings which is available for drawing in the event that the RCF and additional revolving credit lines are fully drawn This facility has also been extended to mature at the end of July 2012

Following the changes a summary of our principal current bank facilities is shown below

	Facility £ million	Margin over LIBOR	Maturity
RCF	45[1,2]	300-467 bps[3]	July 2012
Additional revolving facility	up to 20	1 600bps	July 2012
Harworth Estates (Agricultural Land) Limited facility	29[1]	400bps	July 2012
Harworth Estates (Waverley Prince) Limited facility	44	750bps	July 2013
EOS Inc Ltd facility	22	300bps	July 2012
Total	up to 160		

[1] Facility reduces as proceeds from property sales up to July 2012 are applied
[2] Reducing to c £30 million by £1 million per month from April 2011
[3] Margin dependent on level of committed facility

The above table excludes fully drawn finance leases and other small bank loans which totalled some £13 million and £2 million respectively at December 2010 and the Peel Holdings loan facility noted above

Movement in Group Net Debt

	2010 £ million	2009 £ million
Operating loss before non-trading exceptionals	**(74.3)**	(93 1)
Revaluation of property	**34 2**	25 7
Profit/loss on sale of fixed assets and investment properties	**0.3**	(0 2)
Depreciation/diminution	**35 2**	32 8
Non trading exceptionals	**(13 1)**	(13 1)
Non cash movement in mining provisions	**5.2**	13 9
Profit on sale of joint venture	**–**	(6 5)
Working capital	**(1 1)**	6 6
Finance costs/interest payments (including loan arrangement fees)	**(12.2)**	(16 8)
Other movements	**2.3**	4 2
	(23 5)	(46 5)
Deep mines		
Capital expenditure – cash	**(26 8)**	(53 2)
Capital expenditure – new finance leases	**(1 7)**	(17 2)
Payments against provisions	**(13 1)**	(9 1)
Fixed asset disposal proceeds	**0.3**	0 4
	(41 3)	(79 1)
Surface mines		
Amortisation of restoration assets	**14 0**	10 0
Pre-coaling expenditure	**(5.4)**	(3 9)
Deferred stripping adjustment	**(3.0)**	(1 6)
Restoration payments	**(11 6)**	(21 2)
	(6.0)	(16 7)
Harworth Estates		
Net proceeds of sales of properties	**22.7**	8 5
Planning and development expenditure	**(2.1)**	(8 1)
	20.6	0 4
Pension deficit payments	**(5.8)**	(8 3)
Net movement in restricted funds	**3.3**	1 0
Proceeds from sale of joint venture	**–**	8 7
Generator loans	**25.8**	63 6
Proceeds from issue of ordinary shares	**–**	99 7
	(26 9)	22 8

The total increase in net debt in the year was £26 9 million (2009 reduction of £22 8 million)

The Group has continued to invest significantly in the business in the year A total of £44 7 million was invested in the mining business on fixed assets, largely in completing the investments at Kellingley and Thoresby of which £26 8 million resulted in cash payments in the year and the rest was on deferred terms or under finance leases This was lower than the £70 4 million in 2009 (including £17 2 million under finance leases) which again included the large investments in the new seams at Kellingley and Thoresby

A further £5 4 million has been spent on pre-coaling expenses in opening up the three new surface mines in the year (2009 £3 9 million) and £2 1 million (2009 £8 1 million) on costs associated with gaining and fulfilling planning consents on investment properties

Our ongoing project to dispose of surplus property assets has realised £22 3 million of net sales proceeds from investment properties (2009 £8 5 million) in 2010 and a further £0 4 million from operating properties (2009 £nil) These proceeds have been applied against bank borrowings in the year The cash used in the business has been further offset by the cash benefits of £25 8 million (2009 £63 6 million) arising from the supply contracts with our generator customers renegotiated in 2008/ early 2009

Financial Review
continued

Balance Sheet

The net assets of the Group at December 2010 were £81 4 million compared to £152 8 million in 2009 The decrease in net assets is due to the trading loss for the year of £125 1 million (2009 £127 5 million) offset by a decrease in the deficit on retirement obligations of £49 2 million (2009 increase of £116 8 million) which is discussed below

Provisions

		2010 £ million	2009 £ million
(i)	Employer and public liabilities	**13 0**	16 2
	Surface damage	**15 4**	13 2
(ii)	Restoration and closure costs of surface mines	**51 6**	39 3
(iii)	Restoration and closure costs of deep mines		
	– shaft treatment and pit top	**9 9**	10 3
	– spoil heaps	**2.9**	2 9
	– pumping costs	**2.8**	5 4
	Ground/groundwater contamination	**6 3**	5 3
(iv)	Redundancy	**3.2**	9 1
		105 1	101 7

(i) Employer and public liabilities and surface damage provisions

Provisions are made for current and estimated obligations in respect of claims made by employees and contractors relating to accident or disease as a result of the business activities of the Group This is managed by our captive insurance company, Harworth Insurance Company Limited, a UK based FSA registered company As at December 2010 it held £15 7 million of cash deposits and £8 8 million of property assets to meet £13 0 million of liabilities

Surface damage provision relates to the Group s liability to compensate for subsidence damage arising essentially from past deep mining operations Claims can be lodged by the public up to six years after the date of relevant damage The estimate is based on historical claims experience following a detailed assessment of the nature of damage foreseen The reduction in surface damage provisions is in line with the reduction in number of operating deep mines within the Group As at December 2010 the Group had £8 8 million of ring-fenced deposits and an insurance bond for a further £10 million to provide security to meet £15 4 million of liabilities

(ii) Surface mines

Pre-coaling costs in respect of surface mine activities are broadly the costs incurred in preparing the site for mining and related costs in respect of planning gain These are treated as deferred costs on the balance sheet During the course of the mining process these costs are written off over the expected production tonnage of the mine

Restoration and rehabilitation provisions represent the expected cost of the reinstatement of soil and overburden discounted for the time value of money

This provision together with an equal and opposite non-current asset is created when coaling commences Along with other pre-coaling expenses this asset is written off in proportion to the expected recoverable reserves of the mine

Expenditures for restoration and rehabilitation are offset against the provisions as incurred The unwinding of the discount for the time value of money is included within the finance cost

As at December 2010 the Group had a non-current asset of £35 7 million (2009 £22 6 million) relating to expenditure on pre coaling and similar expenses, deferred stripping costs and the recognition of restoration and rehabilitation liabilities on sites that had started coaling There is current consultation over the treatment of capitalised deferred stripping costs, of which we had £4 7 million at December 2010 At the same date provisions for restoration and rehabilitation totalled £51 6 million (2009 £39 3 million) after expenditure of £11 6 million in the year *(iii) Deep mines*

We maintain provisions in respect of the costs of restoring our deep mines to the required standard and planning conditions The amount provided represents the discounted net present value of the expected costs Costs are charged to the provision as incurred and the unwinding of discount is included within the finance costs for the year The provision can be broken down into operating and closed mines

	£ million
Operating mines	11 7
Closed mines	10 2
	21 9

After the closure of Welbeck in the year 53% of the deep mines provision relates to the three mines classified as operating which will be utilised after the point of closure We expect that we may utilise £1 0 million of the closed mine provision in 2011 and £0 4 million in 2012 representing predominantly the costs in respect of the Welbeck and Rossington collieries The remaining balance of £8 8 million will be utilised beyond 2012

(iv) Redundancy provisions

Redundancy provisions are created when the decision to make the redundancies has been made and communicated, usually through the representatives of the workforce The majority of the £3 2 million provided remains from the closure of Welbeck and is expected to be utilised in 2011

Retirement benefit obligations

The Group has a deficit on its defined benefit pension and retirement schemes which are now closed to new entrants but are currently open for future service, of £171 6 million (2009 £220 8 million) We are currently in ongoing discussions with relevant stakeholders about changing the status of the defined benefit schemes All new employees who joined after the privatisation in 1994 are eligible to join defined contribution schemes

The defined benefit pension and retirement schemes comprise two funded industry wide schemes together with an unfunded concessionary fuel scheme The above deficit includes a liability of £36 5 million (2009 £34 9 million) in relation to the unfunded concessionary fuel scheme All of these schemes are valued annually by our independent actuaries the Government Actuary s Department

The schemes have been for these financial statements valued under International Accounting Standard 19 (IAS 19), using the projected unit method and discounting future scheme liabilities on the basis of AA-rated corporate bond yields of over 15 years The discount rate used, net of inflation, was 2 1% (2009 2 2%)

Movements in the schemes in 2010 are set out below

	Pension* £ million	Concessionary fuel £ million	Total £ million
December 2009	**185 9**	**34 9**	**220.8**
Contributions paid less current service cost	(5 9)	(0 4)	(6 3)
Change in fund value compared to expected return	(11 3)	1 9	(9 4)
Actuarial (gain)/loss on liabilities	(32 6)	0 1	(32 5)
Gains on curtailment	(1 0)	–	(1 0)
December 2010	**135 1**	**36.5**	**171 6**

* Including Blenkinsopp scheme

There has been a significant decrease in the deficit on the pension schemes of £50 8 million The main movements were

- An actuarial gain on the funds liabilities of £32 6 million arising from the change in actuarial assumptions Principally this is due to the allowance made for the effect of the change in statutory pension indexation requirements for pensions on one of the schemes, lowering the rate of inflation from being in line with RPI to being in line with CPI
- A gain in the year of £11 3 million due to returns on the funds assets being higher than expected and
- Deficit contributions above the current service cost of £5 9 million In total, the Group paid £21 2 million to the schemes in 2010 covering both current service and deficit contributions, and expects to make contributions of around £22 million in 2011

Financial Review
continued

£49 7 million of the movement in the deficit on the pension schemes has been charged to the Consolidated Statement of Comprehensive Income (SOCI) in the year

There has been an increase in the liability for the unfunded concessionary fuel scheme of £1 6 million relating mainly to the interest cost on the liability exceeding contributions in the year There was a small actuarial loss on the liability which has been charged to the SOCI

Details relating to retirement benefit obligations are shown in note 24 to the financial statements

Pension schemes' funding levels

Contributions to the schemes are determined by the schemes actuary on the basis of triennial valuations The last agreed triennial valuations which were finalised during 2008 were at 31 December 2006, and we have continued to make contributions in line with that agreement The next valuation as at December 2009 has not yet been finalised The Trustees of the schemes estimate that the combined deficit of the industry wide schemes as at the end of December 2009 was around £300 million using assumptions which differ from those that we are required to use under IAS 19, and on a basis and with assumptions which are not agreed by the Group The level of future cashflow funding for the schemes has also not yet been agreed The current level of deficit contributions would be inadequate to meet such a large deficit

Key Risks and Uncertainties

We operate in a mining industry which carries inherent risk and is subject to market and other external risks which cannot be fully controlled, mitigated or insured against The risks set out below represent some of the principal risks and uncertainties identified by the directors which exist within the Group that could materially affect our financial condition, performance strategies and prospects The following risk information is not intended to be a comprehensive overview of risks inherent within the business

Mining Risk

Health, safety and environment

All of our mining operations are subject to potential health and safety risks and the possibility of pollution of water air or soil or damage to surface assets

Following the appointment in January 2010 of a Safety Director who reports to the Managing Director of Mining and also has a direct reporting line to the Board s Safety Committee, we have reinforced management s focus on the importance of safety issues and strived to create as safe a working environment as possible through ongoing Health and Safety training to all employees to ensure an awareness of safety issues across the Group We remain confident that by working together with our entire workforce we can improve on our Health and Safety performance

The potential for other hazards underground are continually monitored in particular the risks from methane gas and from fire enabling immediate action to be taken in the event of any abnormal reading There is only very limited insurance or insurance with high excess or uneconomic premiums available in the market against these risks which might normally be insurable in other industries

Financing risk

In part the Group finances its business through debt The ability of the Group 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 for the Group in the longer term will be available or if it is that it will be available on terms that the Group considers acceptable The maturity of the Group s debt profile at December 2010 is shown in note 19 to the financial statements and the facilities available to the Group including their maturities, are noted earlier in the Financial Review Following the extension to our main facilities as noted earlier in the Finance Review there are now no significant facility maturities in the next 12 months However, there is a longer term risk that the Group is unable to refinance its bank debt or is 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 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 them leading to increased charges and possibly a limitation of facilities availability

Major unforeseeable production shortfalls or geological constraints

The operating costs of our deep mines are largely fixed relative to production levels Output is therefore key to our short-term financial performance and indeed to the viability of the mines and the business

In an operation as complex as deep mining there are inevitable risks to production from the failure of equipment We therefore seek to maintain adequate supplies of equipment spares to ensure that any downtime is limited and to operate at high levels of machine availability

Our mining plans and development programmes are designed to minimise the time between one face finishing a new face starting and production ramping to a normalised level (known as face gaps) During this time coal production may be limited and the economic impact is closely monitored Historically development work has underperformed against long-term requirements and therefore a significant element of our investment programme, both in capitalised and expensed spend is aimed at increasing the amount of development 'bank' i e developments ready ahead of requirements which reduces the risk of face gaps

The geology of the ground in which we are mining is an important factor in our business Whilst bore holes are drilled, and modern surface and other surveys, including 3D seismic surveys offer better information, we often face unexpected geological conditions These may sometimes be revealed when the roadway gates are initially driven, or by knowledge from previous workings in the same area (for example in seams above or below those being mined) but frequently, the extent of geological faulting or other conditions in the coal seam that have to be safely traversed are not totally predictable

We manage our mining risks by having a well structured risk management policy and experienced personnel to ensure any operational difficulties are mitigated where possible to ensure a continuous production process throughout the year

Key Risks and Uncertainties
continued

Market price risk
We are exposed to the risks of fluctuations in coal prices as our revenue and earnings are directly related to the prevailing prices for the coal produced

We have mitigated this by the use of longer term customer contracts, to ensure more certainty of both demand and price Historically some of these contracts have worked to our disadvantage due to increases in the world price of coal Therefore, we have moved towards a strategy of a balanced mix of longer term contracts on fixed capped and collared and floating prices, and to maintain an element of shorter term contract and spot sales

The Group has entered into some fixed price contracts which in some cases are subject to RPI adjustment resulting in a reduction in sales price in the event of deflation that might not be matched by commensurate falls in costs The Group also entered into some nominal fixed price contracts where the sales price will not change even if inflation was higher than expected

We also aim to reduce costs on a continuous basis and to maintain an efficient production process to maximise our returns throughout the price cycle

We are exposed to the impact on our market of changes in Government regulations in particular with reference to the development of a low carbon economy

Employment Risk
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 The Trustees estimate, on a basis that is not agreed by the Group, that at December 2009, there was a combined deficit of circa £300 million on these schemes

Under IAS19, as noted in note 24 to the financial statements these schemes have a combined deficit of £134 3 million at December 2010 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 and investment performance to be incorporated into the next calculation which is currently being worked on, a significantly higher deficit could lead to higher deficit contributions being needed in later years

Other employment risks
The Group operates in a highly unionised environment Whilst industrial disputes have not been a material feature in recent years there remains a risk of such events potentially leading to lost production or increased costs

Property Risk
Property market downturn or volatility
As noted earlier in the Review of Operations land values are potentially volatile to changes in the wider environment Economic conditions affect both business and consumer investment confidence and both these have a knock-on effect for residential and commercial land prices Our agricultural estate has proved less volatile in the past and we would expect it to remain so given the more mature nature of the land's usage

The immaturity' in planning terms of our brownfield sites means that a considerable amount of value can be added by the work that we do in advancing them through the planning process We continue to seek favourable planning outcomes on our development portfolio in order to increase and allow this value to be realised both of which help to mitigate the carrying value risk of these properties

Planning approvals
The planning regime affects both Harworth Estates and our mining businesses and any major changes could affect the business either positively or negatively We continue to see improvements in the planning environment, particularly in the planning regime surrounding the surface mine business where greater recognition is being given both for the need of coal and the high environmental standards of the design and operation of the schemes Of immediate impact the resources available to planning authorities to process planning applications in a reasonable timescale continue to be a restraining factor on the Group and in the development of activities meeting overall Government targets and the Group s aspirations

Corporate Social Responsibility

UK Coal – Impact and Benefits

As a major employer operator of mines and landowner within Central and Northern England UK Coal is acutely aware of the effect it has on the UK both locally and nationally We have consistently sought to shape our CSR practice to maximise the benefits and minimize the impacts of the Group

UK Coal – A National Asset

UK Coal is the largest producer of coal in the UK and one of the largest independent coal producers in Europe supplying sufficient coal to produce around 5% of the UK's electricity The Group employs 2 657 (2009 2 932) people directly and its sites represent a major centre of expertise and skills for the UK economy The UK has over 100 years of coal reserves and coal forms a major component of the Government s energy plan going forward The Government has pledged to invest over £1 billion in Carbon Capture and Storage ('CCS') which is more than any other in the world, in order to ensure that the UK establishes a leading position in this environmentally friendly technology

UK Coal – A Caring Employer

Best practice at work

UK Coal understands that a skilled and motivated workforce is essential for the long-term success of the business and we aim to attract retain and motivate the highest calibre of employees within a structure that encourages their development and personal initiative To that end, despite the recent economic slowdown, we have maintained our policy of maximising the redeployment of skilled and experienced mineworkers The Group also undertakes

- Continuous employee development through a rolling programme of working practice reviews training and refresher courses,
- A regular dialogue with mining trade unions particularly at operational level to address employee issues
- Production of Group and site newsletters to raise awareness of the financial, economic and operational factors affecting the business unit and Group performance, and
- Equal opportunity in recruitment, promotion, career development, training and reward to all employees without discrimination and support of the employment of disabled persons provided that they can be employed in a safe working environment

Developing Kellingley's next coal face

Corporate Social Responsibility
continued

Safety Management

UK Coal considers that the wellbeing of the people who work across all areas of our operations and offices and the performance of our employees at the highest level of their ability is a fundamental part of successfully delivering our strategy

At UK Coal, our aim is to operate a workplace that is safe and healthy Our single most important focus is to have an organisation that can say and demonstrate that safety is our number one priority and that fatal accidents and injury are no longer a part of the mining industry At UK Coal we believe that every work related illness and injury is preventable

UK Coal is a mining group, and mining activity and mineral processing require the management of significant hazards which include fire explosion ground control transport of people high voltages and large mobile machinery To ensure that we work safely all parts of our business maintain good safety management systems Health and safety performance is reviewed by the Board on a monthly basis and the Safety Committee quarterly The Group strategy is driven from this combination of meetings on advice from our health and safety professionals

The strategic issue for safety

UK Coal is an old established organisation evolving from British Coal upon privatisation and safety has progressed within the organisation over the last 15 years We recognise the need to be continuously improving our approach to safety to reflect the ever changing and developing demands of business and society We are looking for further rapid improvement of safety performance and the enhancement of clear safety accountability As we develop the strategy for 2011 and beyond we have three clear values

- Zero Mindset – Embedding a simple belief across the organisation we can prevent all accidents and occupation illness We plan design manage and supervise to ensure we work towards reaching these goals
- Zero Harm – A shared belief that anyone working for or with UK Coal will do so without incurring any injury whilst at their place of work and
- Zero Repeats – The investigation of accidents incidents and practices to determine what happened and why resulting in implementation of necessary steps to prevent recurrences

As an organisation we recognise that whilst systems and procedures are of vital importance for UK Coal to achieve world class levels of health and safety performance is dependent on the behaviour of everyone The safe behaviour of our employees and contractors depends on many factors which include leadership, management style training and the relationship between all stakeholders As we move through 2011 we will work with our leaders to ensure there is a visible safety commitment that safety is clearly prioritised and that they give a personal endorsement to safety initiatives throughout the workforce We wish to build a culture where people feel comfortable and able to challenge unsafe behaviour and take personal responsibility for their own safety and that of our colleagues UK Coal will work to establish a culture where people know they can come forward and report incidents errors and mistakes and know they will be treated fairly with their concerns and issues being addressed

It is with regret that as disclosed in the Directors Report UK Coal Mining Limited has pleaded guilty to breaches of health and safety legislation brought against it by the Health and Safety Executive following four fatalities in 2006 and 2007 This further emphasises the need for strategic improvement

Our key performance measure is our lost time injury frequency rate per 100 000 man shifts and it is pleasing to see that in 2010 UK Coal saw a 21% reduction in this measure from 34 46 to 27 28 with all parts of the business recording positive results in this area Major injuries have also fallen by 38% compared to 2009 Whilst it is encouraging to note this reduction, we have to maintain focus if we wish to compare ourselves with leading companies in the same sector The core elements of our safety improvement programme in 2011 will be

(i) Leadership – We demonstrate and encourage the behaviours we expect to see

(ii) Competence – Our people are skilled in the work they do they understand what is required and how to do it

(iii) Control the Environment – Our people can identify the hazard and understand what is needed to control the risk and

(iv) Work Safely – We identify, put in place and audit suitable work practices

The Board strategy shall ensure that UK Coal remains a safe place to work, and that we achieve our objective to be a leader in the mining sector both in the UK and internationally

Environment

UK Coal s environmental programme is managed by the Environment Manager who is an active participant in the CBI East Midlands Environment Committee which meets regularly with like minded companies to share good environmental practice, and is a member of Business in the Community Yorkshire and Humberside Environment Experts Group

As a provider of a key source of power to the UK UK Coal is aware of the impact that our operations have on the surrounding environment and our environmental policy commitments are to

- Minimise pollution and comply with environmental legislation and any agreements with external organisations in order to comply with ISO 14001
- Maintain certification of environmental management systems to international standards at all mines and progress certification in other areas of the business
- Set and regularly review objectives and targets to achieve continual improvement in environmental performance, including a reduction in the use of natural resources,
- Use the principles of sustainable development to design new projects and restore completed sites to include long-term environmental or community benefits
- Provide access to contact us about environmental issues and give a prompt response
- Ensure this policy is communicated to all employees contractors and suppliers
- Encourage the efficient use of coal with minimum emissions and
- Maximise the use of other natural resources recovered with the coal

Certification to ISO 14001 covers all surface and deep mined sites our Mining Services department and Harworth Estates Application of our certified system improves both the day to day operational procedures and longer-term environmental risk management over all our activities Our Environmental Policy is reviewed by the Board, and both in-house and external audits ensure continued compliance Monitoring and analysis of emissions to air water and land as well as the use of natural resources, are carried out and where appropriate programmes to reduce emissions or to reduce the use of natural resources are designed and implemented As new legislative regulations on waste and resources are introduced our programmes to encourage reduction re-use and re-cycling continue to show positive benefits to the environment

The success of our policies is judged by the use of key performance indicators One of the most significant indicators is the need to control the use of energy In the middle of 2009 an across the board target was set to reduce energy use by three per cent When comparing 2010 to 2009, we achieved a ten per cent reduction in energy use per tonne of coal recovered in our active mines Taking the Group as a whole the reduction was eight per cent In addition, we also saw a reduction in mineral waste of three per cent for each tonne of coal recovered when comparing 2010 to 2009

Social and Community Issues

As a major employer and land owner at UK Coal we believe in supporting suitable community projects around both our surface and deep mines whilst ensuring that we keep to our commitment to supply the UK's energy industry with vital fuel As part of this ongoing commitment UK Coal

- Contributes to a wide range of individual and team activities, individual and group events and sporting and academic aspirations affecting all age groups
- Provided the following funding in 2010 for good local causes
  - £1,327,000 (2009 £300 000) through community fund projects associated with current operating surface mine schemes
  - £100 000 (2009 £1,300 000) of community funding from surface mines schemes with planning consent (but where mining operations have yet to commence)
  - A potential further £500,000 (2009 £275 000) of community funding if schemes currently in the planning process are approved
- Planted over 65 000 trees and hedgerow in 2010 on sites in Yorkshire the North East and the Midlands on former mine sites and
- Has created heathland and other community access facilities as part of the restoration of some sites One such project has been designated as a Site of Specific Scientific Interest during 2010 by Natural England This is a highly coveted seal of approval and effectively highlights the quality and the diversity of the land after-uses that UK Coal is capable of creating through its own in-house expertise and knowledge

Board of Directors

Jonson Cox
He was appointed as Executive Chairman with effect from 15 November 2010 He was formerly Group Chief Executive of Anglian Water Group from January 2004 until March 2010 For the same period he was Chairman of Anglian Water Services Limited and morrison PLC He is a non executive director of Wincanton PLC

David Brocksom
He was appointed Finance Director in September 2007 He was previously Finance Director of Pace Micro Technology PLC and Avesco PLC and has worked in a number of UK listed companies for over 12 years as a Board member He qualified as a Chartered Accountant with Price Waterhouse having read Law at Cambridge University He is a non executive director of Helius Energy PLC

Gareth Williams
He was appointed Managing Director of the Mining Division with effect from 1 August 2010 having been appointed to the Board as Mining Director on 15 February 2010 He has over 20 years' experience in coal mining in a wide range of international roles with Anglo Coal part of Anglo American PLC he has been General Manager of some of Anglo's largest coal mines and Head of Operational Performance for Anglo Coal Canada and South America Gareth gained an honours degree in Mining Engineering at the University of Otago/Auckland in 1988

Owen Michaelson
He is a Chartered Surveyor was appointed Managing Director of the Property Division with effect from 1 August 2010 He was formerly a non-executive director of the Company and has specialised in the remediation and development of brownfield and contaminated land waste management operations and power generation He holds a non-executive directorship within the Peel Group

Peter Hazell
Chairman of property developers the Argent Group, he joined the Board in September 2003 as a non-executive director He is also non-executive director of Brit Insurance and Smith and Williamson He was previously a member of the Competition Commission and UK Managing Partner of PricewaterhouseCoopers He is Chairman of the Audit Committee and Senior Independent Director

Mike Toms
He joined the Board as a non-executive director and Chairman of the Remuneration Committee with effect from May 2006 A Town Planner and Economist by background he was Group Director, Planning and Regulatory Affairs and sat on the Board at BAA PLC and formerly a non-executive director at Viridian Group PLC He is a non-executive director of Bellway PLC, a non-executive director of Birmingham Airport Holdings Limited and a non-executive director of Oxera Consulting Limited He is a former Chairman of Northern Ireland Electricity PLC

Keith Heller
He was appointed as a non-executive director and Chairman of the Safety Committee with effect from 19 April 2011 He was formerly Co-Chairman of DB Schenker Rail Chief Executive of English Welsh and Scottish Railway President of Euro Cargo Rail and Senior Vice President Canadian National Railway He was a Board member of the Railway Safety and Standards Board

Steven Underwood
He is Corporate Development Director of the Peel Group of companies and was appointed to the Board as a non-executive director with effect from 1 August 2010 He is also currently a non-executive director of Pinewood Shepperton PLC and an alternate director of Capital Shopping Centres Group PLC

Directors' Report

The directors present their report and the audited financial statements for 2010 These will be laid before the 2011 Annual General Meeting Details of all resolutions to be proposed at the Annual General Meeting are set out in the notice calling the meeting which is enclosed with this report

Principal Activities, Business Review and Future Developments
The principal activities of the Group comprise surface and underground coal mining, property regeneration and management and power generation

The Chairman s Statement and the Operating and Financial Review (beginning on pages 3 and 6 respectively) are incorporated by reference These provide a review of the Group s business which includes the

- Development and performance of the Group in the year and its position at the year end,
- Key risks and uncertainties faced by the Group (on pages 29 and 30),
- Key Performance Indicators used to measure the Group s performance (on pages 12, 15 and 17)
- Environmental and employee priorities facing the Group (on pages 31 to 33), and
- Group's future development and outlook for 2011 (on page 5)

Dividends Per Ordinary Share
There was no interim dividend paid during the year (2009 £nil) The directors are not recommending the payment of a final dividend in respect of the 2010 financial year (2009 £nil)

Land and Property
The Group's investment property was revalued at the year end full details of which are set out in the Operating and Financial Review (on page 19)

Development
The Group actively develops its mining and property portfolios, full details of which are found in the Operating and Financial Review and in the Notes to the Financial Statements (on pages 77 and 78)

Directors
The directors who served during the year were David Brocksom, Jonson Cox Peter Hazell David Jones Jon Lloyd Owen Michaelson, Mike Toms, Kevin Whiteman Steven Underwood and Gareth Williams

Jonson Cox and Steven Underwood were appointed Executive Chairman and a non-executive director with effect from 15 November 2010 and 1 August 2010 respectively and will offer themselves for re-election at the 2011 Annual General Meeting Keith Heller has been appointed as a non-executive director with effect from 19 April 2011 and will also offer himself for re-election at the 2011 Annual General Meeting Gareth Williams was appointed with effect from 15 February 2010 and re-elected at the 2010 Annual General Meeting

David Jones and Jon Lloyd stepped down from the Board and resigned as Chairman and Chief Executive respectively on 15 November 2010 Kevin Whiteman retired as a non-executive director with effect from 31 March 2011 Mike Toms will be retiring from the Board on 30 June 2011

Under the Articles of Association there is a process of rotation which ensures that approximately one third of all directors are required to retire and seek re-appointment at each Annual General Meeting At the 2011 Annual General Meeting, Owen Michaelson and David Brocksom will retire by rotation and will offer themselves (and are recommended by the Board) for re-election

All executive directors have service contracts which may be terminated by the Company on not more than twelve months notice for all non-executive directors the notice period is three months There are no directors on fixed-term contracts There are no contractual clauses that give any of the directors an entitlement to compensation exceeding his due payment in lieu of notice Details of indemnities from the Company and insurance taken out for the benefit of the directors is set out in the Corporate Governance Report (on page 40)

The interests of the directors in the shares of the Company are shown in the report on directors' remuneration (on page 51)

Charitable Donations
The contributions made by the Group during the year for charitable purposes were £39 325 (2009 £51 546) No political donations were made in 2010 (2009 £nil) Charitable donations made were predominantly to associations and charities involved with the coal industry and local communities

Employees
The Group consults on and discusses with employees matters likely to affect their interests Internal news sheets are produced and distributed free to all employees regularly Information on matters of concern to employees is given periodically to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance

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

Directors' Report
continued

Health and Safety
UK Coal is committed to maintaining high standards of health and safety in every area of the business It is the aim of the Group to exceed the requirements of the Health and Safety at Work Act 1974 and all other relevant health and safety legislation and has established a committee of the board to oversee health and safety Details of the Group s commitment to health and safety are found in the Corporate Social Responsibility section (on page 32)

UK Coal Mining Limited has pleaded guilty to seven charges for breaches of health and safety legislation brought against it by the Health and Safety Executive following four fatalities in 2006 and 2007 It is anticipated that UK Coal Mining Limited will be fined in late summer 2011 Provision was made for this in the financial statements in 2009

Treasury Policy and Liquidity
The Group maintains borrowing lines estimated to be sufficient to cover forecast cash requirements In this assessment the Group only takes into account existing or renewing facilities and new facilities where these have received credit approval or equivalent

The Group enters into hedging transactions required to cover the operations of the business The principal function of the financial instruments held by the Group is to provide security raise funds and mitigate some interest rate risks

Details of financial risks in respect of market risk credit risk and liquidity risk are set out in note 23 to the financial statements (on pages 87 and 88)

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

The Group had 78 days purchases outstanding at December 2010 (2009 74 days) based on the average daily amount invoiced by suppliers during the year

Ethical Policy
UK Coal is committed to working with its employees, customers suppliers and contractors to promote responsible working and trading practices It also provides assistance to the wider community by way of financial support for charitable and other local causes Further information regarding how the Group addresses social and community issues is shown in the report on Corporate Social Responsibility (on page 33)

Quality and Integrity of Personnel
It is the Group s policy to employ the highest calibre of management and staff and encourage the highest standards of personal integrity Recruitment procedures are designed to identify and reward high calibre individuals

Share Capital, Voting Rights and Transfer of Shares
Details of the structure of the Company s share capital and changes in the share capital during the year are disclosed in note 25 to the financial statements

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

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

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

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

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

Details of major shareholdings are included in the Corporate Governance section of this Annual Report

Details of employee share schemes can be found in the Directors Remuneration Report

Significant Agreements

The Companies Act 2006 requires us to disclose the following significant agreements that take effect alter or terminate on a change of control of the Company

The facility agreement dated 25 July 2007 for the committed term loan facility provided to Harworth Estates (Waverley Prince) Limited by Bank of Scotland PLC relating to the redevelopment of the Prince of Wales and Waverley Rotherham sites contains mandatory prepayment provisions entitling the lender to terminate the facilities (and demand immediate repayment of all outstanding amounts due under and in respect of such facilities) upon a change of control of the Company

The terms of the agreements dated 13 September 2007 for the committed revolving debt property and stock facilities provided to UK Coal Mining Limited by Lloyds TSB Commercial Finance Limited (among others) include a termination event entitling the lenders to terminate the facilities (and demand immediate repayment of all outstanding amounts due under and in respect of such agreements) upon a change of control of the Company

The facility agreement dated 7 May 2008 for the term loan facility provided to EOS Inc Ltd by Barclays Bank PLC includes a termination event entitling the Bank to terminate the facility (and demand immediate repayment of all outstanding amounts due in respect of the facility) upon a change of control of the Company

The terms of the facility agreement provided to the Company by Peel Holdings Finance Limited include a mandatory prepayment provision causing the facility to be cancelled upon (and to become immediately due and payable five business days following) a change of control of the Company

The facilities agreement dated 11 May 2010 for the revolving credit facilities provided to UK Coal Mining Limited by Lloyds TSB Commercial Finance Limited includes (a) an event of default entitling the lender to cancel the commitments and demand that all amounts outstanding under and in respect of such facilities are immediately due and payable upon a change of control of the Company and (b) a mandatory prepayment provision causing the facility to be cancelled and become immediately due and payable upon a sale of all or substantially all of the assets of the Company and its subsidiaries or upon a listing of any part of the share capital of any member of the Company s group to the London Stock Exchange PLC, the Alternative Investment Market or any recognised investment exchange

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

Going Concern

These financial statements are prepared on the basis that the Group is a going concern In forming its opinion as to going concern the Board prepares cash flow forecasts based upon its assumptions as to trading with particular consideration to production levels and key risks and uncertainties as summarised on pages 29 and 30 as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed in the Directors Report on page 36

The key factors that have been considered in this regard 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 material adverse impact on cash flow Recent performance has been illustrative of the difficulties inherent in deep mining operations and in particular the impact of unpredictable geological conditions and/or other operational issues on production volumes from our deep mines In particular, development and face installation progress needs to be sufficiently advanced to enable new faces to be operational on the completion of old faces, as highlighted at Daw Mill in 2010
- 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 and

Directors' Report
continued

- 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 very volatile and therefore there is a risk of unpredictability in coal revenues and cash flows

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

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

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

By order of the Board

Richard Cole
Company Secretary

19 April 2011

Statement of Directors' Responsibilities

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

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

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

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

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

Each of the directors, whose names and functions are listed on page 34 confirm that, to the best of their knowledge

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

Corporate Governance

The Group recognises the importance of, and is committed to, high standards of Corporate Governance and the following sections explain how the Group has applied the main and supporting principles set out in the Combined Code on Corporate Governance issued by the UK Listing Authority The Board confirms that the Group has complied with the provisions set out in the Combined Code throughout the year ended December 2010 save that it decided it was appropriate, in light of the need to develop the two distinct principal businesses within the Group to modify the Group's management structure with the appointment of Managing Directors for the Mining and Property Divisions respectively, both of whom would report to an Executive Chairman Hence Gareth Williams and Owen Michaelson were appointed as Managing Directors of Mining and Property respectively Jonson Cox was appointed as Executive Chairman with effect from 15 November 2010 taking responsibility for leading UK Coal At this time the Chairmanship is substantially a full-time role although it is intended that over time it should reduce in commitment and revert to a non-executive position

The Board of Directors

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

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

The Board of the Company is responsible for setting the Group s objectives and policies and for the stewardship of the Group's resources The Board is responsible to the shareholders for the overall management of the Group

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

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

The Group maintains an appropriate level of directors and officers insurance in respect of legal action against the directors Further there are indemnities between the Group and all directors and members of the Executive Management Committee in respect of costs and expenses suffered from an investigation by a regulatory body which are not covered by insurance

The interests of the directors in the shares of the Company are shown in the Directors' Remuneration Report (on page 51)

Attendance at Board Meetings

Attendance by individual directors at Board meetings (including those convened and held as conference calls) and at Committees during 2010 is shown in the table below Attendance by non-Committee members at Committee meetings is not included

	Board		Audit		Remuneration		Nomination		Safety	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
J Cox (appointed 15 11 10)	2	2	–	–	–	–	–	–	–	–
D G Brocksom	18	17	–	–	–	–	–	–	–	–
P F Hazell	18	16	4	4	8	7	3	3	–	–
O Michaelson	18	18	–	–	–	–	–	–	–	–
M R Toms	18	18	4	4	8	8	3	3	4	4
S Underwood (appointed 1 8 10)	5	5	–	–	–	–	–	–	–	–
K I Whiteman	18	18	4	3	8	7	3	3	4	4
G Williams (appointed 15 2 10)	16	16	–	–	–	–	–	–	1	1
DH Jones (resigned 15 11 10)	15	15	–	–	6	6	1	1	–	–
J S Lloyd (resigned 15 11 10)	16	16	–	–	–	–	–	–	3	3

Committees

The Group's governance structure ensures that all decisions are made by the most appropriate people in such a way that the decision making process itself does not unnecessarily delay progress The Board has delegated specific responsibilities to the Nomination, Remuneration, Audit and Safety committees, as described below Each committee has terms of reference that the whole Board has approved which can be found on the Group s website Board and committee papers are circulated in advance of each meeting so that all directors are fully briefed Papers are supplemented by reports and presentations to ensure that Board members are supplied in a timely manner with the information they need

Nomination Committee

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

The Committee's members are the independent non executive directors and the Chairman Although the Chairman is also Chairman of the Committee, he will not chair the Committee when it deals with the appointment of a successor to the chairmanship The Nomination Committee evaluates the balance of skills, knowledge and experience on the Board and in the light of this evaluation prepares a description of the roles and capabilities required for a particular appointment

During the year the Committee engaged the services of external search consultants to assist with the recruitment of Jonson Cox as Executive Chairman In addition the Independent Non-Executives obtained professional advice in respect of the appointment of Steven Underwood as a non-executive director

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

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

Remuneration Committee

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

Audit Committee and auditors

The Audit Committee comprises Peter Hazell (Chairman), Mike Toms and with effect from 19 April 2011 Keith Heller Kevin Whiteman who retired from the Board on 31 March 2011 was a member throughout the period The Board is satisfied that Peter Hazell has recent and relevant financial experience and that all members of the Committee are independent non-executive directors The Chairman Finance Director and the external auditors are invited to attend meetings The minutes of meetings of the Committee are circulated to all directors The Committee meets at least four times a year to review the Group s accounting and financial reporting practices the work of internal and external auditors and compliance with policies procedures and applicable legislation The Audit Committee also reviews the half year and annual financial statements before submission to the Board and periodically reviews the scope remit and effectiveness of internal audit provision and the effectiveness of the Group s internal control systems It also reviews 'whistle-blowing' arrangements by which employees of the Group may in confidence, raise concerns about possible financial or other improprieties The terms of reference of the Audit Committee are available to shareholders on request and are also available on the Group s website

The auditors throughout 2010 have been PricewaterhouseCoopers LLP

Fees to PricewaterhouseCoopers LLP

	2010 £000	2009 £000
Audit Fees	**305**	315
Other audit related fees	**130**	338
Tax compliance and advice services	–	38
	435	691

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

- The Audit Committee reviews the audit appointment periodically
- It is Group policy that the external auditors will not as a general rule provide consulting services to the Group The external auditors provide audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholder and other circulars
- The external auditors may undertake due diligence reviews and provide assistance on tax matters given their knowledge of the Group s businesses Such provision will, however be assessed on a case by case basis so that the best placed adviser is retained The Audit Committee monitors the application of the policy in this regard and keeps the policy under review

Corporate Governance
continued

- The Audit Committee reviews on a regular basis all fees paid for audit and all other fees with a view to assessing reasonableness of fees, value of delivery, and any independent issues that may have arisen or may potentially arise in the future, and
- The auditors report to the Directors and the Audit Committee confirming their independence in accordance with Auditing Standards

Safety Committee
The Board has a Safety Committee to assist it in ensuring that the Group complies with its health and safety obligations and to review and recommend to the Board strategic options that may enhance the policies, standards and processes that operate within the Group The Committee comprises Keith Heller (Chairman with effect from 19 April 2011) Mike Toms and Gareth Williams and meetings are attended by all relevant senior managers Kevin Whiteman was Chairman of the Committee up to his retirement from the Board on 31 March 2011 Stuart Hoult Safety Director has a direct reporting line to the Committee

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

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

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

Performance Evaluation
Following a review initiated by Jonson Cox upon joining the Group as Chairman the Board has considered and adopted specific targets and performance criteria to enable it to assess its own effectiveness The performance of the Board and its committees will be reviewed against these criteria and matters requiring attention identified and addressed The Chairman s performance is reviewed by the non-executive directors led by the Senior Independent Director, after consultation with the executive directors The Chairman holds responsibility for the appraisal of the performance of the non executive directors together with responsibility to conduct a performance evaluation of executive directors and members of the Executive Management Committee

Executive Management Committee
The Executive Management Committee was established to manage and co-ordinate all strategic and key operational issues It comprises the Chairman Finance Director, Managing Director, Mining and Managing Director Property with attendance by the Company Secretary

There are in addition two separate executive teams responsible for the Mining and Property Divisions under the leadership of Gareth Williams and Owen Michaelson respectively

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

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

Substantial Shareholdings in the Company
The directors have been notified of the following substantial shareholdings as at 19 April 2011

Company	Number of shares	% of issued share capital
Goodweather Holdings Ltd*	87 054 470	29 09
UBS Investment Bank	20 866 896	6 97
Pelham Capital	15 163 788	5 07

*Member of Peel Holdings

Powers of Directors to Allot Shares

At the 2010 Annual General Meeting of the Company held on 25 June 2010, the directors were authorised to allot new shares up to an aggregate nominal amount of £997 660 The directors will seek renewal of a similar authority at the next Annual General Meeting (full details are available in the 2011 Notice of Annual General Meeting)

Purchase of Own Shares

At the Annual General Meeting of the Company held on 25 June 2010 shareholders gave the Company permission until the conclusion of the next Annual General Meeting to the Company, to purchase up to 29 929 815 ordinary shares of 1 pence of the Company No such purchases were made during the year The directors will seek renewal of similar authority at the 2011 Annual General Meeting (full details are available in the 2011 Notice of Annual General Meeting)

Internal Control Risk Assessment

There is an ongoing process for identifying evaluating and managing the significant risks of the Group and this process has been in place throughout the year under review Following a review by the Board on 7 April 2011, of an updated strategic risk assessment and the effectiveness of the Group s system of internal controls it concluded that there were no significant risks that had not been considered, nor any significant weaknesses in internal controls

The updated assessment supplements ongoing dialogue between the Board and the directors and managers responsible for monitoring risks at an operational level During the year the Board received regular reports from the Internal Audit and Health & Safety Management departments These reports identified areas of risk exposure recommendations made and actions implemented They also highlighted new areas of legislation that will impact on the risk profile of the Group and provided positive assurance that procedures are working and assisting in the attainment of business objectives Operational and financial risk management is delegated to directors and managers who are responsible for the day-to-day management of the business

The following controls are embedded in the procedures of the relevant business units

Operational – Detailed mining production and development plans are agreed on an annual basis and updated each month Operational Review meetings are held with senior management to discuss performance against plan and to decide and implement any actions required There are group-wide and local procedures against which compliance is monitored Detailed operational plans are agreed annually for Harworth Estates with these reviewed on a monthly basis at a formal divisional Board meeting attended by all divisional directors and members of the Executive Management Committee

Health & Safety – Full details of the health and safety policies and practices of the Group are set out in the Corporate Social Responsibility section

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

Financial (which assist in the financial reporting and consolidation of the Group s accounts) – These controls are considered under the following headings

- *Cost budgeting*
  The annual budget setting process includes a detailed review of each business unit and final budgets are approved by the Board Costs and performance are monitored on a monthly basis against budgets Monthly Operational Review meetings are held with senior management to discuss financial issues,
- *Treasury*
  The terms of reference for the Treasury department are approved and kept under review by the Board The Treasury department is responsible for placing deposits, for arranging borrowings and for making payments These transactions are subject to director or senior management authorisation,
- *Insurance risk*
  The Group holds insurance cover for all employer liability and public liability claims which is issued by its captive insurance company, and which limits the Group s exposure to £100 000 per claim All claims are subject to expert assessment and challenge and where appropriate, independent medical and legal opinion, and
- *Capital expenditure*
  Board approval of all major capital projects is required Smaller capital projects are approved by the Investment Committee which is chaired by the Finance Director and comprises the executive directors Senior executives are invited where appropriate The Investment Committee reviews projects with a cost in excess of £100 000

Assurance Procedures

In 2010 assurance was provided by the in-house team of Internal Auditors, Health & Safety Auditors and Environmental Auditors This resource was supplemented by the HM Inspectorate of Mines (Health & Safety) and other Health & Safety Commission personnel, legal advisors and professional claims handlers (Insurance and Claims Management) and external environmental consultants (Environmental Management)

Reports were prepared and summarised at management level for reporting to the Board as either standing or intermittent agenda items

The Audit Committee reviewed internal audit reports and corporate governance matters An internal audit plan based on the annual assessment of risks was reviewed by the Board

Corporate Governance
continued

Reports provided an opinion of the risk and control profile of each audited system The Safety Committee reviews all internal safety audits and approves an annual safety audit plan

Following a formal review of the Group s internal audit provision it has been decided to strengthen the Group s internal controls with the appointment of additional resources and implement an enhanced integrated risk management structure at each of the deep mines Internal audits will be undertaken by external specialists who will conduct specific reviews and report findings to the Audit Committee for its consideration

Going Concern

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

Annual General Meeting

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

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

Directors' Remuneration Report

**Denotes auditable elements of the Remuneration Report*

Context

This report is made in the context of the major changes in the organisation and management of the Group during 2010 These included the replacement of the Chairman and Chief Executive roles by the new role of Executive Chairman together with the creation of the new main board roles of Managing Director Mining and Managing Director Property In addressing the remuneration issues associated with these changes the Remuneration Committee's prime concern was the interests of UK Coal s stakeholders The Committee s main objectives have been to secure an effective transition to the new structure with the minimum disruption to operations the recruitment of an Executive Chairman with the experience, skills and determination to realise the Group's potential and the alignment of executive rewards around the challenges which the Group faces

Introduction

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

Remuneration Committee

Responsibility for reviewing Group remuneration strategy and policy recommending any changes and approving individual remuneration packages for the Chairman, Executive Directors and other senior executives rests with the Remuneration Committee (the Committee) The Committee consists of independent Non-Executive Directors and meets on at least two occasions each year The members in 2010 were Mike Toms (Committee Chairman) Peter Hazell David Jones (until 15 November 2010) and Kevin Whiteman The Committee may seek any information it requires from any employee or director and all employees and directors are required to co-operate with any request made by the Committee Richard Cole (Company Secretary) provided information to the Committee during the year

The Committee also meets without management and receives information and independent executive remuneration advice from specialist remuneration consultants Hewitt New Bridge Street ('HNBS) a trading name of AON Corporation who were appointed by the Committee Executive directors do not participate in discussions relating to their own remuneration The Committee liaises with the Audit Committee where appropriate this includes confirmation of the Group's financial performance to assist in determining whether performance targets and measures have been achieved and to ensure that the structure for the incentive arrangements throughout the Group are appropriate from a risk perspective It also liaises with the Safety Committee in respect of safety targets for the annual bonus scheme

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

Remuneration Policy

The policy for the current and future periods for the remuneration and incentivisation of Executive Directors and other senior executives is as follows

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

The Committee reviews the executive remuneration arrangements and implements incentive arrangements to support the objective of rewarding those individuals who deliver real and genuine shareholder value In developing these arrangements the Committee and its advisers consider current best and market practice The Committee will review remuneration arrangements after the Strategic Review has been finalised to ensure that they remain appropriate Potential significant changes will be discussed with major shareholders prior to adoption

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

During 2010 the Company appointed Jonson Cox as Executive Chairman and it was agreed at the time of his recruitment that in place of the existing annual bonus and long term incentive arrangements he would receive bespoke share based awards which were awarded in February 2011, to reflect the nature of the role and the strategic and operational challenges presented by the Company over the next three years In addition to the Chairman s awards and reflecting the specific operational challenges being faced by the Company Gareth Williams annual bonus opportunity (for 2011 only) will be supplemented with a deferred bonus arrangement based on the achievement of challenging operational targets for 2011 Further details on these arrangements are presented below

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

Directors' Remuneration Report
continued

Base Salaries

Executive Directors salaries are normally reviewed by the Remuneration Committee on an annual basis In determining salary levels for executives, due regard is given to external market data in similarly sized companies across a range of sectors, personal and Company performance and pay and employment conditions within the Group Executive Directors salaries are targeted at broadly mid-market levels for similarly sized companies Base salaries for Messrs Brocksom Williams and Michaelson will for 2011, remain at £234 675 per annum, £230 000 per annum and £230 000 per annum respectively

Annual Bonus

With the exception of the Chairman, Executive Directors participate in an annual bonus arrangement The annual bonus provides an incentive opportunity in the range of 0% to 75% of base salary for Executive Directors At the start of the incentive year, the Remuneration Committee sets both the performance measures and targets based on the Group s business priorities These targets ensure that incentives at the higher end of the range are payable only for demonstrably superior Group and individual performance

The Committee has reviewed executive performance in 2010 and in recognition of strong management by each executive of their functional responsibilities, leadership in an extremely challenging environment and the delivery of personal performance awarded the following bonuses David Brocksom received a bonus of £70,000 (2009 £21,120), Gareth Williams £113 077 and Owen Michaelson £25 000 (for the period from his appointment as an executive director to the end of the financial year) The bonus for the period represents 29 8% of annual basic pay for David Brocksom 49 2% for Gareth Williams and 26 1% for Owen Michaelson (excluding fees paid as a non executive prior to his appointment as an executive director on 1 August 2010) Part of Gareth Williams s bonus payment in 2010 related to meeting key deep mine output targets in the period between April and August 2010

In 2011 Messrs Williams and Brocksom have an opportunity to receive a bonus worth up to 50% of base salary for achieving Group performance targets related to safety, production, operating cash flow, profit before tax operating costs and property sales In addition both have an opportunity to receive up to 25% of base salary for the achievement of personal targets Mr Michaelson can receive a bonus worth up to 25% of his base salary for the achievement of the Group performance targets and up to 20% for achieving personal targets In addition he can receive up to 30% of his base salary for meeting specific property related performance targets The Committee recognises the need to ensure that annual bonuses both properly incentivise executives and align them to delivering shareholder value It will therefore give consideration to the introduction of a deferred share based element for a proportion of annual bonuses with matching awards made against performance related criteria

In addition to the above and recognising the specific operational challenges that the Company is currently facing Gareth Williams will participate in a deferred annual bonus arrangement whereby a maximum of 500 000 shares in the Company may be awarded at the end of the 2011 financial year with the number of shares awarded based on performance against challenging, sliding scale operational targets for the 2011 financial year To the extent that threshold operational targets are achieved the award will vest subject to continued employment, on 31 December 2013 A resolution will be proposed at the 2011 Annual General Meeting to seek authority to satisfy the award (to the extent it vests) through the issue of new, rather than existing, shares

Chairman

Mr Cox was appointed Chairman in November 2010 and will devote a substantial element of his time to the role for which a base salary of £350 000 per annum was agreed to be paid, this will not be reviewed until 2012

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

On 4 February 2011, and in connection with his recruitment Mr Cox was granted the following awards pursuant to the authority contained in Listing Rule 9 4 2R(2)

- An award to acquire up to 2,800,000 ordinary 1 pence shares which will normally vest on 15 November 2013 (being the third anniversary of Mr Cox s appointment) subject to continued employment and satisfaction of two performance criteria applying to separate parts of the award
  - 50% of the award will vest based on de-gearing targets and 50% of the award will vest dependent on the Company's equity value
  - These targets will be set shortly by the Committee upon completion of the Strategic Review and there will be a full description in next year s Annual Report
- In addition the Committee has the discretion to scale back the award if it is not satisfied that there has been an improvement in the underlying financial performance of the Company having regard to cashflow profit, net asset value, dividend and gearing Mr Cox will be entitled to the value of any dividends paid between the grant and the vesting dates, and
- An award over 1,520 000 shares which shall normally vest on an annual basis in three equal tranches subject to Mr Cox s continued employment and progress against the achievement of strategic key performance indicators over the three year period These require the stabilisation of the mining business, delivery of short, medium and long-term value in the property business, creation of appropriate levels of financial headroom, achievement of financial stability

with a de leveraged balance sheet and development of a long term strategy In addition there is a requirement to provide effective leadership to the Board and to develop a stable capable executive team headed by a Chief Executive to enable the reversion to a conventional governance structure

The awards have been structured as conditional share awards If Mr Cox leaves the Company as a good leaver or there is a change of control of the Company (other than an internal reorganisation) before the date when the awards would normally have vested, then vesting will be dependent on the achievement of the performance conditions and will be time pro-rated to reflect the reduced period of service prior to vesting To the extent the awards vest, awards are currently structured to be satisfied with existing shares (other than treasury shares) although a resolution will be proposed at the 2011 Annual General Meeting to seek authority to satisfy any awards which vest through new issue, rather than existing shares

The number of shares subject to the awards may be adjusted in the event of any variation of share capital or a special dividend The awards cannot be transferred or charged by Mr Cox The awards cannot be amended to the advantage of Mr Cox in relation to (i) who can acquire shares under the awards (ii) the basis for determining his entitlement to and the terms of the shares to be provided under the awards and (iii) any adjustment that may be made for any variation of share capital or special dividend without prior shareholder approval in general meeting except for minor amendments to benefit the administration of the awards to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment

The Remuneration Committee confirms that it is of the view that the package offered to the new Chairman is appropriate was necessary to recruit the individual reflects the nature of the role and the challenges presented by the Company's current position and that the Company is not paying any more than was necessary to facilitate his recruitment

Long Term Incentive Plan ('2010 LTIP')

Shareholders approved the 2010 LTIP at the 2010 Annual General Meeting to replace the long term incentive plan (LTIP) which expired in May 2010 Under the 2010 LTIP an annual award of up to 100% of base salary is conditionally allocated to each Executive Director (excluding the Chairman) Messrs Williams Brocksom and Michaelson were granted awards of 100% of salary in 2010 It is anticipated that grant levels in 2011 will be unchanged

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

Awards may be satisfied with newly issued shares or existing shares

Share Usage

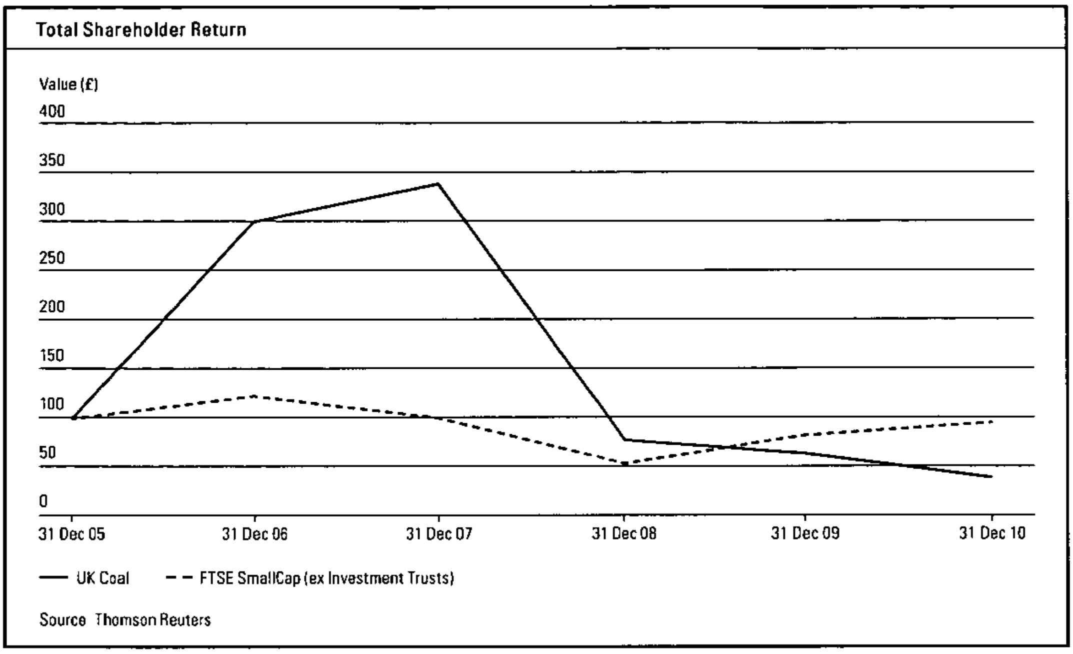
The 2010 LTIP contains limits which control the issuance of new shares to satisfy share awards This limit restricts the issue of new shares to an amount equivalent to no more than 5% of issued share capital over any ten year period As at 25 December 2010 the level of issuance of new shares was at 0 3% of the current issued share capital

Shareholding Guideline

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

Directors' Remuneration Report
continued

Performance Graph



The above graph displays the values, by the end of 2010 of £100 invested in the Company on 31 December 2005 compared with the value of £100 invested in the FTSE Small Cap Index (excluding investment trusts) The other points are the values at intervening financial year ends

Other Terms and Conditions of Service

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

In respect of Jonson Cox, employment will continue until terminated by the Company giving not less than twelve months written notice or by Mr Cox giving the Company not less than six months written notice David Brocksom's Gareth Williams and Owen Michaelson's contracts shall continue until either they or the Company terminate it by not less than 12 months' notice in writing

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

Non-Executive Directors

The Board aims to recruit non-executive directors of a high calibre with broad commercial and other relevant experience Non-executive directors are appointed for an initial three year period The terms of their engagement are set out in a letter of appointment The initial appointment and any subsequent re-appointment is subject to election or re-election by shareholders at the Annual General Meeting The letters of appointment contain three month notice periods

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

Non-executive directors are paid a basic fee of £40,000 per annum Additional fees of £6 000 per annum are payable for chairing a committee These fees will not be increased during 2011 Steven Underwood has waived his rights to receive a fee

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

Directors Service Contracts and Letters of Appointment

	Contract date	Unexpired term (as at December 2010)	Notice period
Chairman			
Jonson Cox	15 11 10	Rolling 1 year	1 year
Executive Directors			
David Brocksom	4 9 07	Rolling 1 year	1 year
Owen Michaelson	30 7 10	Rolling 1 year	1 year
Gareth Williams	15 2 10	Rolling 1 year	1 year
Non-Executive Directors			
Peter Hazell	19 8 09	1 year 9 months	3 months
Mike Toms	21 4 09	1 year 4 months	3 months
Steven Underwood	27 7 10	2 years 7 months	3 months
Kevin Whiteman (resigned 31 3 11)	27 5 10	2 years 5 months	3 months

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

Directors' Emoluments for the Year-Ended December 2010[6]

	Salary/fees £000	Allowances £000	Annual bonus £000	Benefits in kind £000	Compensation for loss of office £000	Total 2010 £000	Total 2009 £000
Chairman							
Jonson Cox[1] (appointed 15 11 10)	45	3	–	1	–	**49**	–
Executive Directors							
David Brocksom[3]	235	10	70	6	–	**321**	271
Owen Michaelson[2 3]	119	4	25	1	–	**149**	40
Gareth Williams[3 5] (appointed 15 2 10)	201	104	113	4	–	**422**	–
Jon Lloyd[4] (resigned 15 11 10)	344	18	–	5	435	**802**	436
Non-Executive Directors							
Peter Hazell	46	–	–	–	–	**46**	46
Mike Toms	46	–	–	–	–	**46**	46
Kevin Whiteman (resigned 31 3 11)	46	–	–	–	–	**46**	46
Steven Underwood (appointed 1 8 10)	–	–	–	–	–	–	–
David Jones (resigned 15 11 10)	131	–	–	–	38	**169**	150

[1] Jonson Cox receives a car allowance of £20 000 per annum which is included in allowances above

[2] Owen Michaelson was appointed an executive director with effect from 1 August 2010 prior to that he was a non-executive director throughout the year and the total above includes £23 333 as a non-executive fee

[3] David Brocksom Owen Michaelson and Gareth Williams each receive a car allowance of £10 000 per annum which is included in allowances above

[4] Jon Lloyd resigned as a director on 15 November 2010 and stayed with the Group until 30 November 2010 at which point his employment ceased to facilitate the handover process to Mr Cox He received his contractual entitlement to 12 months basic pay (£375 000) as compensation together with a further £60 000 compensation in respect of UK statutory employment rights

[5] Gareth Williams received a relocation payment of £95 000 which is included in allowances above

[6] Other than disclosed in points 1 and 3 above benefits in kind comprise car benefits life assurance and health insurance

Directors' Remuneration Report
continued

Pension Contributions*

Jonson Cox is entitled to receive a pension contribution at the rate of 10% of base salary The other executive directors are entitled to receive a pension contribution at the rate of 30% of base salary During the year Jon Lloyd and Owen Michaelson were members of the UK Coal money purchase pension scheme The money purchase scheme does not provide additional post-retirement benefits (including contingent death benefits) Pension contributions on behalf of executive directors were as follows

	Pension contributions 2010 £000	Pensions contributions 2009 £000
Jonson Cox[1] (appointed 15 11 10)	**5**	–
David Brocksom[2]	**70**	70
Owen Michaelson	**29**	–
Gareth Williams[1] (appointed 15 2 10)	**60**	–
Jon Lloyd (resigned 15 11 10)	**103**	113
	267	183

[1] This was paid as an allowance

[2] This was paid to Mr Brocksom s personal arrangements

Long Term Incentive Plan*

	Interest at Dec 2009[2] No of shares	**Interest awarded during the year[1] No of shares**	**Interest lapsed during the year No of shares**	**Interest at Dec 2010[2] No of shares**	**Vesting date**	**End of performance period**
Gareth Williams						
Executive LTIP 2010[5]	–	575 000	–	575,000	26 8 2013	Dec 2012
Total	**–**	**575,000**	**–**	**575,000**		
Owen Michaelson						
Executive LTIP 2010[5]	–	575 000	–	575,000	26 8 2013	Dec 2012
Total	**–**	**575,000**	**–**	**575,000**		
David Brocksom						
Executive LTIP 2008[3]	59,650	–	59 650	–	22 4 2011	Dec 2010
Executive LTIP 2009[4]	133 734	–	–	133 734	5 5 2012	Dec 2011
Executive LTIP 2010[5]	–	586 687	–	586 687	26 8 2013	Dec 2012
Total	**193,384**	**586,687**	**59,650**	**720,421**		
Jon Lloyd (resigned 15 11 10)						
Executive LTIP 2008[3]	95 319	–	95 319	–	22 4 2011	Dec 2010
Executive LTIP 2009[4]	213 703	–	77 171	136 532	5 5 2012	Dec 2011
Total	**309,022**	**–**	**172,490**	**136,532**		

[1] The share price at the date of the awards for Messrs Brocksom Michaelson and Williams on 26 August 2010 was 40 pence

[2] The exercise price of all outstanding awards is £nil As a result of new shares being issued by the Company in October 2009 (55 556 403 shares were issues by firm placing and 86 489 010 issued by placing and open offer at 75 pence each) all awards granted prior to this date were adjusted to take account of the placing and open offer element of the capital raising at the time they vest The adjustment is calculated by multiplying the original number of shares under each award by 1 154 which was determined in accordance with the theoretical ex entitlement price ('TEEP') formula

[3] The performance conditions for 2008 awards require absolute TSR growth of between 25% and 75% for between 30% and 100% of an award to vest (with straight line vesting between these points) In addition the Company must achieve EPS growth of at least RPI+3% p a over the performance period The TSR targets for 2008 have not been achieved and hence Messrs Lloyd s and Brocksom s awards have lapsed

[4] The performance conditions for 2009 awards require absolute TSR growth of between 75% and 150% for between 30% and 100% of an award to vest (with straight line vesting between these points) This requires the achievement of share price targets in the estimated range of £1 40 and £2 05 at the end of 2011 (averaged over the final two months of the year) In addition the Company must achieve EPS growth of at least RPI+3% p a over the performance period

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

Directors' Interests in Ordinary Shares*

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

	Beneficial interest in ordinary shares at Dec 2010	Beneficial interest in ordinary shares at Dec 2009
	No of shares	No of shares
Jonson Cox	**100,000**	–
David Brocksom	**28,675**	28 675
Peter Hazell	–	–
Owen Michaelson	**52,366**	40 084
Mike Toms	**6,200**	6 200
Kevin Whiteman	**15,500**	15 500
Steven Underwood	**1,652**	–
Gareth Williams	–	–

There have been no changes in directors interests in shares between the end of the year and 19 April 2011

The market value of the Company's shares during the year ranged from 32 75 pence to 81 75 pence (on an unadjusted basis) The market value on 25 December 2010 was 40 pence

External Appointments

The Remuneration Committee recognises the importance of allowing executive directors to take non-executive director roles elsewhere Mr Cox s business interests include a non-executive directorship of Wincanton PLC for which he received (and retained) fees of £6 000 in 2010 for the period from his date of appointment as Chairman to the end of the financial year Mr Brocksom a non-executive director of Helius Energy PLC received (and retained) fees of £36 000 in 2010 Mr Michaelson holds a non-executive directorship within the Peel Group and the Peel Group has confirmed that he receives no remuneration nor participates in any form of incentive arrangement which might benefit him currently or at any future time from his involvement with the Peel Group

This report has been approved by the Board for submission to shareholders at the 2011 Annual General Meeting and signed on behalf of the Board by Mike Toms

By order of the Board

Mike Toms
Chairman, Remuneration Committee

19 April 2011

Independent Auditors' Report to the Members of UK Coal PLC

We have audited the financial statements of UK Coal PLC for the year ended 25 December 2010 which comprise the Consolidated Income Statement the Group and Parent Company Balance Sheet, the Consolidated Statement of Comprehensive Income, the Group and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Shareholders' Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements as applied in accordance with the provisions of the Companies Act 2006

Respective Responsibilities of Directors and Auditors
As explained more fully in the Directors Responsibilities Statement set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

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

Scope of the Audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements

Opinion on Financial Statements
In our opinion

- the financial statements give a true and fair view of the state of the Group s and of the Parent Company s affairs as at 25 December 2010 and of the Group s loss and Group s and Parent Company's cash flows for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and as regards the Group financial statements Article 4 of the IAS Regulation

Emphasis of Matter – Going Concern
In forming our opinion on the financial statements which is not qualified, we have considered the adequacy of the disclosures given in note 1 to the financial statements concerning the ability of the Group and the Parent Company to continue as a going concern We note that the matters set out in note 1 to the financial statements indicate the existence of material uncertainties which may cast significant doubt over the ability of the Group and the Parent Company to continue as a going concern The financial statements do not include the adjustments that would result if the Group or the Parent Company were unable to continue as a going concern

Opinion on Other Matters Prescribed by the Companies Act 2006
In our opinion

- the part of the Directors Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review

- the Directors Statement, set out on pages 37 and 38 in relation to going concern,
- the parts of the Corporate Governance Statement relating to the Company s compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors remuneration

Steve Denison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

19 April 2011

Notes

(a) The maintenance and integrity of the UK Coal PLC website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction

Consolidated Income Statement
for the year ended 25 December 2010

Continuing operations	Note	Year ended 25 December 2010 £000	Year ended 26 December 2009 £000
Revenue	2	**351,179**	316 005
Cost of sales		**(383,937)**	(392 639)
Gross loss		**(32,758)**	(76 634)
Net decrease in fair value of investment properties		**(34,197)**	(25,704)
Loss on disposal of investment properties		**(550)**	(3)
Net loss on investment properties		**(34,747)**	(25 707)
Profit on sale of joint venture		**–**	6,534
Other operating income and expenses	4	**(19,890)**	(10 395)
Operating loss	2	**(87,395)**	(106 202)
Finance costs		**(37,643)**	(25,306)
Finance income		**275**	729
Net finance costs	6	**(37,368)**	(24,577)
Share of post-tax profit from joint ventures	14	**147**	1 719
Loss before tax	3	**(124,616)**	(129 060)
Tax (charge)/credit	8	**(479)**	1 513
Loss for the financial year		**(125,095)**	(127 547)
Attributable to			
Equity holders of the Company	26	**(125,095)**	(127,547)
Loss per share		**pence**	pence
Basic and diluted	11	**(41 8)**	(72 9)

Consolidated Statement of Comprehensive Income
for the year ended 25 December 2010

	Note	Year ended 25 December 2010 £000	Year ended 26 December 2009 £000
Loss for the financial year		**(125,095)**	(127 547)
Other comprehensive income			
Actuarial gain/(loss) on industry wide pension schemes	24	**49,651**	(118,239)
Actuarial gain/(loss) on Blenkinsopp pension scheme	24	**161**	(402)
Actuarial loss on concessionary fuel reserve	24	**(76)**	(4 110)
Rate change on deferred tax asset relating to retirement benefit liabilities	8	**(325)**	-
Amortisation of interest rate swaps recycled from reserves	22	**3,848**	3 134
Movement on deferred tax asset relating to cash flow hedges	8	**(1,357)**	(911)
Revaluation of property transferred from operating to investment properties	13	**1,223**	52
Total comprehensive loss for the financial year		**(71,970)**	(248 023)
Attributable to			
Equity holders of the Company		**(71,970)**	(248 023)

The notes on pages 58 to 97 are an integral part of the consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity

	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at January 2009		**1,572**	**30,756**	**301,524**	**(33,420)**	**300,432**
Loss for the financial year to December 2009		–	–	–	(127 547)	(127,547)
Other comprehensive income						
Actuarial losses on post retirement benefits	24	–	–	–	(122 751)	(122 751)
Fair value loss on revaluation of investment properties	13	–	–	(25 704)	25 704	–
Property revaluation on transfer to investment properties	13	–	–	52	–	52
Transfer of realised gain on disposed properties	27	–	–	(6 592)	6 592	–
Hedging reserve – amortised in period	22	–	–	3,134	–	3 134
Movement on deferred tax asset in relation to cash flow hedges	8	–	–	(911)	–	(911)
Total comprehensive loss for the period ended December 2009		–	–	(30 021)	(218 002)	(248,023)
Transactions with owners						
New shares issued	25	1,421	–	–	98 283	99 704
Accrual for long term incentive plan liabilities	25	–	–	–	676	676
		1 421	–	–	98,959	100,380
Balance at December 2009		**2,993**	**30,756**	**271,503**	**(152,463)**	**152,789**
Loss for the financial year to December 2010		–	–	–	(125 095)	(125 095)
Other comprehensive income						
Actuarial gains on post retirement benefits	24	–	–	–	49,736	49,736
Rate change on deferred tax asset relating to retirement benefit liability	8	–	–	–	(325)	(325)
Fair value loss on revaluation of investment properties	13	–	–	(34 197)	34,197	–
Property revaluation on transfer to investment properties	13	–	–	1,223	–	1 223
Transfer of realised gain on disposed properties	27	–	–	(11 892)	11 892	–
Hedging reserve – amortised in period	22	–	–	3,848	–	3,848
Movement on deferred tax asset in relation to cash flow hedges	8	–	–	(1 357)	–	(1,357)
Total comprehensive loss for the period ended December 2010		–	–	(42 375)	(29 595)	(71 970)
Transactions with owners						
Accrual for long term incentive plan liabilities	25	–	–	–	574	574
		–	–	–	574	574
Balance at December 2010		**2,993**	**30,756**	**229,128**	**(181,484)**	**81,393**

Retained earnings include a cumulative actuarial loss on the Group's retirement benefit obligations of £88 463 000 (2009 £138 199 000)

Company Statement of Changes in Shareholders' Equity

Company	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at January 2009		**1,572**	**30,756**	**257**	**239,562**	**272,147**
Loss for the financial year to December 2009		–	–	–	(6 240)	(6 240)
Transactions with owners						
New shares issued	25	1 421	–	–	98,283	99 704
Accrual for long term incentive plan liabilities	25	–	–	–	676	676
Balance at January 2010		**2,993**	**30,756**	**257**	**332,281**	**366,287**
Loss for the financial year to December 2010		–	–	–	(16 960)	(16,960)
Other comprehensive income						
Actuarial gains on post retirement benefits	24	–	–	–	161	161
Transactions with owners						
Accrual for long term incentive plan liabilities	25	–	–	–	574	574
Balance at December 2010		**2,993**	**30,756**	**257**	**316,056**	**350,062**

Balance Sheets
at 25 December 2010

	Note	Group As at 25 December 2010 £000	Group As at 26 December 2009 £000	Company As at 25 December 2010 £000	Company As at 26 December 2009 £000
ASSETS					
Non-current assets					
Operating property, plant and equipment	12	**237,153**	218,995	**–**	–
Surface mine development and restoration assets	12	**35,675**	22 607	**–**	–
		272,828	241 602	**–**	–
Investment properties	13	**314,237**	377 995	**–**	–
Investment in subsidiaries	14	**–**	–	**300,310**	300 310
Investment in joint ventures	14	**3,410**	3 263	**–**	–
Deferred tax asset	8	**34,474**	35 800	**–**	–
Other receivables	15	**3,136**	1 963	**–**	–
		628,085	660,623	**300,310**	300 310
Current assets					
Inventories	16	**50,334**	55 759	**–**	–
Trade and other receivables	17	**25,916**	24,676	**211,309**	201,847
Cash and cash equivalents	18	**24,901**	41,359	**384**	12 869
		101,151	121 794	**211,693**	214 716
Total assets		**729,236**	782 417	**512,003**	515 026
LIABILITIES					
Current liabilities					
Borrowings – bank loans overdrafts and finance leases	19	**(56,251)**	(10,728)	**–**	–
– generator loans and prepayments	19	**(26,428)**	(2 990)	**–**	–
Derivative financial instruments	22	**(1,145)**	(721)	**–**	–
Trade and other payables	20	**(110,557)**	(104 276)	**(161,089)**	(147 658)
Provisions	21	**(34,915)**	(38,556)	**–**	–
		(229,296)	(157 271)	**(161,089)**	(147,658)
Net current (liabilities)/assets		**(128,145)**	(35 477)	**50,604**	67 058
Non-current liabilities					
Borrowings – bank loans overdrafts and finance leases	19	**(85,361)**	(117 194)	**–**	–
– generator loans and prepayments	19	**(74,760)**	(64,619)	**–**	–
Derivative financial instruments	22	**(5,462)**	(6 062)	**–**	–
Trade and other payables	20	**(9,925)**	(76)	**–**	–
Deferred tax liabilities	8	**(1,265)**	(422)	**–**	–
Provisions	21	**(70,171)**	(63 151)	**–**	–
Retirement benefit obligations	24	**(171,603)**	(220 833)	**(852)**	(1 081)
		(418,547)	(472,357)	**(852)**	(1 081)
Total liabilities		**(647,843)**	(629 628)	**(161,941)**	(148,739)
Net assets		**81,393**	152 789	**350,062**	366 287
SHAREHOLDERS' EQUITY					
Capital and reserves					
Called up share capital	25	**2,993**	2,993	**2,993**	2,993
Share premium		**30,756**	30 756	**30,756**	30 756
Revaluation reserve	27	**129,420**	127 497	**–**	–
Capital redemption reserve	27	**257**	257	**257**	257
Fair value reserve	27	**99,713**	146 502	**–**	–
Hedging reserve	27	**(262)**	(2 753)	**–**	–
Retained (loss)/earnings	26	**(181,484)**	(152 463)	**316,056**	332,281
Total shareholders' equity		**81,393**	152 789	**350,062**	366,287

The financial statements on pages 54 to 97 were approved by the Board of Directors on 19 April 2011 and were signed on its behalf by

J Cox Executive Chairman

D G Brocksom Finance Director

Company Registered Number 2649340

Statements of Cash Flows

for the year ended 25 December 2010

	Note	**Group Year ended 25 December 2010 £000**	Group Year ended 26 December 2009 £000	**Company Year ended 25 December 2010 £000**	Company Year ended 26 December 2009 £000
Cash flows from operating activities					
Loss for the financial year	2	**(125,095)**	(127 547)	**(16,960)**	(6 240)
Depreciation/impairment of property plant and equipment	12	**35,187**	32,864	–	–
Amortisation of surface mine development and restoration assets	12	**14,033**	9,961	–	–
Net fair value decrease in investment properties	13	**34,197**	25,704	–	–
Net interest payable/(receivable) and unwinding of discount on provisions	6	**37,368**	24 577	**(1,303)**	5 400
Net charge for share-based remuneration		**574**	676	**574**	676
Share of post-tax profit from joint ventures		**(147)**	(1,719)	–	–
Profit on sale of joint venture		–	(6 534)	–	–
Loss on disposal of investment properties		**550**	3	–	–
Profit on disposal of operating property plant and equipment		**(243)**	(172)	–	–
(Decrease)/increase in capitalised surface mine restoration assets		**(19,493)**	1 456	–	–
Increase/(decrease) in provisions		**549**	(23,753)	**(68)**	1 081
Tax charge/(credit)	8	**479**	(1 513)	**(1,438)**	452
Operating cash (outflows)/inflows before movements in working capital		**(22,041)**	(65 997)	**(19,195)**	1 369
Decrease/(increase) in stocks		**5,425**	(9,007)	–	–
(Increase)/decrease in receivables		**(724)**	14 879	**(9,344)**	(46 384)
(Decrease)/increase in payables		**(5,816)**	692	**14,768**	(74 793)
Cash used in operations		**(23,156)**	(59 433)	**(13,771)**	(119 808)
Loan arrangement fees paid		**(1,195)**	(4 155)	**(159)**	–
Consortium relief received		**538**	–	–	–
Interest (paid)/received		**(11,236)**	(13 406)	**1,445**	(7,709)
Cash used in operating activities		**(35,049)**	(76 994)	**(12,485)**	(127 517)
Cash flows from investing activities					
Interest received		**275**	729	–	–
Net receipt from insurance and subsidence security funds		**3,298**	994	–	–
Net proceeds from sale of joint venture		–	8 726	–	–
Proceeds on disposal of investment properties		**22,297**	8 483	–	–
Proceeds on disposal of operating property plant and equipment		**703**	400	–	–
Net investment in joint ventures		–	(208)	–	–
Development costs of investment properties		**(2,105)**	(8 064)	–	–
Pre-coaling expenditure for surface mines and deferred stripping costs		**(8,404)**	(5,545)	–	–
Purchase of operating property, plant and equipment		**(26,789)**	(53 233)	–	–
Cash used in investing activities		**(10,725)**	(47 718)	–	–
Cash flows from financing activities					
Proceeds from issue of ordinary shares		–	99 704	–	99 704
Net proceeds from/(repayment of) bank loans		**12,348**	(59,278)	–	–
Net proceeds from generator loans and prepayments		**25,831**	63 609	–	–
Repayments of obligations under hire purchase and finance leases		**(5,565)**	(8,072)	–	–
Cash generated from financing activities		**32,614**	95 963	–	99,704
Decrease in cash		**(13,160)**	(28 749)	**(12,485)**	(27,813)
At January					
Cash		**13,587**	42,336	**12,869**	40 682
Cash equivalents		**27,772**	28 766	–	–
		41,359	71 102	**12,869**	40 682
Decrease in cash equivalents (net receipt from insurance and subsidence security funds)		**(3,298)**	(994)	–	–
Decrease in cash		**(13,160)**	(28 749)	**(12,485)**	(27 813)
		24,901	41 359	**384**	12 869
At December					
Cash		**427**	13 587	**384**	12 869
Cash equivalents		**24,474**	27,772	–	–
Cash and cash equivalents	18	**24,901**	41 359	**384**	12 869

Notes to the Financial Statements

for the year ended 25 December 2010

1 Accounting Policies

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

Basis of preparation

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

The preparation of consolidated financial statements in conformity with IFRSs requires certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Group's accounting policies The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on pages 67 and 68

Trading accounts within the Group are made up to the last Saturday in December each year For 2010 trading is shown for the year ended on 25 December 2010 (2009 year ended 26 December 2009)

Going concern

These financial statements are prepared on the basis that the Group is a going concern In forming its opinion as to going concern, the Board prepares cash flow forecasts based upon its assumptions as to trading with particular consideration to production levels and key risks and uncertainties as summarised on pages 29 and 30 as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed in the Directors Report on page 36

The key factors that have been considered in this regard 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 material adverse impact on cash flow Recent performance has been illustrative of the difficulties inherent in deep mining operations and, in particular the impact of unpredictable geological conditions and/or other operational issues on production volumes from our deep mines In particular, development and face installation progress needs to be sufficiently advanced to enable new faces to be operational on the exhaustion of old faces, as highlighted at Daw Mill in 2010
- 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 and
- 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 very volatile and therefore there is a risk of unpredictability in coal revenues and cash flows

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

Changes in accounting policy and disclosures

(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 2010

- IFRS 3 (revised), Business combinations , and consequential amendments to IAS 27, Consolidated and separate financial statements' IAS 28 'Investments in associates' and IAS 31 'Interests in joint ventures are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3 For example all payments to purchase a business are recorded at fair value at the acquisition date with contingent payments classified as debt subsequently re-measured through the consolidated income statement There is a choice on an acquisition-by-acquisition basis to measure the non controlling interest in the acquiree either at fair value or at the non-controlling interest s proportionate share of the acquiree's net assets All acquisition related costs are expensed There has been no impact of IFRS 3 (revised) on the current year

  As the Group has adopted IFRS 3 (revised) it is required to adopt IAS 27 (revised) at the same time IAS 27 (revised) requires the effects of all transactions with non controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses There has been no impact of IAS 27 (revised) on the current year

1 Accounting Policies continued

Changes in accounting policy and disclosures continued

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- IFRIC 9 Reassessment of embedded derivatives and IAS 39 Financial instruments Recognition and measurement effective 1 July 2009 is not currently applicable as the Group does not have any embedded derivatives
- IFRIC 16, Hedges of a net investment in a foreign operation', effective 1 July 2009 is not currently applicable as the Group does not have any foreign investments
- IFRIC 17 Distributions of non-cash assets to owners' effective for annual periods beginning on or after 1 July 2009 This is not currently applicable to the Group as it has not made any non-cash distributions
- IFRIC 18 'Transfers of assets from customers effective for transfer of assets received on or after 1 July 2009 This is not relevant to the Group, as it has not received any assets from customers
- IAS 1 (amendment) 'Presentation of financial statements this is not relevant to the Group as it has not settled a liability by the issue of equity
- IAS 36 (amendment) Impairment of assets' effective 1 January 2010 and is not relevant to the Group as it does not have goodwill to be allocated for the purpose of impairment testing
- IFRS 2 (amendments), Group cash-settled share-based payments transactions' effective from 1 January 2010 This is currently not relevant to the Group
- IFRS 5 (amendment) 'Non-current assets held for sale and discontinued operations this is currently not relevant to the Group

(c) New standards amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 not early adopted

- 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 2013 but is available for early adoption The Group is yet to assess IFRS 9 s full impact or determine its date of adoption
- Revised IAS 24 Related party disclosures, issued in November 2009 It supersedes IAS 24, Related party disclosures, issued in 2003 The revised IAS 24 is required to be applied from 1 January 2011 Earlier application in whole or in part is permitted The Group will apply the revised IAS 24 from 1 January 2011
- Classification of rights issues (Amendment to IAS 32) issued in October 2009 The amendment should be applied for annual periods beginning on or after 1 February 2010 Earlier application is permitted This is not currently relevant to the Group
- 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 14 was issued and the amendments correct the problem The amendments are effective for annual periods beginning 1 January 2011 Earlier application is permitted The amendments should be applied retrospectively to the earliest comparative period presented The Group will apply this from 1 January 2011 but the impact of adoption is not expected to be significant
- IFRIC 19 Extinguishing financial liabilities with equity instruments' This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity s shares or other equity instruments to settle the financial liability fully or partially The interpretation is effective for annual periods beginning on or after 1 July 2010 Earlier application is permitted This is not currently relevant to the Group

Consolidation

The consolidated financial statements incorporate the financial statements of UK Coal PLC (the Company) and its subsidiaries (together 'the Group)

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

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

Notes to the Financial Statements
for the year ended 25 December 2010 continued

1 Accounting Policies continued

Consolidation continued

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

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group s interest in the joint venture Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Committee as detailed in note 2

The performance of the operating segments is assessed on a measure of operating profit/loss This measurement basis excludes the effect of non-trading exceptional items and finance costs and income which are not included in the results of the operating businesses Total assets for the segments exclude deferred tax and cash and cash equivalents (unrestricted) as these are managed centrally Cash and cash equivalents that are subject to restriction have been included within the appropriate segment along with the related provisions

The Group manages its business primarily by reference to operating segments and this approach is adopted in the accounting policies as the primary segment Deep mining comprises the underground mining operations of the Group and related labour services the methane generation operations and the captive insurance company Surface mining incorporates all mining activities at surface level together with the plant hire operations of the Group The Property Division Harworth Estates maintains develops and rents the Group s property portfolio Any activity not falling into any of these categories is included in the Other segment

Investments

Investments held by the Company in subsidiary undertakings are carried at cost less impairments to write them down to their recoverable amount

Foreign currencies

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

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

Revenue

Revenue comprises sales (excluding intra group sales) of coal property rental income and other external sales, including sales of power

Coal transactions

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

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

Service transactions

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

Exceptional items

Items that are both material and non-recurring and whose significance is sufficient to warrant separate disclosure and identification within the consolidated financial statements are referred to as exceptional items and disclosed within their relevant income statement category within note 2 segmental reporting Items that may give rise to classification as exceptional items include but are not limited to significant and material restructuring closures and reorganisation programmes, asset impairments and profits or losses on the disposal of businesses

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

1 Accounting Policies continued

Exceptional items continued

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

Coal Investment Aid

Coal Investment Aid is received as a contribution towards qualifying expenditure, as defined by the Department of Business, Enterprise and Regulatory Reform (DBERR) incurred by the Group If the expenditure has been charged in the consolidated income statement then the related investment aid is credited to the consolidated income statement in the same period Where the investment aid relates to the purchase of property, plant and equipment, the investment aid is held on the consolidated balance sheet as deferred income and is credited to the consolidated income statement over the lives of the assets to which it relates

Profit or loss on disposal

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

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

Investment properties and operating properties

The Group holds the following types of freehold property

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

Working deep mines in production, working surface mines in production and property held for administrative purposes are held as operating properties (as these assets are used or intended to be used within the operations of the Group) and are accounted for at historic depreciated cost in accordance with IAS 16 Property plant and equipment

All other freehold properties are held as investment properties (as these are held to earn rentals or for capital appreciation or both) and are accounted for at valuation and in accordance with IAS 40 Investment property

Investment properties

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

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

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

Where the development of investment property commences with a view to sale the property is transferred from investment properties to inventories at fair value, which is then considered to represent deemed cost

Operating properties

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

Notes to the Financial Statements
for the year ended 25 December 2010 continued

1 Accounting Policies continued

Operating properties continued

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

Properties in the course of development

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

Exploration and evaluation

Exploration and evaluation expenditure comprises costs that are directly attributable to

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

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

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

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

Plant and equipment

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

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

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

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

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within other operating income and expense in the consolidated income statement When revalued assets are sold amounts included in other reserves are transferred to retained earnings

Mining assets

Mine development

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

Mines and surface works

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

1 Accounting Policies continued

Mining assets continued

Seismic and geological mapping costs

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

Surface mine development and restoration assets

Costs incurred prior to coaling for surface mines are capitalised as surface mine development and restoration assets within operating property plant and equipment and a separate provision for the outstanding restoration and rehabilitation obligations is established Both of these costs are then charged to the consolidated income statement (net of any residual value) over the recoverable reserves of the mine Expenditure on sites not expected to be worked within ten years is written off

Deferred stripping costs

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

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

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

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

Depreciation

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

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

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

Impairment

Operating property plant and equipment are reviewed for impairment if there is any indication that their carrying amount may not be recoverable

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

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

Future cash flows are based on

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

Notes to the Financial Statements

for the year ended 25 December 2010 continued

1 Accounting Policies continued

Impairment continued

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

Finance and operating leases – as lessee

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

Finance and operating leases – as lessor

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

Financial instruments and derivatives

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

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

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

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

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

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

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

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

Borrowing costs

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

1 Accounting Policies continued

Inventories

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

Trade receivables

Trade receivables are recognised initially at fair value and are subsequently held at amortised cost using the effective interest method less any provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor s insolvency default in payment or a significant deterioration in credit worthiness Any impairment is recognised in the income statement within other operating income and expenses When a trade receivable is uncollectable, it is written off against the allowance account

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

Trade payables

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

Property clawback

Under the terms of the 1994 privatisation Sale and Purchase Agreement DBERR is entitled to a percentage of any property gain (above certain thresholds and after deducting an amount representing corporation tax thereon) accruing, or treated as accruing to the Group as a result of the disposal or deemed disposal or major development of certain properties acquired at privatisation The percentage applied is 24% for 2010, reducing by 3 percentage points per annum until 31 March 2015, when it reduces to zero If properties are disposed of or are deemed to have been disposed of during this period, a part of the relevant gain will become payable to DBERR A liability for clawback in respect of property disposals is recognised only when an actual or deemed disposal occurs A liability for clawback on a deemed disposal as a result of granting a lease is recognised over the life of the lease

Cash and cash equivalents

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

Provisions for restoration, rehabilitation and environmental costs

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

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

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

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

Other provisions

Surface damage (subsidence)

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

Employer and public liability claims

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

Notes to the Financial Statements
for the year ended 25 December 2010 continued

1 Accounting Policies continued

Other provisions continued

Redundancy

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

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

Employee benefits

Pension obligations

The Group operates pension schemes providing benefits based on final pensionable pay for employees who joined the Group on privatisation in 1994 Employees within defined benefit schemes are members of industry wide schemes being either the Industry Wide Coal Staff Superannuation Scheme (IWCSSS) or the Industry Wide Mineworkers Pension Scheme ('IWMPS), both of which commenced on privatisation following the Coal Industry Act 1994 The assets of the Schemes are held separately from those of the Group being funds administered by Trustees of the Schemes A qualified actuary assesses the cost of current service and revalues the schemes annually under the provisions of IAS 19 Employee benefits using the Projected Unit Credit Method A full valuation for funding purposes is carried out by the Schemes actuaries triennially The Group accounts for pensions and similar benefits under IAS 19 In respect of defined benefit plans, obligations are measured at discounted present value and plan assets are recorded at fair value Service costs are charged systematically over the service lives of employees and financing costs are recognised in the periods in which they arise Actuarial gains and losses are recognised in the Consolidated Statement of Comprehensive Income Funding for the pension scheme is determined triennially by the scheme's actuary on assumptions that differ from those employed under IAS 19

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

Concessionary fuel

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

Share-based payments

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

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

Tax

Current tax

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

1 Accounting Policies continued

Tax continued

Deferred tax

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

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

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

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

Share capital

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

Dividend distribution

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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

Areas of judgement and sources of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements are

Estimation of future production levels

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

Review of asset carrying values and impairment charges

The Group performs impairment testing in accordance with the accounting policy stated on pages 63 and 64 The calculation of recoverable amount requires the use of estimates and assumptions consistent with the most recent budgets and plans that have been formally approved by management Significant factors considered when using estimates to assess the carrying value of assets include future coal prices expected annual production, expected colliery operating costs remaining colliery lives and coal reserves and discount rates Refer to note 12 for the key assumptions used in the calculations

Estimation of colliery asset lives

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

If the amount of coal expected to be extracted varies, this will impact on the amount of the asset which should be carried in the consolidated balance sheet See accounting policy stated on page 62

Notes to the Financial Statements
for the year ended 25 December 2010 continued

1 Accounting Policies continued

Judgements in applying accounting policies and key sources of estimation uncertainty continued

Determination of coal reserve estimates

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

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

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

Deferral of stripping costs

See accounting policy on page 63

Capitalisation of exploration and evaluation costs

See accounting policy on page 62

Estimation of fair value of investment property

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

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

Estimation of post retirement benefit obligations

Retirement benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets Retirement benefit accounting is intended to reflect the recognition of future benefit costs over the employee s approximate service period based on the terms of the plans and the investment and funding decisions made by the Group These are subject to actuarial estimates of amongst other items, rate of return on investments rate of salary increases rate of price inflation the cost of funding future liabilities and post retirement life expectancy Details of the significant estimates used are set out in note 24

Estimation of other provisions (including clawback liabilities)

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

Estimation of close down and restoration costs

Estimated provisions are established in the consolidated balance sheet and amortised in proportion to the coal expected to be extracted from a site If that expected tonnage or the actual cost varies then the provision may be under or over stated Estimates for environmental restoration provisions are based on the nature and seriousness of the contamination as well as on the technology required for clean up The provisions are disclosed in note 21

Recoverability of deferred tax assets

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

2 Segmental Reporting

In accordance with IFRS 8 Operating segments', the chief operating decision-maker has been identified as the Executive Management Committee, as detailed below which manages and co-ordinates all strategic and key operational issues As at 25 December 2010 the Executive Management Committee consisted of the following individuals

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

The Committee considers that the Group's operating segments comprise the following

Deep mining

The Group had three operating deep mines in 2010 (2009 four) located in central and northern England The Group has estimated total reserves and resources of approximately 100 million tonnes The closed/sold deep mines consist of the closed Welbeck and mothballed Harworth collieries The Group generates electricity from mines methane at both operating and closed sites

Surface mining

The Group had six active coaling surface mines (2009 four) and planning committee approval or consent to mine one further site Planning consent in respect of surface mine reserves of 10 million tonnes has either already been granted or application submitted

Property

The Group had a portfolio of approximately 37,900 acres (2009 43,500 acres) consisting of agricultural and undeveloped land and business parks Certain land has been identified as potentially suitable for wind farms and this opportunity is being pursued

Other

This includes any operations not controlled by the mining or property businesses and unallocated central activities which do not represent a separate reportable segment in accordance with IFRS 8

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

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

Revenue

Revenue from operations arises from	**Year ended December 2010 £000**	Year ended December 2009 £000
Sale of goods	**345,434**	309 528
Rendering of services	**19**	660
Rental income	**5,726**	5 817
	351,179	316 005

Revenues of approximately £313 000,000 (2009 £276 000,000) are derived from four (2009 three) external customers These revenues are attributable to the deep and surface mining segments

Notes to the Financial Statements

for the year ended 25 December 2010 continued

2 Segmental Reporting continued

Year ended December 2010	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue – gross	252 878	26 841	279 719	74 026	6 602	6	360,353
Revenue – intra Group	(398)	–	(398)	(7,935)	(841)	–	(9,174)
Revenue – external	252 480	26 841	279 321	66 091	5 761	6	351,179
Operating (loss)/profit before non-trading exceptional items and net decrease in fair value of investment properties	(42,908)	1,291	(41,617)	382	1,076	47	(40,112)
Net decrease in fair value of investment properties	–	–	–	–	(34 197)	–	(34,197)
Operating (loss)/profit before non-trading exceptional items	(42,908)	1,291	(41,617)	382	(33,121)	47	(74,309)
Non-trading exceptional items							
Rationalisation closure and other costs	(3 810)	(1 721)	(5 531)	(293)	(17)	(7 245)	(13,086)
Operating (loss)/profit after non-trading exceptional items	(46,718)	(430)	(47,148)	89	(33,138)	(7,198)	(87,395)
Finance costs							(27,696)
Exceptional finance costs							(9,947)
Finance income							275
Net finance costs							(37,368)
Share of post-tax profit from joint ventures – property							147
Loss before tax							(124,616)
Tax charge							(479)
Loss for the year							(125,095)

Other segmental items							
Capital expenditure	43 929	–	43 929	105	2 270	457	46,761
Depreciation and impairment	32 695	288	32 983	1 977	162	65	35,187
Surface mine development costs and restoration assets capitalised	–	–	–	27,897	–	–	27,897
Amortisation of surface mine development and restoration assets	–	–	–	14 033	–	–	14,033
Provisions – non-cash charge	(2 111)	4 501	2 390	22 286	17	–	24,693

* Closed deep mines includes income and expenditure arising at the Welbeck and Harworth collieries In 2010 Welbeck colliery was reclassified from ongoing deep mines to closed deep mines

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

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

Non-trading exceptional items

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

Exceptional finance costs

Following the Group s refinancing in April 2010 previously capitalised issue costs of bank loans of £2 743 000 were written off and the additional arrangement fees incurred on the replacement facilities which totalled £4 998 000 were expensed Furthermore, the fair values of the related interest rate swaps which had previously been hedge accounted totalling £2 206 000 were recycled from reserves to the income statement in line with the relevant accountant standards All of these costs have been treated as exceptional finance costs (see note 6)

2 Segmental Reporting continued

Year ended December 2009	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue – gross	197 157	53 409	250 566	67 842	6 690	1	**325,099**
Revenue – intra Group	(368)	–	(368)	(7 870)	(856)	–	**(9,094)**
Revenue – external	196 789	53 409	250 198	59 972	5 834	1	**316,005**
Operating (loss)/profit before non-trading exceptional items and net decrease in fair value of investment properties	**(65,353)**	**(5,133)**	**(70,486)**	**1,853**	**1,229**	**(24)**	**(67,428)**
Net decrease in fair value of investment properties	–	–	–	–	(25 704)	–	**(25,704)**
Operating (loss)/profit before non-trading exceptional items	**(65,353)**	**(5,133)**	**(70,486)**	**1,853**	**(24,475)**	**(24)**	**(93,132)**
Non-trading exceptional items							
– Profit on sale of joint venture	–	–	–	–	–	6 534	**6,534**
– Rationalisation closure and other costs	(5 052)	(13,890)	(18 942)	(355)	–	(307)	**(19,604)**
Operating (loss)/profit after non-trading exceptional items	**(70,405)**	**(19,023)**	**(89,428)**	**1,498**	**(24,475)**	**6,203**	**(106,202)**
Finance costs							**(25,306)**
Finance income							**729**
Net finance costs							**(24,577)**
Share of post-tax profit from joint ventures – property							**1,331**
– Coal4Energy							**388**
Loss before tax							**(129,060)**
Tax credit							**1,513**
Loss for the year							**(127,547)**

Other segmental items	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Capital expenditure	69 843	–	69 843	264	8 272	132	**78,511**
Depreciation	29 677	–	29 677	2 330	163	65	**32,235**
Surface mine development costs and restoration assets capitalised	–	–	–	5 686	–	–	**5,686**
Amortisation of surface mine development and restoration assets	–	–	–	9 961	–	–	**9,961**
Provisions – non-cash charge	13 222	–	13 222	(771)	–	20	**12,471**

* Closed deep mines includes income and expenditure arising at the Welbeck and Harworth collieries In 2010 Welbeck colliery was reclassified from ongoing deep mines to closed deep mines and accordingly the comparative information has been restated to reflect this change

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

Property operating loss includes the net decrease in fair value of properties of £25 704 000 and loss on disposal of investment properties of £3 000

Non-trading exceptional items

Rationalisation, closure and other costs are predominantly associated with the deep mines segment and consist of costs and income arising as a result of the closure of the Welbeck colliery of £10 456 000 (representing redundancy costs of £10 294 000 impairment of stores equipment of £3 487 000 and impairment of fixed assets of £629,000 offset by a pension curtailment of £3 954,000) the estimated cost of fines as a result of HSE investigations into recent deep mine incidents of £5,000 000 care, maintenance and exploration costs of £3 486 000 for the Harworth colliery and other redundancy costs of £662 000

All non-trading exceptional items are included in cost of sales with the exception of the estimated cost of fines which are within other operating expenses

Notes to the Financial Statements

for the year ended 25 December 2010 continued

2 Segmental Reporting continued

Total assets **at December 2010**	**Ongoing deep mines £000**	**Closed deep mines* £000**	**Deep mining £000**	**Surface mining £000**	**Property £000**	**Other† £000**	**Total £000**
Segment assets	292 483	203	292 686	59 766	337 629	844	690 925
Investment in joint ventures	–	–	–	–	3 410	–	3 410
Total segment assets	**292,483**	**203**	**292,686**	**59,766**	**341,039**	**844**	**694,335**
Cash and cash equivalents (unrestricted)							427
Deferred tax asset							34 474
Total assets per balance sheet							**729,236**

Total assets **at December 2009**	**Ongoing deep mines £000**	**Closed deep mines* £000**	**Deep mining £000**	**Surface mining £000**	**Property £000**	**Other† £000**	**Total £000**
Segment assets	292 536	145	292 681	46 134	390 401	551	729 767
Investment in joint ventures	–	–	–	–	3 263	–	3 263
Total segment assets	**292,536**	**145**	**292,681**	**46,134**	**393,664**	**551**	**733,030**
Cash and cash equivalents (unrestricted)							13 587
Deferred tax asset							35 800
Total assets per balance sheet							**782,417**

* Closed deep mines includes the assets of Welbeck and Harworth collieries In 2010 Welbeck colliery was reclassified from ongoing deep mines to closed deep mines and accordingly the comparative information has been restated to reflect this change

† 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

Cash and cash equivalents that are subject to restriction have been included within the appropriate segment, along with the related provisions

3 Loss Before Tax

	Note	**Year ended December 2010 £000**	Year ended December 2009 £000
Loss before tax is stated after (charging)/crediting			
Depreciation of property, plant and equipment – owned assets	12	**(29,914)**	(27 069)
Depreciation of property plant and equipment – under finance leases	12	**(5,050)**	(5 166)
Amortisation of surface mine development restoration and closure assets	12	**(14,033)**	(9 961)
Impairment of operating plant and equipment	12	**(223)**	(629)
Coal Investment Aid	32	**1,011**	2 867
Loss on disposal of investment properties		**(550)**	(3)
Profit on disposal of operating property plant and equipment		**243**	172
Repairs and maintenance for deep and surface mining		**(53,531)**	(73 967)
Staff costs	5	**(176,254)**	(182 176)
Spares and consumables used		**(34,217)**	(45 338)
Operating expense for rental investment property		**(1,842)**	(2 000)
Operating lease payments		**(192)**	(314)

Depreciation and impairment of operating, plant and equipment are recognised within cost of sales on the consolidated income statement

4 Other Operating Income and Expenses

	Year ended December 2010 £000	Year ended December 2009 £000
Administrative expenses	**(23,191)**	(14 241)
Other operating income	**3,301**	3,846
Other operating income and expenses	**(19,890)**	(10 395)

Due to the nature of the Group s business, distribution expenses are treated as part of cost of sales Other operating income includes Coal Investment Aid of £1,011,000 (2009 £2,867 000) as disclosed in note 32

5 Employee Information

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

	Group		Company	
	Year ended December 2010 Number	Year ended December 2009 Number	Year ended December 2010 Number	Year ended December 2009 Number
Deep mining	**2,247**	2 443	–	–
Surface mining	**538**	575	–	–
Property	**19**	20	–	–
Other	**73**	74	**8**	7
	2,877	3 112	**8**	7

Total staff costs for the Group were

	Group		Company	
Staff costs (including the Board of Directors)	Year ended December 2010 £000	Year ended December 2009 £000	Year ended December 2010 £000	Year ended December 2009 £000
Wages and salaries	**142,956**	151 434	**2,488**	1 009
Social security costs	**14,252**	15 312	**184**	120
Pension and post retirement benefit costs	**18,472**	14 754	**245**	183
Share-based payments	**574**	676	**574**	676
	176,254	182 176	**3,491**	1 988

Wage and salary costs in 2010 include the benefit of pension curtailment gains of £1,050,000 (2009 £3 954 000) as disclosed within notes 2 and 24

Key management compensation

	Year ended December 2010 £000	Year ended December 2009 £000
Salaries and short-term employee benefits	**1,514**	1 441
Post employment benefits	**297**	279
Termination benefits	**435**	216
	2,246	1 936

The compensation details above are for members of the Executive Management Committee during the year Current members of the Executive Management Committee are given on page 69

Directors' remuneration and interests

Detailed information relating to directors remuneration including details for the highest paid director and their interests in share options is indicated by * on pages 49 and 50 and forms part of these financial statements

Notes to the Financial Statements
for the year ended 25 December 2010 continued

6 Finance Costs and Finance Income

	Year ended December 2010 £000	Year ended December 2009 £000
Finance costs		
– Bank borrowings	**(11,594)**	(12 569)
– Hire purchase agreements and finance leases	**(1,237)**	(998)
– Unwinding of discount on provisions	**(3,336)**	(3 626)
– Amortisation of the issue costs of bank loans	**(1,446)**	(2 697)
– Generator loans and prepayments	**(8,618)**	(4 000)
Gains on interest rate swaps not eligible for hedge accounting	**177**	1 714
Amortisation of interest rate swaps recycled from reserves	**(1,642)**	(3 130)
Finance costs	**(27,696)**	(25,306)
Arrangement fees related to refinancing	**(4,998)**	–
Write off of previously capitalised issue costs of bank loans	**(2,743)**	–
Fair value of interest rate swaps recycled from reserves	**(2,206)**	–
Exceptional finance costs	**(9,947)**	–
Finance income	**275**	729
Net finance costs	**(37,368)**	(24 577)

7 Auditors Remuneration

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

	Year ended December 2010 £000	Year ended December 2009 £000
Audit services		
– Fees payable to the Company auditors for the audit of the parent Company and the consolidated accounts	**75**	75
– The audit of the Company s subsidiaries pursuant to legislation	**230**	240
Non audit services		
– Other services pursuant to legislation	**50**	50
– Tax advisory and compliance services	**–**	38
– Other services	**80**	288
	435	691

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

8 Tax

Analysis of tax charge/(credit) in the year		Year ended December 2010 £000	Year ended December 2009 £000
Corporation tax	– current year	–	–
	– prior year	(8)	(530)
Deferred tax	– current year	(403)	(398)
	– prior year	890	(585)
Tax charge/(credit)		479	(1 513)

The tax for the year is different to the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	Year ended December 2010 £000	Year ended December 2009 £000
Loss before tax	(124,616)	(129 060)
Loss before tax multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(34,892)	(36 137)
Effects of		
Expenses not deducted and income not chargeable for tax purposes	9,502	5 815
Deferred tax not recognised	24,081	29 924
Rate change on opening deferred tax asset	906	–
Prior year deferred tax movement	890	(585)
Prior year consortium relief adjustment	(8)	(530)
Total tax charge/(credit)	479	(1 513)

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27% (2009 28%) In the 2011 Budget a 2% reduction in the new main rate of corporation tax was announced which will be in force from 1 April 2011 with further reductions to the main rate proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 However, these changes had not been substantively enacted at the balance sheet date and, therefore are not included in these financial statements

Deferred tax assets and liabilities are offset when there is a legally enforced right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority The Group s deferred tax liability in respect of fixed assets can all be offset in this way apart from the liability of £1,265,000 (2009 £422 000) in respect of revaluation gains on investment properties expected to be recovered through future use

	As at December 2010 £000	As at December 2009 £000
Deferred tax asset – to be recovered after more than 12 months	34,474	35 800
Deferred tax liability – to be recovered after more than 12 months	(1,265)	(422)
Net deferred tax asset	33,209	35 378

The movement on the net deferred tax asset is shown below

	Year ended December 2010 £000	Year ended December 2009 £000
At the beginning of the year	35,378	35 306
Amounts (charged)/credited to the consolidated income statement	(487)	983
Amounts charged to consolidated statement of comprehensive income	(1,682)	(911)
At the end of the year	33,209	35 378

Notes to the Financial Statements
for the year ended 25 December 2010 continued

8 Tax continued

Deferred tax continued

A deferred tax asset of £34 474 000 (2009 £35,800,000) has been recognised to the extent that it is expected to be recovered based on forecasts of future taxable profits Further deferred tax assets have not been recognised owing to the uncertainty as to their recoverability If these deferred tax assets were recognised, the total asset would be £185,006,000 (2009 £179 896 000) as set out below

	As at December 2010 Total amount recognised £000	**As at December 2010 Total potential asset £000**	As at December 2009 Total amount recognised £000	As at December 2009 Total potential asset £000
Fixed asset timing differences	**(1,265)**	**42,655**	(422)	36 144
Other timing differences	**–**	**9,994**	–	10 335
Trading losses	**23,915**	**84,240**	24 800	69 684
Retirement benefit liabilities	**8,775**	**46,333**	9 100	61 833
Cash flow hedges	**1,784**	**1,784**	1 900	1 900
Net deferred tax asset	**33,209**	**185,006**	35,378	179 896

The fixed asset timing difference recognised relates to the deferred tax liability arising from the directors estimate of the proportion of revaluation gains on investment properties which will be recovered through use No tax liability has been recognised in relation to the balance of the gain which is expected to be realised through sale, due to the fact that the Group has unrecognised capital losses brought forward of £379,000 000 (2009 £387 000 000)

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

	2010 £000	2009 £000
Movement on deferred tax asset relating to retirement benefit liabilities in the period	**(325)**	–
Movement on deferred tax asset relating to cash flow hedges in the period	**(1,357)**	(911)
Deferred tax asset movement charged to equity	**(1,682)**	(911)

The Company has no recognised or unrecognised deferred tax in 2010 or 2009

9 Loss for the Financial Year for the Parent Entity

As permitted by section 408 of the Companies Act 2006 the Company's income statement and statement of comprehensive income have not been included separately in these financial statements The loss for the financial year was £16 960 000 (2009 loss £6 240 000)

10 Dividends

No dividends have been paid or proposed in relation to 2010 or 2009

11 Loss Per Share

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

In calculating the diluted loss 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

	Year ended December 2010 £000	Year ended December 2009 £000
Loss before tax	**(124,616)**	(129 060)
Tax (charge)/credit	**(479)**	1,513
Loss for the year	**(125,095)**	(127 547)
Weighted average number of shares used for basic earnings per share calculation	**299,298,160**	175 008 424
Dilutive effect of share options	**–**	–
Weighted average number of shares used for diluted earnings per share calculation	**299,298,160**	175 008 424
Basic and diluted loss per share (pence)	**(41 8)**	(72 9)

Basic and diluted loss per share, as adjusted to exclude tax for the year is 41 6 pence (2009 loss 73 7 pence)

12 Operating Property, Plant and Equipment

Group	Operating properties £000	Deep mines including surface works £000	Plant and equipment £000	Sub total £000	Surface mine development and restoration assets £000	Total £000
Cost						
At January 2010	15 008	876 027	89,715	980,750	40 757	1 021 507
Additions	165	43 929	562	44 656	27 897	72 553
Disposals	(338)	(62 591)	(807)	(63 736)	(13 238)	(76 974)
Transfer from investment properties	9,485	–	–	9,485	–	9 485
Transfer to investment properties	(336)	–	–	(336)	–	(336)
At December 2010	23,984	857 365	89 470	970 819	55,416	1 026 235
Accumulated depreciation and impairment						
At January 2010	4 282	686 549	70 924	761 755	18 150	779 905
Charge for the year	162	31 667	3 135	34 964	14 033	48 997
Impairment	–	223	–	223	–	223
Disposals	–	(62 591)	(685)	(63,276)	(12,442)	(75 718)
At December 2010	4,444	655 848	73 374	733 666	19 741	753,407
Net book amount						
At December 2010	**19,540**	**201,517**	**16,096**	**237,153**	**35,675**	**272,828**
Cost						
At January 2009	14 961	808 417	90 790	914 168	49 628	963 796
Additions	208	69 843	396	70 447	5,686	76 133
Disposals	–	(2 233)	(1 471)	(3 704)	(14 557)	(18 261)
Transfer to investment properties	(161)	–	–	(161)	–	(161)
At December 2009	15 008	876 027	89 715	980 750	40 757	1 021,507
Accumulated depreciation and impairment						
At January 2009	4 119	659 731	68 517	732 367	21 149	753 516
Charge for the year	163	28 422	3 650	32 235	9 961	42 196
Impairment	–	629	–	629	–	629
Disposals	–	(2 233)	(1 243)	(3 476)	(12 960)	(16 436)
At December 2009	4 282	686 549	70 924	761 755	18 150	779 905
Net book amount						
At December 2009	10 726	189 478	18 791	218 995	22 607	241 602
At January 2009	10 842	148 686	22 273	181 801	28 479	210 280

Surface mine development and restoration assets net book amounts includes capitalised pre-coaling costs of £11 373 000 (2009 £12 446 000) restoration/rehabilitation costs of £19,554,000 (2009 £6 720 000) and deferred stripping costs of £4 748,000 (2009 £3,441,000) These are depreciated over the estimated tonnage of the recoverable reserves as these are extracted

Surface mine asset additions in the period of £27 897 000 (2009 £5 686,000) comprise £5,416 000 (2009 £3,911 000) for pre-coaling expenditure, £19,493,000 (2009 £141,000) recognised as a non-current asset on the creation of a corresponding provision for restoration and rehabilitation costs and £2 988,000 (2009 £1,634 000) of deferred stripping costs

Included in operating property, plant and equipment is £25,543,000 (2009 £78 452 000) of capitalised work in progress which is not depreciated

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

	As at December 2010 £000	As at December 2009 £000
Cost	**41,589**	45 989
Aggregate depreciation	**(29,702)**	(26 273)
Net book amount	**11,887**	19 716

Notes to the Financial Statements

for the year ended 25 December 2010 continued

12 Operating Property, Plant and Equipment continued

In accordance with IAS 36, operating property, plant and equipment are reviewed for impairment if there is any indication that their carrying amount may not be recoverable An impairment review has been performed for the operating property plant and equipment of the deep and surface mining business as a result of the significant operating loss recorded by the Group in the year ended 25 December 2010

Following the completion of mining at Welbeck colliery in the period an impairment charge of £223 000 was required for its remaining fixed assets (2009 £629 000) No further impairment charges were required The estimates of recoverable amount were based on value-in-use calculations using a pre-tax discount rate of 14% which reflects the specific risks of the business These calculations use cash flow projections based on financial budgets approved by management covering a five year period Cash flows beyond the five year period are extrapolated assuming a zero growth rate

Sensitivity analysis

No impairment of fixed assets would be recognised by the Group if any of the following occurred in isolation

- The revised estimated pre-tax discount rate applied to the discounted cash flows was increased to over 20%,
- The estimated long-term price of coal of $105/tonne assumed in calculating the discounted cash flows decreased by 10%, and
- The estimated level of annual production assumed in calculating the discounted cash flows decreased by 5%

13 Investment Properties

At valuation – Group	**As at December 2010 £000**	As at December 2009 £000
At the beginning of the year	**377,995**	404 658
Additions	**2,105**	8 064
Disposals	**(23,740)**	(9 236)
Fair value decrease	**(34,197)**	(25 704)
Transfer from operating property, plant and equipment at net book amount	**336**	161
Transfer to operating property plant and equipment at net book amount	**(9,485)**	–
Revaluation of property transferred to investment properties	**1,223**	52
At the end of the year	**314,237**	377 995

The properties were valued at December 2010 in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors by three firms, BNP Paribas Real Estates Smiths Gore and Bell Ingram all independent firms with relevant experience of valuations of this nature The valuation excludes any deduction of rehabilitation and restoration costs which are stated within provisions in the balance sheet

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

Had the above investment properties been carried at historic cost rather than fair value their value would be £90 827 000 (2009 £103 995 000)

Land and buildings with a value of £298,617,000 (2009 £351 319,000) are subject to fixed charges to cover borrowings against those assets and £8 842,000 (2009 £9,010,000) are subject to restrictions as they cover insurance requirements Other property plant and equipment is subject to floating charges to cover liabilities due to bank borrowings

14 Investments

Investment in joint ventures

The Group holds 50% of the issued ordinary shares of UK Strategic Partnership Limited a joint venture with Strategic Sites Limited for the development of certain investment properties The first development was at the Advanced Manufacturing Park at Waverley South Yorkshire

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

In January 2009 the Group sold its 50% shareholding in Coal4Energy Limited to Hargreaves Services PLC realising a profit on sale of £6 534 000

	2010 £000	2009 £000
At the beginning of the year	**3,263**	2 778
Additions	**–**	1,060
Share of profit – property joint ventures	**147**	1 331
– Coal4Energy Limited	–	388
Sale of share of joint venture	**–**	(2 294)
At the end of the year	**3,410**	3 263

The Group s share of the results of its joint ventures all of which are unlisted and its share of the assets (including goodwill and liabilities) are as follows

	Country of incorporation	**Assets £000**	**Liabilities £000**	**Revenues £000**	**Profit/(loss) £000**	**Interest held %**
2010						
UK Strategic Partnership Limited	England and Wales	4 062	(3 030)	242	119	50
Bates Regeneration Limited	England and Wales	3 495	(1,117)	–	28	50
Total		7 557	(4 147)	242	147	
2009						
UK Strategic Partnership Limited	England and Wales	4 079	(3 166)	321	40	50
Bates Regeneration Limited	England and Wales	2 350	–	–	1 291	50
Coal4Energy Limited	England and Wales	–	–	7 506	388	–
Total		6 429	(3 166)	7,827	1 719	

Investment in subsidiaries

Company	**£000**
Cost.	
At January and December 2010	473 224
Provision for impairment:	
At January and December 2010	(172 914)
Net book amount:	
At December 2010	**300,310**
Cost:	
At January and December 2009	473 224
Provision for impairment.	
At January and December 2009	(172 914)
Net book amount:	
At December 2009	300 310

Investments in subsidiaries are stated at cost As permitted by section 616 of the Companies Act 2006 where the relief afforded under section 612 of the Companies Act 2006 applies cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length A list of principal subsidiary undertakings is given below A full list of subsidiary undertakings will be annexed to the Company's next annual return

Notes to the Financial Statements
for the year ended 25 December 2010 continued

14 Investments continued

Investment in subsidiaries continued

Particulars of the principal Group undertakings at December 2010 are as follows

Company name	Principal activity	Description of shares held	Proportion of nominal value of issued share capital held by the Company %
Harworth Group Limited	Holding company	Ordinary	–
UK Coal Holdings Limited	Holding company	Ordinary	100
Harworth Insurance Company Limited	Insurance	Ordinary	100
Harworth Power Limited	Power generation	Ordinary	–
Mining Services Limited	Surface mining plant operations	Ordinary	–
UK Coal Mining Limited	Underground and surface mining and property activities	Ordinary	–
Centechnology (UK) Limited	Labour contracting services	Ordinary	–
EOS Inc Ltd	Property company	Ordinary	–
Harworth Estates (Agricultural Land) Limited	Property company	Ordinary	–
Harworth Estates (Waverley Prince) Limited	Property company	Ordinary	–
Potland Burn Limited	Property company	Ordinary	–

The Group owns 100% of the issued share capital and voting rights of all of the above companies

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

15 Other Receivables – Non-Current

Amounts classed as non-current are as follows

	Group		Company	
	As at December 2010 £000	As at December 2009 £000	**As at December 2010 £000**	As at December 2009 £000
Other receivables	**3,136**	1 963	–	–

Other receivables include £2 071 000 (2009 £1 335 000) of long-term deposits held as security for surface mines

16 Inventories

	Group		Company	
	As at December 2010 £000	As at December 2009 £000	**As at December 2010 £000**	As at December 2009 £000
Coal stocks	**32,906**	28 690	–	–
Spares and consumables	**17,428**	27 069	–	–
	50,334	55 759	–	–

The cost of spares and consumables recognised as an expense and included in cost of sales amounted to £34,001,000 (2009 £45 338 000)

During the year a provision of £nil (2009 £3,487 000) has been created against spares and consumables stock A net realisable value provision credit of £1 379 000 (2009 £3 600 000 charge) against coal stocks was included in cost of sales in the year

17 Trade and Other Receivables – Current

	Group		Company	
	As at December 2010 £000	As at December 2009 £000	**As at December 2010 £000**	As at December 2009 £000
Trade receivables	**23,415**	18 388	–	–
Less provision for impairment of trade receivables	**(97)**	(273)	–	–
Net trade receivables	**23,318**	18 115	–	–
Other receivables	**174**	1 348	**972**	1 296
Prepayments and accrued income	**2,424**	5 213	**77**	–
Amounts owed by subsidiary undertakings	–	–	**210,260**	200 551
	25,916	24 676	**211,309**	201 847

The carrying amount of trade and other receivables approximate to their fair value All of the Group s receivables are denominated in Sterling

Due to the nature of the Group s activities a substantial amount of the Group's revenues arise from a limited number of large industrial customers within the power generation sector Whilst this concentration provides an increased credit risk due to the financial strength of the power sector, management does not believe that this is significant

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables as disclosed in note 22 The Group does not hold any collateral as security

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

	Group	
	2010 £000	2009 £000
At the beginning of the year	**273**	136
Provisions for impairment of receivables	**9**	266
Receivables written off during the year as uncollectable	**(21)**	(1)
Unused amounts reversed	**(164)**	(128)
At the end of the year	**97**	273

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

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

As of December 2010 there were provisions against trade receivables of £97 000 (2009 £273 000) which were impaired The Group has assessed that it is unlikely that these receivables will be recovered The ageing of these receivables is as follows

	Group	
	As at December 2010 £000	As at December 2009 £000
3 to 6 months	**9**	–
Over 6 months	**88**	273
	97	273

As of 25 December 2010 trade receivables of £23 293 000 (2009 £23 910 000) were fully performing

As of December 2010 trade receivables of £2,526 000 (2009 £493 000) were past due but not impaired These relate to a number of customers for whom there is no recent history of default and consequently there are no indications at the reporting date that they will not meet their payment obligation The ageing analysis of these trade receivables is as follows

	Group	
	As at December 2010 £000	As at December 2009 £000
Up to 3 months	**2,327**	408
Over 3 months	**199**	85
	2,526	493

Notes to the Financial Statements
for the year ended 25 December 2010 continued

18 Cash and Cash Equivalents

	Group		Company	
	As at December 2010 £000	As at December 2009 £000	**As at December 2010 £000**	As at December 2009 £000
Cash deposited to cover insurance requirements	**15,705**	19 104	–	–
Subsidence security fund	**8,769**	8 668	–	–
	24,474	27 772	–	–
Cash held and other cash balances	**427**	13 587	**384**	12 869
	24,901	41 359	**384**	12 869

Total cash held subject to restrictions to cover insurance and surface damage liabilities at the year end amounts to £24 474 000 (2009 £27 772,000) In addition to this security to cover surface damage liabilities in the form of an insurance bond for £10,000 000 (2009 £10 000,000) is in place

19 Borrowings

Current	Group		Company	
	As at December 2010 £000	As at December 2009 £000	**As at December 2010 £000**	As at December 2009 £000
Bank loans overdrafts and finance leases due within one year or on demand				
Secured – bank loans and overdrafts	**52,427**	5 710	**17**	–
Finance lease obligations	**3,824**	5 018	–	–
	56,251	10 728	**17**	–
Generator loans and prepayments due within one year	**26,428**	2 990	–	–
Total borrowings – due within one year or on demand	**82,679**	13 718	**17**	–

Non-current	Group		Company	
	As at December 2010 £000	As at December 2009 £000	**As at December 2010 £000**	As at December 2009 £000
Bank loans overdrafts and finance leases due after more than one year				
Secured – bank loans and overdrafts	**75,752**	104 943	–	–
Finance lease obligations	**9,609**	12 251	–	–
	85,361	117 194	–	–
Generator loans and prepayments due after more than one year	**74,760**	64 619	–	–
Total borrowings – due after more than one year	**160,121**	181 813	–	–

The carrying value of the Group s external borrowings which consist of floating rate and fixed rate short-term borrowings approximates to fair value All of the Group s borrowings are denominated in Sterling

Bank loans and overdrafts due within one year or on demand are stated after deduction of unamortised borrowing costs of £380,000 (2009 £2,307 000) Non-current bank loans and overdrafts are stated after deduction of unamortised borrowing costs of £402 000 (2009 £1,859,000) The Group s Revolving Credit Facility (RCF) can be drawn when required and is committed, following the new financing arrangements agreed in April 2011, until July 2012

During the period the Group had a net drawdown of £12 348,000 against bank loans and overdrafts This consists of bank loans repaid of £19 944 000 and £32 292 000 drawn down on the RCF The amount drawn under the RCF is disclosed as current as at the balance sheet date it was due for repayment in July 2011

In the period interest and finance fees of £1 794,000 were capitalised to the Harworth Estates (Waverley Prince) Limited (HEWPL) loan

Additional finance lease facilities of £1 730 000 have been secured during the period These leases are due to be repaid in the period 2011 through to 2014 The balance of the movement relates to payments against finance leases

In 2009 the Group entered into certain contracts for coal supply which have resulted in increased cash flows to the business in 2009 and 2010 These benefits together with accrued implied interest are treated as generator loans and prepayments and will be repaid either out of future revenue or as separate repayments which process commenced in October 2010 and ends in 2015 Interest is charged on these outstanding amounts using actual or implied interest rates At December 2010 these generator loans and prepayments were not fully drawn When fully drawn the average interest rate on these balances will be 11%

No new bank loans were taken out during 2010 (2009 £3 451,000)

19 Borrowings continued

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

Property disposals continue to result in the reduction of facilities In April 2011 the Group extended its banking arrangements The principal changes were

- Lloyds Banking Group has agreed to replace GE Capital in respect of approximately one third of the RCF line to amortise by £1 000 000 a month from 30 April 2011
- an extension to the maturity dates of the RCF the additional revolving credit line the Harworth Estates (Agricultural Land) Limited facility and the EOS Inc Ltd facility to the end of July 2012 and
- the financial profile of the HEWPL term loan facility was modified so that interest which had been rolled up into the loan during 2010 and which was due to be paid in July 2011 will now be paid in July 2012 together with a principal repayment of £22 000 000 Thereafter amortisation of the loan will continue at £2 5 million per quarter until final repayment in July 2013

A £10 000,000 unsecured stand by facility from Peel Holdings Limited is available for drawing in the event the RCF is fully drawn This facility which originally expired at the end of July 2011 has after the balance sheet date, been extended to July 2012

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

	2010 £000	2009 £000
Expiring within 1 year	**104,385**	8 017
Expiring between 1 and 2 years	**60,443**	64 348
Expiring between 2 and 5 years	**20,712**	94 454
	185,540	166 819

These facilities are all nominally at floating interest rates, but interest rate swaps with principal value of £21,950 000 (2009 £120,211,000) are held to convert an element of these borrowings to fixed interest rates

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

	2010				2009			
Group	**Debt £000**	**Generator loans and prepayments £000**	**Finance leases £000**	**Total £000**	Debt £000	Generator loans and prepayments £000	Finance leases £000	Total £000
Within 1 year	**52,427**	**26,428**	**3,824**	**82,679**	5 710	2 990	5 018	13 718
Between 1 and 2 years	**57,754**	**41,286**	**6,472**	**105,512**	11,068	17 043	3 426	31 537
Between 2 and 5 years	**17,998**	**33,474**	**3,137**	**54,609**	93 875	45 134	8 825	147 834
More than 5 years	–	–	–	–	–	2 442	–	2 442
	128,179	**101,188**	**13,433**	**242,800**	110 653	67 609	17 269	195 531

The minimum lease payments under finance leases fall due as follows

	As at December 2010 £000	As at December 2009 £000
Within 1 year	**4,757**	5 993
Between 1 and 5 years	**10,431**	13 859
	15,188	19,852
Future finance charges on finance leases	**(1,755)**	(2 583)
Present value of finance lease liabilities	**13,433**	17 269

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default

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for the year ended 25 December 2010 continued

20 Trade and Other Payables

	Group		Company	
	As at December 2010 £000	As at December 2009 £000	**As at December 2010 £000**	As at December 2009 £000
Current				
Trade payables	**53,128**	60 989	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**147,427**	147 513
Taxation and social security	**12,730**	3 757	**–**	–
Accruals and deferred income	**44,699**	39 530	**13,662**	145
	110,557	104 276	**161,089**	147 658
Non-current				
Trade payables	**9,925**	76	**–**	–

Included within accruals and deferred income is £nil (2009 £1 011 000) representing contributions to capital expenditure in the form of Coal Investment Aid (see note 32)

21 Provisions

Group	At January 2010 £000	Provided in year £000	Released in year £000	Utilised in year £000	Unwinding of discount £000	At December 2010 £000
Employer and public liabilities	16 181	3 283	(1 028)	(5 396)	–	**13,040**
Surface damage	13 210	4 626	(1 854)	(1 145)	501	**15,338**
	29 391	7,909	(2 882)	(6 541)	501	**28,378**
Claims	15	–	–	–	–	**15**
Redundancy	9 067	310	–	(6 215)	–	**3 162**
Restoration and closure costs of surface mines	39 261	21,993	–	(11 563)	1 941	**51,632**
Restoration and closure costs of deep mines						
– shaft treatment and pit top	10 311	–	(506)	(331)	392	**9,866**
– spoil heaps	2 892	–	(73)	–	110	**2,929**
– pumping costs	5,433	–	(2 851)	–	189	**2,771**
Ground/groundwater contamination	5 337	925	(132)	–	203	**6,333**
	101 707	31 137	(6 444)	(24 650)	3 336	**105,086**

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

The total of provisions created net of provisions released was £24 693 000 (2009 £12 471,000) This included a net charge of £nil (2009 £10 716,000) for non-trading exceptional items

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

	As at December 2010 £000	As at December 2009 £000
Current	**34,915**	38 556
Non current	**70,171**	63 151
	105,086	101 707

Provisions are expected to be settled within the timescales set out in the following table It should be noted that these are based on the information available at the time the consolidated financial statements were prepared and are subject to a number of estimates and uncertainties as noted on pages 67 and 68

21 Provisions continued

	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000	**Total £000**
Employer and public liabilities	5 801	2 747	4 052	440	**13,040**
Surface damage	3,525	3,141	6 585	2 087	**15,338**
	9 326	5 888	10 637	2,527	**28,378**
Claims	15	–	–	–	**15**
Redundancy	3 162	–	–	–	**3,162**
Restoration and closure costs of surface mines	21 403	1,908	14 119	14 202	**51,632**
Restoration and closure costs of deep mines					
– shaft treatment and pit top	764	300	2 134	6 668	**9,866**
– spoil heaps	245	134	2 550	–	**2,929**
– pumping costs	–	–	–	2 771	**2,771**
Ground/groundwater contamination	–	889	–	5 444	**6,333**
	34 915	9 119	29 440	31,612	**105,086**

The nature of the Group's obligations and an indication of the uncertainties surrounding each of the above provisions is provided below

Employer and public liabilities

Provisions are made for current and estimated obligations in respect of claims made by employees contractors and the general public relating to accident or disease as a result of the business activities of the Group These relate primarily to the claims held by the Group's captive insurance company Harworth Insurance Company Limited Ownership over land and buildings and dedicated cash deposits, as set out in notes 13 and 18, has been granted to cover these provisions

Surface damage

Provision is made for the Group's liability to compensate for subsidence damage arising from past mining operations Claims can be lodged by the public up to six years after the date of the relevant damage The estimate is based on historical claims experience, following a detailed assessment of the nature of the damage foreseen Security over dedicated cash deposits and an insurance bond, as set out in note 18, has been granted to cover these provisions

Claims

Provision is made for warranty claims against a former engineering business

Redundancy

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

Restoration and closure costs of surface mines

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

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

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

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

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

Notes to the Financial Statements

for the year ended 25 December 2010 continued

22 Financial Instruments and Derivatives

The Group s financial instruments include derivative financial instruments, trade and other receivables cash and cash equivalents interest bearing borrowings and trade and other payables

Derivative financial instruments

	Assets £000	Liabilities £000
At the end of the year		
Fair value – 2010	–	6 607
Fair value – 2009	–	6 783

The Group uses interest rate swaps in order to fix the interest payable on a large proportion of its variable rate borrowings The fair value of derivative financial instruments is valued where possible, using quoted market prices The fair value of these instruments equals the book value at December 2010 and December 2009

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

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

Hedging relationships

As at December 2010 cash flow hedges were in place up to July 2012 The movement in effective hedging relationships in the year was £nil (2009 gain £4 000) and is recorded in the hedging reserve within other comprehensive income (see note 27)

The movement in the fair value of derivatives which are not effective for hedge accounting purposes, or which were not designated as cash flow hedges, being a gain of £177 000 (2009 £1 714 000) in the year is presented within finance costs in the consolidated income statement (see note 6)

The application of hedge accounting in the year has resulted in an income statement credit of £177,000 (2009 £1 714 000) for ineffective hedges, no movement in reserves (2009 credit of £4 000) for effective hedge relationships and a charge to income of £3 848,000 (2009 £3,130,000) representing the amortisation of reserves for discontinued hedging relationships

The total notional principal of outstanding interest rate swaps that the Group is committed to is £21 950 000 (2009 £120 211 000) The weighted average fixed interest rate and period to maturity of the Group s interest rate swaps was 8 69% (2009 7 73%) and 1 4 years (2009 1 4 years), respectively

The Group has entered into a notional principal £40,000,000 fixed interest cap agreement at a rate of 4 5% effective between 29 July 2011 and 31 July 2013 The terms of the agreement provide that the initial notional principal is amortised by £20 000 000 per year

The Company has no interest rate swaps (2009 nil)

Other financial assets and liabilities

	December 2010		December 2009	
Group	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Assets				
Cash and cash equivalents	**24,901**	**24,901**	41 359	41 359
Trade and other receivables	**29,052**	**29,052**	26 639	26 639
Liabilities				
Bank borrowings	**128,179**	**128,179**	110 653	110 653
Finance lease liabilities	**13,433**	**13,433**	17 269	17 269
Generator loans and prepayments	**101,188**	**113,607**	67 609	78 611
Trade and other payables	**120,482**	**120,482**	104 352	104,352
Derivative financial instruments	**6,607**	**6,607**	6 783	6 783

In accordance with IAS 39, the Group classifies the assets and liabilities in the analysis above as 'loans and receivables and other financial liabilities respectively At the 2010 and 2009 year ends the Group did not have any held to maturity or available for sale financial assets or held for trading financial assets and liabilities as defined by IAS 39

At the year end date the Company held cash and cash equivalents of £384 000 (2009 £12 869 000)

The carrying value of the Group s external borrowings, which consist of floating rate and fixed rate short-term borrowings, approximates to fair value Details of the maturity profile of these financial liabilities are included in note 19

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

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

23 Financial Risk Management

The Group s activities expose it to a variety of financial risks market (interest rate and currency) risk credit risk and liquidity risk The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group s financial performance The Group uses derivative financial instruments to hedge certain risk exposures

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

Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates in the United Kingdom and therefore seeks to limit this net exposure This is achieved by the use of derivative instruments such as interest rate swaps and fixed interest caps to hedge a proportion of the Group's borrowings over the period of the related loan The interest rate swaps allow the Group to exchange at specified intervals (usually quarterly), the difference between contracted fixed rates and floating rate interest payable on borrowings calculated by reference to the agreed notional amounts The Group does not enter into instruments which are leveraged or held for speculative purposes

If interest rates on sterling denominated borrowings during the year had been 2% higher or lower with all other variables held constant, post-tax profit for the year would have been £2 067 000 (2009 £539 000) lower or higher as a result of higher or lower interest expense on floating rate borrowings which have not been economically hedged with an interest rate swap contract An increase or decrease of 2% represents the Group s assessment of a reasonably possible change in interest rates

The sensitivity of post-tax profit is calculated based on floating rate borrowings at the balance sheet date after deducting amounts hedged into fixed rates by interest rate swaps

Currency risk

During 2010 and 2009 the Group's borrowings at variable and fixed rates were denominated in Sterling No foreign exchange contracts were entered into in 2010 (2009 nil) as the Group has no direct material foreign exchange exposure

Credit risk

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

The Group sells coal to large industrial and commercial customers All of its electricity supply industry customers have an investment grade quality rating (from Standard and Poor's) of between A and BBB+ No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties

If any of the Group s customers are independently rated, these ratings are used Otherwise, if there is no independent rating the Group assesses the credit quality of the customer taking into account its financial position, past experience and other factors

The Group is exposed to counterparty credit risk on cash and cash equivalent balances The Group holds cash on deposit with a number of financial institutions The Group manages its credit risk exposure by limiting individual deposits to clearly defined limits For banks and financial institutions only independently rated parties with an investment grade quality rating (from Standard and Poor's) of at least A- rated are accepted

Liquidity risk

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plan for growth The Group manages its liquidity requirements with the use of both short and long-term cash flow forecasts These forecasts are supplemented by a financial headroom position which is used to demonstrate funding adequacy for at least a 12 month period

The Group s main source of liquidity is its operating mining business Cash generation by this business is dependent upon the reliability of the Group s deep and surface mines in producing coal, the realised selling price for coal, operational risk and capital investment expenditure and maintenance requirements

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities Due to the dynamic nature of the underlying businesses Group treasury aims to maintain flexibility in funding by keeping committed credit lines available

The net debt position, excluding restricted cash of £181,944,000 at the beginning of the year had increased during the year to £242,373 000 at the year end The Group generated negative cash flow from operating activities after investing activities for the year of £45 774 000 (2009 £124 712 000)

As at December 2010 74% of the Group's total bank facilities of £153 000,000 was provided by the Lloyds Banking Group plc

Notes to the Financial Statements

for the year ended 25 December 2010 continued

23 Financial Risk Management continued

Liquidity risk continued

The Group s committed borrowing facilities are subject to financial covenants based on loan to value (LTV) calculations which are tested on a quarterly basis These covenants restrict the Group s ability to access committed facilities within a range of 25% – 75% of the value of certain properties on which the borrowings are secured These covenants affect 99% of the bank facilities as at December 2010 The Group is currently in compliance with these covenants at the year end date However a decrease in the valuations of the Group s properties could impact on covenants resulting in increased charges and potential reduction in the availability of facilities

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

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At December 2010				
Bank borrowings	**58,750**	**63,844**	**18,831**	–
Finance lease liabilities	**4,757**	**7,095**	**3,336**	–
Generator loans and prepayments	**31,531**	**49,483**	**42,693**	–
Trade and other payables	**110,557**	**9,925**	–	–
Derivative financial instruments	**1,931**	**2,482**	**1,718**	–
At December 2009				
Bank borrowings	12 898	17 066	100 844	–
Finance lease liabilities	5 993	4 274	9 585	–
Generator loans and prepayments	4,432	20 853	51 155	2 442
Trade and other payables	104 276	76	–	–
Derivative financial instruments	2 992	988	(27)	–

Capital risk management

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

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

Consistent with others in the industry the Group monitors capital on the basis of the gearing ratio This ratio is calculated as net debt divided by total equity Net debt is calculated as total borrowings (including borrowings as shown in the consolidated balance sheet) less unrestricted cash and cash equivalents

The gearing ratios for the Group at December 2010 and December 2009 were as follows

	2010 £000	2009 £000
Total borrowings	**242,800**	195 531
Less Unrestricted cash and cash equivalents (note 18)	**(427)**	(13,587)
Net debt	**242,373**	181 944
Total equity	**81,393**	152 789
Gearing ratio	**297.8%**	119 1%

24 Retirement Benefit Obligations

Defined contribution pension schemes

The Group operates defined contribution pension schemes in respect of all employees who joined after the privatisation date in 1994 Contributions to defined contribution schemes in the year amounted to £1,530,000 (2009 £1 494 000)

Defined benefit obligations

The balance sheet amounts in respect of retirement benefit obligations are

	Group		Company	
	As at December 2010 £000	As at December 2009 £000	**As at December 2010 £000**	As at December 2009 £000
Industry wide schemes	**134,269**	184 873	–	–
Blenkinsopp	**852**	1,081	**852**	1 081
Concessionary fuel	**36,482**	34 879	–	–
	171,603	220 833	**852**	1 081

Contributions to defined benefit schemes during the year amounted to £22 118 000 (2009 £20,591,000) At December 2010 contributions of £nil remained unpaid (2009 £nil)

Industry wide schemes

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

	As at December 2010	As at December 2009
Discount rate	**5 5% p a**	5 7% p a
Rate of return on investments	**6 5% p a**	6 9% p a
Rate of salary increases – IWMPS	**3 7% p a**	4 5% p a
Rate of salary increases – IWCSSS	**4 4% p a**	4 5% p a
Rate of price inflation	**3 4% p a**	3 5% p a
Rate of return on equities	**7.3% p a**	7 7% p a
Rate of return on debt	**4 8% p a**	5 1% p a
Rate of cash commutation	**20 0% - 25 0%**	20 0% - 25 0%

	Year ended December 2010	Year ended December 2009
Longevity at age 60 for current pensioners (years)		
IWMPS and IWCSSS		
– Men	**22.5 - 25.0**	22 1 - 23 8
IWCSSS		
– Women	**27 3**	26 4
Longevity at age 60 for future pensioners (years)		
IWMPS and IWCSSS		
– Men	**23.4 - 25.7**	23 4 24 7
IWCSSS		
– Women	**28.1**	27 2

IWCSSS pensions in payment are assumed to increase in line with price inflation For the IWMPS the assumed pension increases depend on the period of service accrual (before April 1997 no increases 1997 to 2005 in line with consumer price inflation after April 2005 1 9%)

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

Notes to the Financial Statements
for the year ended 25 December 2010 continued

24 Retirement Benefit Obligations continued

Industry wide schemes continued

The amounts recognised in the consolidated balance sheet are as follows

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Fair value of plan assets	**431,746**	379 949	316 464	372 188	348,325
Present value of funding obligations	**(566,015)**	(564 822)	(390 543)	(421 081)	(442 794)
Net liability recognised in the balance sheet	**(134,269)**	(184 873)	(74 079)	(48 893)	(94 469)

None of the pension schemes owns any shares in the Company

The amounts recognised in the consolidated income statement are

	Year ended December 2010 £000	Year ended December 2009 £000
Current service cost	**(15,250)**	(11 413)
Interest cost	**(32,265)**	(25 472)
Expected return on plan assets	**26,421**	20 694
Effect of curtailment	**1,050**	3 954
	(20,044)	(12 237)

Current service cost is charged to cost of sales, with interest cost less expected return on plan assets included in administration expenses and the effect of curtailment is included in non-trading exceptional items A further £49 651 000 gain (2009 £118 239 000 loss) has been reflected in the statement of comprehensive income in the year This represents the net effect of experience and actuarial gains and losses on the schemes in the year

Change in assets	**Year ended December 2010 £000**	Year ended December 2009 £000
Fair value of plan assets at the start of the year	**379,949**	316 464
Expected return on plan assets	**26,421**	20,694
Actuarial gains on assets	**17,155**	31 840
Employer contributions	**20,997**	19,682
Plan participants' contributions	**3,601**	3 922
Benefits paid	**(16,377)**	(12 653)
Fair value of plan assets at the end of the year	**431,746**	379 949

The major categories of the schemes assets are as follows

	As at December 2010 £000	As at December 2009 £000
Equity securities	**289,900**	260 044
Debt securities	**141,846**	119 905
	431,746	379 949

The actual return on plan assets was a gain of £43 576 000 (2009 £52,534,000)

Change in defined benefit obligations	**Year ended December 2010 £000**	Year ended December 2009 £000
Present value of defined benefit obligation at the start of the year	**(564,822)**	(390 543)
Current service cost	**(15,250)**	(11 413)
Interest cost	**(32,265)**	(25 472)
Plan participants contributions	**(3,601)**	(3 922)
Curtailment gain	**1,050**	3 954
Actuarial gain/(loss)	**32,496**	(150,079)
Benefits paid	**16,377**	12 653
Present value of defined benefit obligation at the end of the year	**(566,015)**	(564 822)

24 Retirement Benefit Obligations continued

Industry wide schemes continued

Analysis of the movement of the balance sheet liability	Year ended December 2010 £000	Year ended December 2009 £000
At the start of the year	(184,873)	(74 079)
Total amounts recognised in the income statement	(20,044)	(12 237)
Contributions	20,997	19 682
Net actuarial gain/(loss) recognised in the year	49,651	(118 239)
At the end of the year	(134,269)	(184 873)

Cumulative actuarial gains and losses recognised in equity	Year ended December 2010 £000	Year ended December 2009 £000
At the start of the year	(128,239)	(10 000)
Net actuarial gain/(loss) in the year	49,651	(118,239)
At the end of the year	(78,588)	(128 239)

Experience gains and losses	Year ended December 2010 £000	Year ended December 2009 £000
Actual return less expected return on schemes assets	17,155	31 840
Experience gains/(losses) arising on schemes liabilities	7,386	(7 412)
Changes in assumptions underlying present value of liabilities	25,110	(142 667)
Net actuarial gain/(loss)	49 651	(118 239)

History of experience losses	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Actual return less expected return on schemes' assets	17,155	31,840	(92 915)	(237)	9,634
Percentage of year end scheme assets	4%	8%	(29)%	0%	3%
Experience gains/(losses) arising on schemes' liabilities	7,386	(7 412)	(2 914)	(1 495)	(3 721)
Percentage of the present value of schemes liabilities	1%	1%	1%	0%	1%

Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected credit unit method The most recent valuations for the purpose of determining contributions were at 31 December 2006, which were agreed in December 2008

The contribution expected to be paid to the schemes during the year ending December 2011 is around £22,000,000 including current service costs

Blenkinsopp

Blenkinsopp is a section of the IWMPS covering the pension arrangements of the various companies comprising parts of the former British Coal Blenkinsopp Collieries Limited was sold by the Group in 1998 However it has since gone into liquidation and the retirement liabilities have reverted to the Group and Company The liability as at December 2010 is £852,000 (2009 £1 081 000) employer's contributions for the year were £158,000 (2009 £70 000) the amount recognised in the income statement is £90 000 (2009 £89 000) (current service costs £28,000 (2009 current service cost £38,000) and interest cost less expected return on plan assets £62 000 (2009 £51 000)) and the gain recognised in the statement of comprehensive income is £161 000 (2009 £402,000 loss) Cumulative actuarial gains recognised in equity for this Blenkinsopp section were £485 000 (2009 £324 000)

These are the only defined benefit obligations held by the Company

Notes to the Financial Statements

for the year ended 25 December 2010 continued

24 Retirement Benefit Obligations continued

Concessionary fuel

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

An actuarial valuation for the purpose of IAS 19 was carried out by an independent actuary at December 2010 The major assumptions used by the actuary were

	Year ended December 2010	Year ended December 2009
Discount rate	**5 5% p a**	5 7% p a
Inflation assumption	**3 4% p a**	3 5% p a

The amounts recognised in the balance sheet are as follows

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Net liability recognised in the balance sheet	**(36,482)**	(34 879)	(29,277)	(23 443)	(24 727)

The amounts recognised in the consolidated income statement are

	Year ended December 2010 £000	Year ended December 2009 £000
Current service cost	**(515)**	(441)
Interest cost	**(1,975)**	(1 890)
	(2,490)	(2 331)

Current service cost is charged to cost of sales and interest cost is included in administration expenses A further loss of £76 000 (2009 £4 110 000 loss) has been reflected in the statement of comprehensive income in the year This represents the net effect of experience and actuarial gains and losses on the schemes in the year

Analysis of the movement of the balance sheet liability	**Year ended December 2010 £000**	Year ended December 2009 £000
Concessionary fuel reserve at the start of the year	**(34,879)**	(29 277)
Current service cost	**(515)**	(441)
Benefits paid to former employees during the year	**963**	839
Interest cost	**(1,975)**	(1 890)
Actuarial loss	**(76)**	(4 110)
Concessionary fuel reserve at the end of the year	**(36,482)**	(34 879)

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

Cumulative actuarial gains and losses recognised in equity	**Year ended December 2010 £000**	Year ended December 2009 £000
At the start of the year	**(10,284)**	(6 174)
Net actuarial loss in the year	**(76)**	(4 110)
At the end of the year	**(10,360)**	(10 284)

Experience gains and losses	**Year ended December 2010 £000**	Year ended December 2009 £000
Experience gain on concessionary fuel reserve	**942**	3 559
Changes in assumptions underlying present value of liabilities	**(1,018)**	(7,669)
Total amount in statement of comprehensive income	**(76)**	(4 110)

History of experience gains and losses	**2010 £000**	2009 £000	2008 £000	2007 £000	2006 £000
Experience gain/(loss) on concessionary fuel reserve	**942**	3 559	(8 510)	444	1 258
Percentage of concessionary fuel reserve	**3%**	10%	(29)%	2%	5%

25 Called Up Share Capital

Group and Company	2010 Number of shares	2010 £000	2009 Number of shares	2009 £000
Authorised share capital				
At the start and end of the year				
Ordinary shares of 1 pence each	Unlimited	Unlimited	Unlimited	Unlimited
Issued and fully paid				
Ordinary shares of 1 pence each				
At the start of the year	299,298,160	2,993	157,252 747	1 572
Issued during the year	–	–	142 045 413	1 421
At the end of the year	299,298,160	2,993	299,298 160	2 993

No shares vested during 2010 or 2009 under the Long Term Incentive Plan (LTIP)

Long Term Incentive Plan

A Long Term Incentive Plan was introduced in 2000 for executive directors and senior executives Details of the plan are set out in the Directors Remuneration Report During the year nil (2009 nil) shares were reserved against the award of shares under the LTIP The shares are awarded at an exercise price of £nil Shares outstanding at December 2010 are as follows

	2010 Number	2009 Number
Exercisable from 2011	–	414 936
Exercisable from 2012	853,969	1,023 288
Exercisable from 2013	3,551,837	–

The awards granted in the year were valued using a Monte Carlo simulation utilising Black-Scholes methodology as follows

	2010	2009	2008	2007
Grant date	26 August	5 May	22 April	18 September
Share price at grant date	£0 39	£1 38	£4 53	£5 03
Exercise price	£nil	£nil	£nil	£nil
Number of employees	19	18	18	10
Shares under option	3,551,837	886 740	366 160	144 406
Vesting period (years)	3	3	3	3
Expected volatility	57 8%	46 7%	34 3%	33 5%
Option life (years)	3	3	3	3
Expected life (years)	2.35	2 66	2 69	2 23
Risk free rate	0.88%	1 92%	4 36%	4 97%
Possibility of ceasing employment before vesting	5% p a	5% p a	5% p a	5% p a
Fair value per option	£0.11	£0 82	£1 97	£2 83

The expected volatility is based on historical volatility over the last five years The expected life is the average expected period to exercise The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life A reconciliation of option movements over the year to December 2010 is shown below

	Year ended December 2010 Number	Year ended December 2009 Number
Outstanding at the start of the year	1,438,224	638 696
Granted	3,551,837	886 740
Adjustment for share issue uplift	–	234 890
Expired	(584,255)	(322 102)
Outstanding at the end of the year	4,405,806	1 438 224

The total charge for the year relating to employee share-based payment plans was £574,000 (2009 £676,000) all of which related to equity settled share-based payment transactions

Notes to the Financial Statements
for the year ended 25 December 2010 continued

26 Retained Earnings

Group	Note	2010 £000	2009 £000
At January		**(152,463)**	(33 420)
Loss for the financial year		**(125,095)**	(127 547)
Actuarial gains/(losses) on post retirement benefits	24	**49,736**	(122 751)
Rate change on deferred tax asset relating to retirement benefit liability	8	**(325)**	–
Fair value loss on revaluation of investment properties	13	**34,197**	25 704
Transfer of realised gain on disposed properties	27	**11,892**	6 592
New shares issued		**–**	98 283
Accrual for long term incentive plan liabilities	25	**574**	676
At December		**(181 484)**	(152 463)

Company	Note	2010 £000	2009 £000
At January		**332,281**	239 562
New shares issued		**–**	98 283
Loss for the financial year		**(16,960)**	(6 240)
Actuarial gain on post retirement benefits	24	**161**	–
Accrual for long term incentive plan liabilities	25	**574**	676
At December		**316,056**	332 281

27. Other Reserves

Group	Note	Hedging reserve £000	Revaluation reserve £000	Capital redemption reserve £000	Fair value reserve £000	Total £000
At January 2009		(4 976)	130,339	257	175 904	301,524
Revaluation on recognition of investment properties	13	–	52	–	–	52
Transfer of realised gain on disposed properties		–	(2 894)	–	(3 698)	(6 592)
Fair value loss on revaluation of investment properties	13	–	–	–	(25 704)	(25 704)
Hedging reserve – amortised in period		3 130	–	–	–	3 130
Cash flow hedges		4	–	–	–	4
Movement in deferred tax asset on cash flow hedges	8	(911)	–	–	–	(911)
At January 2010		**(2,753)**	**127,497**	**257**	**146,502**	**271,503**
Revaluation on recognition of investment properties	13	–	1 223	–	–	1 223
Transfer of realised loss/(gain) on disposed properties		–	700	–	(12 592)	(11 892)
Fair value loss on revaluation of investment properties	13	–	–	–	(34 197)	(34,197)
Hedging reserve – amortised in period		3 848	–	–	–	3,848
Movement in deferred tax asset on cash flow hedges	8	(1 357)	–	–	–	(1 357)
At December 2010		**(262)**	**129,420**	**257**	**99,713**	**229,128**

Company	Capital redemption reserve £000	Total £000
At January 2009 and 2010 and December 2009 and 2010	**257**	**257**

None of the other reserves balances at either the 2010 or 2009 year ends represented realised reserves

28 Capital and Other Financial Commitments

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

Group	As at December 2010 £000	As at December 2009 £000
Operating property plant and equipment	**27,746**	26 274
Investment property	**844**	1 118
	28,590	27 392

29 Operating Lease Commitments

Group

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

	As at December 2010 £000	As at December 2009 £000
Lease expiring		
Within 1 year	**5,302**	4 632
Later than 1 year and less than 5 years	**8,964**	8 061
After 5 years	**20,189**	21 695
	34,455	34 388

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

	As at December 2010 £000	As at December 2009 £000
Lease expiring		
Within 1 year	**1,184**	227
Later than 1 year and less than 5 years	**4,421**	355
After 5 years	**1,337**	412
	6,942	994

The Company had no interest in any operating leases (2009 £nil)

30 Contingent Liabilities

Guarantees have been given in the normal course of business for performance bonds of £4,209,000 (2009 £4 265 000) 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 which is used as security to cover surface damage liabilities

There are no other material contingent liabilities at December 2010 for which provision has not been made in these financial statements

Notes to the Financial Statements
for the year ended 25 December 2010 continued

31 Related Party Transactions

Group

During the year the Group made various payments to industry wide defined benefit pension schemes Details of these transactions are set out in note 24 to the financial statements

Key management compensation is disclosed in note 5

Transactions with joint ventures

The following transactions were carried out with the joint ventures

Bates Regeneration Limited	Year ended December 2010 £000	Year ended December 2009 £000
Sale of services to related party	12	–
Sale of land to related party	–	750
	12	750

Profit of £nil (2009 £1,231,000 loss) was recognised in the period on the sales to Bates Regeneration Limited

Transactions with Bates Regeneration Limited were carried out on commercial terms and conditions and at market prices

Balances owing from/(to) joint ventures

Bates Regeneration Limited

The balance arising from sales at December 2010 was £12,000 (December 2009 £nil)

Company

The Group manages its financing arrangements centrally Amounts are transferred within the Group dependent on the operational needs of individual companies

All amounts are repayable on demand, carry no security and incur interest at LIBOR +2% except the UK Coal Mining Limited owed to balance which is net and broken down into two elements as detailed below

- Amounts owed to of £172 536 000 (2009 £165 791 000) are payable by 31 January 2013 and incur interest at LIBOR +3 5%,
- Amounts owed by of £93,631,000 (2009 £85 522,000) are receivable on demand are unsecured and incur interest at LIBOR +2%

Details of the Company s receivables and indebtedness are set out in notes 17 and 20 and amounts due from or owed to subsidiary undertakings are set out below

Owed to	As at December 2010 £000	As at December 2009 £000
UK Coal Mining Limited	(78,905)	(80 269)
Harworth Power Limited	(8,417)	(8 430)
Centechnology (UK) Limited	(1,713)	(2 444)
Harworth Park Services Limited	(10)	(8)
UK Coal Holdings Limited	(35)	(35)
Harworth Group Limited	(6,450)	(6 376)
Harworth Guarantee Co Limited	(46)	(45)
Potland Burn Limited	(27,668)	(25 960)
Dormant and non-trading companies	(24,183)	(23 946)
	(147,427)	(147 513)

Owed by	As at December 2010 £000	As at December 2009 £000
Mining Services Limited	5,171	4 031
LHTC Limited	2,917	2 979
Harworth Mining Limited	6,294	6 292
EOS Inc Ltd	10,959	9 435
Harworth Estates (Agricultural Land) Limited	24,185	22 734
Harworth Estates (Waverley Prince) Limited	77,667	73 525
Harworth Insurance Company Limited	124	478
Dormant and non-trading companies	81,943	81 077
	210,260	200 551

31 Related Party Transactions continued

Peel Holdings Limited

A £10,000,000 unsecured stand-by facility from Peel Holdings Limited was agreed in the current period which is available for drawing in the event that the Revolving Credit Facility is fully drawn The facility originally expired at the end of July 2011 but was extended in April 2011 to 31 July 2012

On 17 December 2010, the Company agreed to sell 164 acres of farmland near Tyldesley in Greater Manchester to Peel Investments (Intermediate) Limited, a subsidiary of Peel Holdings Limited for a cash consideration of £1,600,000 of which £1 000,000 was received in 2010, and the balance is to be received in July 2011 This transaction represented a smaller related party transaction pursuant to the Listing Rules and the appropriate confirmations set out in Listing Rule 11 1 10 were provided to the Financial Services Authority

32 Government Grants

The Group has received support from the Government in the form of, Coal Investment Aid, in order to provide assistance towards investment in the industry Detail of how this aid is treated is set out in note 1 to the financial statements Amounts credited to the consolidated income statement are as follows

	Year ended December 2010 £000	Year ended December 2009 £000
Release of deferred income	**1,011**	2 867

33 Post Balance Sheet Events

As outlined in the operating and financial review the Group has restructured its banking arrangements and the stand-by facility from Peel Holdings Limited since the year end Note 19 identifies the principal changes to those facilities

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